

TITLE: International Accounting Harmonisation in Developed Stock Market Countries: An Empirical Comparative Study of Measurement and Associated Disclosure Practices in France, Germany, Japan, United Kingdom, and the United States of America.

BY

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ABSTRACT

In 1973, leading professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and the United States of America established the International Accounting Standards Committee (IASC) in a bid to confront the problem of international accounting diversities. In addition to the efforts of the IASC, various other bodies such as the United Nations, the European Community, the Organisation for Economic Co-operation and Development, have at various times also attempted to address this problem. Against this background, the first main objective of this study, is to assess the extent to which the accounting measurement and associated disclosure practices of five leading countries, namely: France, Germany, Japan, the UK and the USA differ in spite of the major efforts made so far to reduce or eliminate diversities in the accounting practices of different countries. The second main objective of this study is to ascertain the extent to which the accounting measurement and associated disclosure practices of multi-listed and domestic listed companies from these five countries differ. This is interesting in view of the argument that globalisation and internationalisation of capital markets provide a justification for global accounting harmonisation.

In order to accomplish the study objectives, the financial statements of 413 large listed companies from France, Germany, Japan, the UK and the USA for the 1990/91 financial year and 293 large listed companies for 1970/71 financial year were surveyed to ascertain the extent to which there were significant diversities between the accounting measurement and associated disclosure practices of companies from the five countries before (1970/71) and after (1990/91) the major efforts by the IASC and other organisations to minimise differences in accounting practices worldwide. Overall, it was found that on many of the issues treated, there are still significant differences between the five countries. A comparison of the practices of companies from the five countries as between 1970/71 and 1990/91 also observed significant differences on a substantial number of the practices surveyed.

Regarding the second main objective of the study, the companies were subdivided into multi-listed and domestic listed categories. Both categories of companies were further tested on both aggregate and individual country basis. The aggregated tests showed the differences between the practices of multi-listed and domestic listed companies to be minimal. On a country by country basis the findings were more or less the same.

The I index score employed to measure quantitatively the extent of harmony in the accounting measurement practices of the five countries yielded an overall average score of 0.6903 for 1990/91 and 0.6230 for 1970/71. This signifies that over the period, there was an increase in harmony between the five countries to the tune of 6.73 percent.

It was also observed that out of the twenty six items for which the I index was computed for 1990/91 and 1970/71, the I index scores on twelve items were higher in 1970/71 than in 1990/91. This is surprising in view of the major efforts that have been made to improve the levels of harmony in the financial reporting practices of companies internationally.

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CHAPTER ONE

INTRODUCTION, PROBLEM DEFINITION AND RESEARCH DESIGN

SECTION 1.0: INTRODUCTION

Technological innovations coupled with deregulation of national capital markets have created a congenial climate for the increasing integration of the world's capital markets. This phenomenon which has been described as "globalisation" or "internationalisation" of capital markets has meant that companies are no longer limited in their fund raising and investment activities to their home countries. Similarly, investors continuously search around the world for the best portfolios. This situation brings to the fore the issue of the accounting practices which underlie the numbers on which these cross-border financing and investing decisions are based.

Against this background, this study examines empirically the accounting measurement and related disclosure practices of large companies from five leading countries, namely: France, Germany, Japan, United States of America and the United Kingdom. Appropriate statistical tools are employed to ascertain whether any significant differences exist in the accounting practices of these countries. Also, the study seeks to know whether in view of the endeavours of the IASC and other bodies engaged in similar activities, accounts can be said to be more comparable in 1990/1991 than was the case in 1970/1971. 1970/71 was deemed suitable since it was considered desirable to choose a period before the formation of the IASC. Finally, the study attempts to ascertain whether there are observable differences between the accounting practices of multi-listed and domestic listed companies. This aspect is important in view of the fact that globalisation of financial markets is often proffered as providing a justification for global harmonisation of accounting standards and financial reporting.

SECTION 1.1: RESEARCH QUESTIONS

The major research questions of this study are as follows:

1. are there significant differences in the accounting measurement practices of companies from the five countries covered in this survey (France, Germany, Japan, United Kingdom and the United States of America) as of 1990/91?
2. do multi-listed and domestic listed companies differ in their practices on the usage and disclosure of accounting policies relating to measurement practices as of 1990/91?
- 3a. to what extent did the accounting measurement practices of companies from the five countries differ in 1970/71?
- 3b. are there significant differences in the accounting measurement practices of the companies as between 1970/71 and 1990/91?

SECTION 1.2: IMPORTANCE OF TOPIC

Like many other areas in accounting research, it is impossible to put a precise figure on the benefits and costs of harmonisation of accounting and financial reporting. On the other hand, we do know that the basic function of accounting is the provision of information to aid planning, controlling, investing and other key activities on which the survival of companies and most other organisations depend. Therefore, given the globalisation of the world stock markets and even markets for tangible goods, there seems to be some justification for the argument that accounts which form the basis for vital business and economic decisions be based on comparable rules, regulations and conventions.

Yokarn (1984), investigated the need for international accounting harmony. In his survey covering partners or partners in charge of international sections from nine major accounting firms, comprising three each from 62 member countries of the IASC, 98 percent of the respondents indicated that it was important to have accounts which are internationally comparable. Professional accountants are by no means the only group who hold this view. The International Organisation of Securities Commissions (IOSCO), an association of securities regulators from over twenty-nine countries, also appears to share the view that it is important to have accounts which are

comparable internationally. IOSCO as a body demonstrated its support for the comparability of accounting practices when it indicated to the IASC that it might accept accounting standards issued by the IASC for use in prospectuses of multinational offerings, provided that the number of accounting alternatives available could be restricted.

Substantial resources have been expended and most probably are still to be expended in efforts geared towards achieving harmony of international accounting practices. In "The Work and Purpose of the International Accounting Standards Committee", published in September 1975, the IASC predicted that: "Provided that the initial enthusiasm and thrust with which the IASC was started is continued, its impact in the years to come will be important, it will take perhaps five to ten years before its full effects are recognized but after that they will increase each year. Accounts issued in every important nation of the world will comply with the standards promulgated by the IASC or will disclose the extent to which there has been non-compliance" At least fifteen years have elapsed since this prediction was made. It would appear that the time is ripe to undertake an empirical evaluation of accounting practices in some key countries on a before and after basis to ascertain whether there have in fact been any significant changes. This, however, is not to suggest that whatever changes (if any) can be attributed solely to the IASC.

Nobes (1989) among others notes that the stage of development of a country's stock market is one of the factors likely to exert an influence on its reporting practices. Furthermore, Gray (1980), suggests that the stock market orientation of the UK environment might account for the less conservative approach to profit measurement of UK companies when compared with their Continental European counterparts. However, at the individual company level little is known so far about the likely impact of the listing status of a company on its choice of accounting policies. This research therefore seeks to ascertain the extent to which listing status is associated with the accounting measurement and associated disclosure practices.

Also, as an aspect of this study, indices of international accounting harmony are computed (I index). It is expected that this will provide those organisations and persons interested in international accounting harmonisation with a quantitative measure of the extent of differences in the financial reporting practices of the five countries on the accounting measurement practices treated and during the period covered by this study.

SECTION 1.3: RESEARCH DESIGN

The research approach employed in addressing any research question has a direct bearing on the validity and reliability of the final results generated by the research process. Hence in this section an attempt is made to state in some detail, the research design used for this study and why the chosen design was preferred to other alternative designs.

There are many different ways of defining and classifying research. But the style to be adopted in this work is that used in Bryman (1989). In his classification, Bryman distinguished research designs (the whole structure and orientation of a study) from research methods (ie the techniques for collecting data). He identified five types of research designs : experimental research, survey research, qualitative research, case study and action research.

Bryman (1989), also outlined seven methods or techniques of data collection : self administered questionnaires, structured interviews, participant observation, unstructured interviewing, structured observation, simulation, and archival information. Though some research designs suit some particular method of gathering data some designs make use of a combination of data collection techniques. For the present study, it is quite possible to employ all except three of the techniques, that is, simulation , participant observation and structured observation techniques. For instance, questionnaires can be sent to chief accounting officers of the sampled companies asking them to indicate their accounting policies with respect to the items of interest. Also, it is possible to achieve the same goal using either structured or unstructured interviewing. Use of archival data especially the annual report is also another way of accomplishing the same task.

The use of interviews is easily ruled out on grounds of cost and effectiveness. It is fair to say that it would require extensive research resources to interview accounting officers of over four hundred companies in five countries to ascertain their accounting policies. Even if this point is ignored, one other significant issue is the fact that since this study is relating back to 1970, it is highly doubtful whether the present accounting officers are the right persons to answer questions relating to the accounting practices of their various companies twenty years ago.

Questionnaires, though more cost effective than the interviewing techniques were avoided for the following reasons. They have not gone through the independent

authentication procedure of external auditing which the annual report has gone through. Furthermore, asking officers of companies to give opinions on actions they initiated can often be difficult, but even then asking about accounting policies of two decades back from some one who probably was not then even an employee of the company might only lead to very low response rates and even unreliable answers.

Given the nature of the problem being investigated, in contrast to the other methods discussed above, the archival technique of data collection readily recommends itself as the most cost effective, reliable and sensible method of collecting the data for this study. Bryman (1989) writing on the advantages of using archival data observe that: " Since the materials are non-reactive (that is, they are not the product of investigations in which individuals are aware of being studied), the possible biases which are often recognized to derive from interviews and questionnaires are removed." This is a very important virtue of archival data especially as used for this work as the problem of bias, no matter its source, can cast serious doubt on the findings of any piece of research no matter how painstakingly implemented.

However, even within the domain of the archival technique, there are several alternative approaches. Firstly, a general survey of published accounts like the one prepared by the ICAEW can be used as a data source. Secondly, data can also be gathered from the annual reports of the companies in the sample. Thirdly, the accounting practices as found in accounting standards or commercial statutes of the various countries can also be used as a proxy for the accounting practices of companies from each of the nations of interest. The second alternative is the preferred option for this study. This stance draws some support from Tay and Parker (1990, p.84 & 85) who opined that "if harmonization activities are the result of concern about the comparability of accounts produced by companies from different countries, then a measurement study should focus on actual reporting practices rather than regulations, that is, on de facto rather than de jure harmonization.....actual reporting practices may be assessed most accurately from annual accounts, or detailed surveys of such accounts". Furthermore, Meek and Saudagaran (1990, p. 147) highlight another major drawback of using accounting standards and pronouncements as proxy for accounting practices when they observe that : "Penalties for non compliance with official accounting pronouncements are weak or ineffective in many countries, and examining only official pronouncements can result in a misleading picture of actual accounting practices in a country. "

In a nutshell, Choi and Bavishi (1982) summarise the problems with using either

published surveys or the regulatory pronouncements of the various regulatory authorities in each country as follows:

- " 1. Accounting anthologies based on principles and practices codified by local professional accountancy bodies, international accounting organizations, or national laws generally present minimum standards. Accordingly, corporate reporting practices that exceed such minimums are not captured.
2. Many accounting surveys published by professional accounting firms are based on personal assessments by field office personnel...
3. With a few exceptions, existing literature is generally dated.
4. Most surveys of international accounting principles do not isolate key differences."

In view of the above stated reasons, it was concluded that the best source of data for the evaluation of the accounting practices of companies is the annual reports issued by the companies themselves and authenticated by external auditors.

SECTION 1.4: SAMPLING PROCEDURES

Selection of Countries: five 'Developed Stock Market' countries have been selected for this study, namely, France, Germany, Japan, USA and UK. The number is limited to five due to the need to keep the scope of the study within manageable proportions in view of the time and other resource constraints.

The description of countries as "Developed Stock Market" countries was based on the classification by the International Finance Corporation (see Emerging Stock Market Factbook, IFC, 1990, p.6.), which includes 23 nations of the world. The other countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, Hong Kong, Israel, Italy, Luxembourg, Netherlands, New Zealand, Norway, South Africa, Singapore, Spain, Sweden and Switzerland. A more detailed discussion of the reason for selecting the five countries covered in this study is presented in chapter five.

SECTION 1.5: TOOLS OF ANALYSIS

Two statistical tools of analysis were employed in analysing the data. The chi-square(X^2) test was used to ascertain whether significant differences exist in the accounting measurement and associated disclosure practices of large companies originating from each of the five countries. On the other hand, the I-index a variant of the Hirschman-Herfindahl concentration measure [van der Tas (1988)] was used to compute the degree of harmony that exist in the accounting measurement practices of companies from the five countries. Tay and Parker (1990) acknowledge that: "the use of a concentration index seems to be a useful way to evaluate the level of harmony". The tools of analysis will be discussed in more depth in chapter five.

SECTION 1.6: LIMITATIONS OF THE STUDY

The first obvious limitation of this study is that of scope. Resource constraints dictate that the number of countries used for this survey be limited to five. Even within the five countries the study intends to cover just a sample of large listed companies from France, Germany, Japan, UK and the USA. Hence, any attempt to generalise or extrapolate the findings of this study outside these countries should be made with this limitation in mind.

Allied to the above limitation is the issue of the time span covered by the study. The study used the years 1970/71 and 1990/91 as its reference years. In effect, this means that the findings of the study should be cautiously interpreted outside that time frame. Though accounts are expected to be prepared on consistent bases from year to year, there is no guarantee that a firm must use the accounting policies it employed in 1989, for instance, to prepare its accounts for the 1991 financial year.

SECTION 1.7: OUTLINE OF THE REST OF THE THESIS

In Chapter 2 a review of the activities of organisations involved in accounting harmonisation is presented. The bodies discussed include: the International Accounting Standards Committee (IASC), the International Organisation of Securities Commissions (IOSCO), the United Nations Organisations (UNO), the European Community (EC), the African Accounting Council (AAC), and so on.

The various bodies involved in international accounting harmonisation find

justification for their activities in some other factors which are deemed to be the real driving forces behind the trend to harmonised accounting practices internationally. Chapter 3 focuses on some of these factors, namely: the development of stock markets and their subsequent internationalisation, and the phenomenon of multinational corporations. This chapter also considers issues such as the costs/benefits of, and impediments to international harmonisation of financial reporting practices.

In Chapter 4 further review of relevant Literature is undertaken. More precisely, the review concentrates on empirical research devoted to comparative international accounting and financial reporting practices and the measurement of levels and extent of international accounting diversity and harmonisation.

Chapter 5 deals solely with methodological issues. The sampling procedures, statistical tools of analysis and other methodological aspects are discussed in detail.

Chapter 6 presents the empirical tests and discussions on the following accounting topics: consolidations, business consolidations, goodwill and foreign currency translations.

In chapter 7 further empirical tests and discussions are covered. The topics involved are as follows: inventories, fixed assets, depreciation and investments.

Chapter 8 which is the last empirical chapter deals with seven diverse accounting topics, namely: borrowing costs; deferred taxes; extra-ordinary and exceptional items; research and development expenditures; pensions and retirement benefits; long-term contracts and; government grants.

Finally, chapter 9, the Concluding Chapter provides a summary of the main research findings and their policy implications, limitations of the study, and suggestions for further research.

For reference purposes, a detailed discussion of the environment of accounting and financial reporting in the countries of interest, that is, France, Germany, Japan, UK and the USA is provided in Appendix 2.

CHAPTER 2

PRESSURES FOR INTERNATIONAL ACCOUNTING HARMONISATION FROM GOVERNMENTAL AND PROFESSIONAL ORGANISATIONS

2.0. INTRODUCTION

Accounting standards or guidelines designed for international applicability started becoming prevalent around the 1970s. Ever since then there has been an increase in intensity as well as in the number of organisations that have expressed keen interest in issues pertaining to international accounting harmonisation. Some of these organisations were already in existence prior to 1970 like the Organisation for Economic Co-operation and Development (OECD) and the United Nations (UN), and were set up for purposes far removed from the subject of accounting harmonisation. Others such as the International Accounting Standards Committee (IASC), came into being in the 1970s and was formed solely for the purpose of meeting the felt need of reducing if not eliminating international accounting diversity.

This chapter is devoted to reviewing the various aspects of these organisations. Specifically, the following bodies will be covered in the review: The International Accounting Standards Committee, the United Nations Organisations, the Organisation for Economic Co-operation and Development, the International Organisation of Securities Commissions, the European Community, the Fédération des Experts Comptable Européens, the African Accounting Council, the Confederation of Asian and Pacific Accountants, and the ASEAN Federation of Accountants. In the remainder of this chapter each of these organisations is treated in some detail. Also, a discussion of the relationships between these organisations and how those relationships are likely to affect global accounting harmonisation is attempted.

2.1 THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE (IASC)

The IASC was set up in 1973 by accounting bodies from Australia, Canada, France, Germany, Japan, Mexico, Netherlands, the United Kingdom, and the United States of America. That was a high point in a process started in 1966 by accounting bodies from Canada, United Kingdom and the United States when the Accountants International Study Group (AISG) was established to enhance increased understanding of accounting issues and trends among the three countries.

The establishment of the IASC can be viewed as a response of the accounting profession to calls which started getting louder as from 1950 onwards [for example, Kraayenhof (1960)] for greater co-ordination of accounting rules among the various nations of the world. This need was often expressed in the various International Congresses of Accountants held prior to the formation of the IASC. Chetkovich (1979, p.13), indicates that "at each of these congresses, there was a recognition of the need for better communications and closer cooperation among accountants on a worldwide basis and for greater harmonization of accounting standards". Perhaps it was this perceived need that facilitated the setting up of the IASC on June 29, 1973, barely nine months after the issue was formally discussed during the Tenth International Congress of Accountants held in Sydney, Australia in 1972.

The Objectives of the IASC

The objectives of the IASC are as follows:

- (a) to formulate and publish in the public interest, international standards; also to promote their acceptance and observance world-wide, and
- (b) to work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements. (IASC, 1983, Preface to Statements of International Accounting Standards, p.1).

This is undoubtedly a very ambitious goal, especially for a body of professional associations which is lacking in the global political mandate needed to facilitate the accomplishment of the above stated goals. Hence these objectives have been criticised by various writers. One line of criticism pertains to the geographic scope of the IASC's harmonisation efforts. Nobes (1991, p.78) describes the IASC's attempt at worldwide standardization as "a hopeless and unnecessary target". He goes on to

suggest that "The greatest benefits will come from standardization among countries where there are companies which publish financial statements and which have foreign investors, auditors, parents or subsidiaries. This means ... the developed western world and those developing countries with which it has significant economic links. To try to bring the accounting of the Soviet Union into line, for example, would not only have very few benefits but would also have been impossible." However, the current trend in favour of a market type economy as opposed to the centrally planned economic system of the erstwhile eastern bloc countries will tend to support the vision of worldwide harmonisation adopted by the IASC.

The objectives of the IASC has also been criticised along the line of the size and nature of enterprises on which it focuses. Aitken and Wise (1984) are of the opinion that the IASC should concentrate its attention on multinational companies and investors in multinational businesses rather than attempting worldwide harmonization which embraces every shade of enterprise. Consequently they proceed to suggest that the 'real' objective of the IASC should be : "the harmonization of accounting on a worldwide basis in order to improve the financial reporting and decision-making capability of multinational businesses, and investors in multinational businesses."(p.176).

It is intuitively appealing to argue that international accounting standards be restricted to multinational business and investors. On the other hand, there are some likely problems with operationalising this approach. For instance, which measure of multinationality - ownership, country of domicile, listing status, foreign sales, siting of production facilities, and so on, should be used in determining a multinational business? Also, since foreign investors can invest in some companies which might not qualify to be classified as 'multinationals' whichever measure is used, restricting harmonisation to multinational companies will deny such investors the benefits of international harmonisation. Finally, it is likely that some companies designated as multinational companies are in direct competition with some local or national companies in the various countries where they operate. Subjecting them to different accounting standards might confer unfair competitive advantages to one party or the other.

The next line of criticism pertains to the issue of mandate. The statement of the objectives of the IASC begins with the phrase "to formulate and publish in the public interest, international standards..." The IASC remains principally a body of professional accountants. Hence the claim to act 'in the public interest' by way of

imposing accounting standards and rules which can have some effects on the public without the consent and mandate of the public in whose interest it claims to act is highly contestable. This lack of democratic legitimacy is perhaps the greatest obstacle to the enforcement of IASC standards.

In order to make up for its lack of mandate, the IASC encourages other bodies some of which have direct or indirect mandate to participate actively in its standard setting endeavours. This participation was institutionalised in 1981 when the IASC set up a Consultative Group involving some non-member organisations with an interest in financial reporting matters. The current (1991) members of the Consultative Group are:

1. Federation Internationale des Bourses de Valeurs (FIBV).
2. International Association of Financial Executives Institutes (IAFEI)
3. International Chamber of Commerce (ICC)
4. International Confederation of Free Trade Unions (ICFTU)
5. International Organisation of Securities Commissions
6. International Banking Associations
7. International Bar Association (IBA)
8. International Finance Corporation (IFC)
9. The World Bank
10. Financial Accounting Standards Board (FASB)
11. European Commission (EC)
12. The International Assets Valuation Committee
13. Organisation for Economic Cooperation and Development (OECD)
14. United Nations Centre on Transnational Corporations (UNCTC)

Apart from the support of these bodies, the only other mechanism for achieving compliance with the IASC's standards is by reliance on the best endeavours of member bodies within their own countries. However, in some countries where the professional bodies have minimal influence over the standard setting machinery, like in France and Germany the "best endeavours" of members might not be good enough to ensure that International Accounting Standards are complied with.

Structure and Composition of the IASC

The organisational set up of the IASC has a board at its apex. Currently thirteen countries are on the board. This consists primarily of eight of the founding member countries and five other countries including: Jordan, South Korea, South Africa, Denmark and Italy. Mexico, a founding member country, is not currently on the board. The following countries have also served on the IASC board in the past: Denmark, Nigeria and Taiwan. The board is headed by a chairman and supported by a full-time secretariat with a Secretary-General who is in charge of the day to day operations of the IASC. The IASC which is headquartered in London, England, has over 95 member accountancy associations from over 70 nations of the world.

Until 1977 the IASC had two categories of members, 'founding members' (that is, those nine countries that founded it), and 'associate members' comprising all other members. After 1977 the associate members were granted full membership status thereby abolishing the two-layered membership structure. This seems to be a move in the right direction. An organisation such as the IASC which needs the wholehearted co-operation of all of its members, cannot afford to make room for the suspicion and distrust which the stratification of members into 'first class' and 'second class' categories engender.

The Process of Issuing International Accounting Standards

With the IASC, the process of issuing an International Accounting Standard starts formally when the IASC board selects a topic deemed suitable for an International Accounting Standard. The topic is passed on for further work to a Steering Committee usually comprising four member countries of which at least one is a Board member. All member bodies are invited to submit their views, comments and ideas for consideration. Next, the Steering Committee presents a point outline of the subject to the IASC Board for comments. Subsequently, the Steering Committee prepares an initial draft of the proposed standard, this is reviewed by the Board and then circulated to member bodies for further comments.

Subsequently, the Steering Committee prepares a revised draft. If the draft is approved by at least two-thirds of the Board, it is published as an Exposure draft. Further comments are invited from interested parties during the exposure period which is usually six months. The Steering Committee considers the comments and submits a revised draft to the Board for approval as an International Accounting Standard. The

revised draft is formally adopted and issued as an International Accounting Standard if 75% or more of the board members vote to endorse it. With respect to the voting either for the issuance of exposure drafts or approval of International Accounting Standards, each country represented on the board of the IASC has one vote.

When an approval has been given for the issuance of an IAS on any topic, the IAS is subsequently published in the English Language, which is the official version of the standard. It is the responsibility of the other non English speaking members of the IASC to translate the official version into their various national languages. So far (1991), International Accounting Standards have been translated into the following languages: Arabic, Chinese, Czechoslovakian, Danish, Dutch, French, German, Greek, Hebrew, Hungarian, Indonesian, Italian, Japanese, Korean, Malay, Norwegian, Polish, Portuguese, Russian, Serbo-Croat, Spanish, Swedish, Thai and Turkish (IASC, 1991, p.8).

By January 1993, the IASC had issued thirty one International Accounting Standards. The standards and their respective effective dates are as follows:

- IAS 1 Disclosure of Accounting Policies (1/1/75)
- IAS 2 Valuation and Presentation of Inventories in Context of the Historical Cost System (1/1/76)
- IAS 4 Depreciation Accounting (1/1/77)
- IAS 5 Information to be Disclosed in Financial Statements (1/1/77)
- IAS 7 Statement of Changes in Financial Position (1/1/79)
- IAS 8 Unusual and Prior Period Items and Changes in Accounting Policies (1/1/79)
- IAS 9 Accounting for Research and Development Activities (1/1/80)
- IAS 10 Contingencies and Events Occurring After the Balance Sheet Date (1/1/80)
- IAS 11 Accounting for Construction Contracts (1/1/80)
- IAS 12 Accounting for Taxes on Income (1/1/81)
- IAS 13 Presentation of Current Assets and Current Liabilities (1/1/81)
- IAS 14 Reporting Financial Information by Segment (1/1/83)
- IAS 15 Information Reflecting the Effects of Changing Prices (1/1/83)
- IAS 16 Accounting for Property, Plant and Equipment (1/1/83)
- IAS 17 Accounting for Leases (1/1/84)
- IAS 18 Revenue Recognition (1/1/84)
- IAS 19 Accounting for Retirement Benefits in the Financial Statements of Employers (1/1/85)

- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance (1/1/84)
- IAS 21 Accounting for the Effects of Changes in Foreign Exchange Rates (1/1/85)
- IAS 22 Accounting for Business Combinations (1/1/85)
- IAS 23 Capitalisation of Borrowing Costs (1/1/86)
- IAS 24 Related Party Disclosures (1/1/86)
- IAS 25 Accounting for Investments (1/1/87)
- IAS 26 Accounting and Reporting by Retirement Benefit Plans (1/1/88)
- IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries (1/1/90)
- IAS 28 Accounting for Investments in Associates (1/1/90)
- IAS 29 Financial Reporting in Hyper-inflationary Economies (1/1/90)
- IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions (1/1/91)
- IAS 31 Financial Reporting of Interests in Joint Ventures (1/1/92).

IAS 3 was replaced by IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries and IAS 28, Accounting for Investments in Associates, both of which became effective as from 1st January, 1990.

Additionally, the IASC has issued exposure drafts on the following topics:

- E37 Research and Development Activities
- E38 Inventories
- E39 Capitalisation of Borrowing Costs
- E40 Financial Instruments
- E41 Revenue Recognition
- E42 Construction Contracts
- E43 Property, Plant and Equipment
- E44 The Effects of Changes in Foreign Exchange Rates
- E45 Business Combinations
- E46 Extra-ordinary Items, Fundamental Errors and Changes in Accounting Policies
- E47 Retirement Benefit Costs

Two IASC projects deserve to be discussed in some greater depth - the Conceptual Framework and the Comparability projects. These two projects seek to address two of the major criticisms often levelled against the International Accounting Standards of the IASC. Various writers (for example Chambers (1963), Belkaoui (1985), Littleton

(1953) and McDonald (1972)) have commented on the need for accounting standards to have some theoretical underpinnings. Some others [for example Violet (1982)] have even suggested that without such conceptual foundation, the whole IASC standard setting exercise is futile and bound to fail. Another criticism made against the IASC was that the earlier standards issued were too flexible often tolerating many options on any given issue. More detailed discussions of these two projects are presented next.

The Conceptual Framework

To address the issue of a theoretical foundation for International Accounting Standards, the IASC set up a committee in 1987 to work on a Framework for the Preparation and Presentation of Financial Statements. The Framework which was completed in 1989 deals with issues such as the objective of financial statements; the qualitative characteristics which determine the usefulness of information contained in financial statements; the definition, recognition and measurement of the elements from which financial statements are prepared; and the concepts of capital and capital maintenance.

According to the IASC, the following constitute the purpose of the framework:

- (a) assist the Board of IASC in the development of future International Accounting Standards and in its review of existing International Accounting Standards;
- (b) assist the Board of IASC in promoting harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by International Accounting Standards;
- (c) assist national standard-setting bodies in developing national standards;
- (d) assist preparers of financial statements in applying International Accounting Standards and in dealing with topics that have yet to form the subject of an International Accounting Standard;
- (e) assist auditors in forming an opinion as to whether financial statements conform with International Accounting Standards;
- (f) assist users of financial statements in interpreting the information contained in financial statements prepared in conformity with International Accounting Standards;
- and
- (g) provide those who are interested in the work of IASC with information about its approach to the formulation of International Accounting Standards.

Going by the list above one wonders whether the IASC is not expecting too much of

the Conceptual Framework. Moonitz (1963, p.46) has commented that: "There is a natural tendency either to overrate or to underrate what can be done by way of a set of postulates and principles. On the one hand, no set of accounting postulates and principles will ever solve all accounting problems, any more than the Ten Commandments can answer all questions of right and wrong, or the Constitution resolve all problems of legality or illegality; or the "laws" of physics build a bridge, launch a rocket, or dam a river. On the other hand, the formulation of postulates and principles will give accounting the frame of reference, the integrating structure it needs to give more than passing meaning to its specific procedures." This thinking becomes even more relevant in an international context with people of differing cultural backgrounds. What is logical and conceptually sound in one culture might be considered folly in another especially when there are entrenched interests to protect. It is therefore vital that the right balance on the usefulness of the conceptual framework is maintained especially with respect to its role in assisting with the issuance of future International Accounting Standards.

The Comparability Project

The earlier International Accounting Standards issued by the IASC were very flexible allowing for many methods of treating the same item. For instance, IAS 2 on stock valuation allowed the use of the Last-in-First-Out (LIFO), the First-in-First-Out (FIFO), weighted average cost, base stock and specific identification methods. However, following the proposals contained in the E32 Document of the IASC the use of the Base stock method as a stock valuation method has been expressly disallowed.

As to the likely rationale for this piecemeal approach, Anthony Carey (1989), suggests that: "If the IASC had tried to eliminate all the options from the outset, the project may not have been a flyer." Choi and Bavishi (1982, p.165) expressed the same opinion in the following words: "During its formative years, an overriding concern of IASC - one common to all nascent organizations - was that of survival. In hindsight, the operating procedure adopted was consistent with this concern. IASC has, thus far, concentrated on rationalizing accounting procedures presently used in countries around the world...". After being in existence for over fourteen years and encouraged by the International Organisation of Securities Commissions, the IASC decided it was time to eliminate some of the free choices provided in its earlier standards. The means adopted to accomplish this was the Comparability Project which gave rise to Exposure Draft 32 more commonly known as E32.

The E32 dealt with 29 profit measurement and asset valuation issues. The various alternative ways of treating each of these items as permitted by earlier IASC standards were stratified into "Preferred", "Allowed", and "Eliminated". The "Preferred" methods, about 36 in all, are meant to serve as the international bench marks. The "Allowed" alternatives involving 18 methods can be used subject to the condition that there should be a reconciliation showing what the situation would have been if the "preferred" method(s) was(were) used. The use of 23 methods described as "Eliminated" are to be prohibited.

Subsequently, the Board of the IASC issue a Statement of Intent communicating its decision that: (a) twenty one of the twenty nine proposals in E32 should be incorporated in revised International Accounting Standards without substantive change;

(b) three of the proposals in E32 (issues dealing with the Assignment of cost to inventories, Development costs and Borrowing costs) require substantive change and so should be reexposed and reconsidered in view of the comments made by respondents regarding these items.

(c) reconsideration of five of the proposals (Recognition of finance income on finance leases, Measurement of long-term investments, Measurement of marketable equity securities held as long-term investments, Measurement of current investments, and Recognition of increases and decreases in market values of current investments) should be deferred pending further work.

Gernon, Purvis and Diamond (1990, p.12) have identified five possible responses to the comparability project of the IASC. Firstly, standard setters and regulators might decide to adopt the revised International Accounting Standards as national standards. Secondly, standard setters might reject them but regulators of securities markets decide to adopt for listed domestic or foreign companies. Thirdly, both standard setters and regulators do not adopt the IASs as national standards but both require reconciliation to the IASC,s preferred treatments. Fourthly, standard setters and regulators encourage adoption of or reconciliation to the IASC's benchmark. Finally, There is no change in the status quo. In other words, the proposals embodied in the comparability project are completely ignored both by national standard setters and regulators of capital markets. Whatever the responses of the various national standard setting bodies and regulatory authorities, suffice it to say that the comparability project is likely to incur the displeasure of some and the approval of others.

General Concluding Remarks on the IASC

In 1993, the IASC will mark the 20th anniversary of its formation. There are those who believe that the IASC has been simply a success [for example, Cummings (1976), Benson (1976)]. Some others like Wells (1980,p.13), hold the view that the IASC is "at best a misguided attempt by the professional accounting bodies to gain prestige or forestall action by agencies such as the United Nations by being seen to be international in scope." Whichever view one espouses, the years ahead will probably be tougher for the IASC as it struggles to balance the conflicting interests of the various constituencies upon whose support its continued survival to a large extent depends.

2.2 THE INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO)

The International Organisation of Securities Commissions is an association of securities regulators from over twenty-nine countries. Initially, the members of IOSCO were principally securities regulators from South America, but it has grown to include securities regulators from virtually every continent - Asia, Europe, North America, Africa and Australia.

IOSCO is not an accounting standard setting organisation per se. However, the relationship between financial reporting and securities is so obvious as to justify IOSCO's involvement with the international accounting standard setting efforts. IOSCO realises the problems posed by diversity of national accounting regulations and is of the opinion that any attempt to minimise or eliminate such differences is worthwhile.

IOSCO's involvement in international accounting standard setting matters is indirect. The commission does not have any intentions of issuing its own standards, at least for now. The IOSCO sees the IASC as the body best suited to handle the task of producing international accounting standards that will enhance the comparability of financial statements. Hence it is mainly involved in the international accounting standard setting process by actively encouraging the IASC.

The IOSCO was a motivating factor in the IASC's project on Comparability of Financial Statements and also served as an observer on the IASC Steering Committee that worked on the project. By 1990, IOSCO indicated to the IASC three conditions

under which it would urge its members to require that foreign firms reconcile their accounting methods to IASs (Wyatt 1991, p.13.4). The conditions are as follows: the IASC should, (1) reduce significantly the number of acceptable alternatives hitherto allowed by its standards, (2) add explanatory material to the revised standards to make them more complete and helpful in practical situations, and (3) add to the required disclosure standards to provide more complete information to investors.

The significance of this development for international accounting harmonisation is major. Wyatt (1991, p.13.4), is of the opinion that IOSCO proposals have the potential to "make the harmonization or internationalization of accounting standards much more of a reality than even the strongest proponents of harmonization could have foreseen in 1980". IOSCO with such powerful members as the US Securities and Exchange Commission, the UK Securities and Investments Board, France's Commission des Operation de Bourse and the Japanese Securities Bureau has a very vital role to play in the movement for international accounting harmonisation.

2.3 THE UNITED NATIONS.

Of all the organisations involved in international accounting harmonisation, the UN is by far the most diverse. The membership of the UN includes over 150 countries with different political ideologies, different economic orientations, and different stages of economic development. Also, unlike the other bodies covered in this chapter, the focus of the activities of the UN is more towards international socio-political relations rather than economic development.

The UN became involved in international accounting issues in 1976 with the appointment of the Group of Experts on International Standards of Accounting and Reporting (GEISAR) under the auspices of the UN Centre for Transnational Corporations. This was a sequel to the recommendations of the Eminent Persons Group set up by the UN to look into the affairs of Multinational Corporations.

In its report (UN 1977), the GEISAR identified in detail minimum financial and non-financial items that should be disclosed in the corporate reports of Multinational companies. According to the guidelines, transnational corporations are required to disclose both financial and non-financial information on a regular annual basis normally within six months and in any case not later than 12 months from the end of the financial year of the corporation. The financial information which should be provided where appropriate on a consolidated basis should include: A balance sheet;

an income statement stating operating results and sales; a statement of allocation of net income; a statement of the sources and uses of funds; significant new long-term capital investment; research and development expenditure. Additionally, transnational corporations are expected to provide non-financial information showing : the structure of the corporation, including the name and location of the parent company, its main entities, its percentage ownership, direct and indirect, in these entities, including shareholdings between them; the main activity of its entities; employment information, including average number of employees; accounting policies used in compiling and consolidating the information published and; policies applied in respect of transfer pricing (OECD, 1986, p.108). In 1979, an ad hoc intergovernmental group of experts from 34 countries was set up to develop the final versions of the disclosure guidelines. In 1982, the intergovernmental group was constituted on a more permanent basis to further the work of the 1979 ad hoc intergovernmental group.

The UN's involvement appears to be driven by the desire to protect developing countries from the secretive reporting practices of multinational corporations. This can be buttressed by the nature of the terms of reference given to the GEISAR in 1976 which can be summarised as follows (Iddamalgotoda, 1986, p.16):

- * reviewing the current reporting practices of transnational companies and the reporting regulations in different member nations;
- * identifying the gaps in information prevailing in corporate reporting practices and examining the feasibility of various proposals for improved reporting;
- * recommending a minimum list of items, and their definitions, which should be included in reports by transnational corporations and their affiliates.

However, some writers have questioned strongly the sense of the UN attempting to issue its own accounting guidelines. Fitzgerald [1981,p.29] states as follows: "It remains a fundamental question whether an organization such as the UN should be involved in developing accounting standards. If standards are to be useful, they should be founded on a rational, objective and neutral basis, and it is doubtful whether the UN is in a position to accomplish this."

While there might be some sense in the thinking expressed above, the basis for this criticism is not altogether above question. Fitzgerald believes standards to "be founded on a rational, objective and neutral basis." This is not entirely correct. Numerous writers [e.g.Hornigren 1981; Bromwich 1985 and Zeff 1978] have articulated the belief

that accounting standards setting is to a great measure political and at times devoid of the rationality, objectivity and neutrality ascribed to it by Fitzgerald (1981). Given this fact one can still see a role for the UN in accounting standard setting. Most of the bodies involved in international accounting issues like the IASC, the IFAC, the OECD, to name a few, are dominated by industrialised countries who are the originating countries for most of the transnational corporations. Given the political nature of accounting standard setting, the standards or guidelines emanating from these bodies are likely to be seen to favour the multinational firms to the disadvantage of developing countries who play host to these firms. Hence, the UN's involvement in setting accounting guidelines on its own is needed in order to provide a moderating influence on the international accounting standard setting arena.

Another fierce critic of the UN's foray into the international accounting standard arena is Sir Henry Benson, the first chairman of the IASC. Benson (1978 p.131) expressed the opinion that the scale and scope of the requirements for disclosure contained in the UN guidelines were over ambitious, costly, and risk encouraging discrimination against the transnational corporation at a territorial level. He urged the UN to leave the issue of international accounting standards to the IASC which he described as "by far the best vehicle for furthering international comparability in the most effective and practicable manner". Given Benson's involvement with the IASC his criticisms of the international accounting activities of the UN should be put in perspective.

On the other hand there are those who believe that the UN is best placed to issue international accounting standards. Wells (1980, p.9) expresses this trend of thought in the following words "However, why the accounting bodies should duplicate the infrastructure of the United Nations is not clear. At least the question of who should control multinational corporations should be debated, and not just subsumed by a collection of professional bodies which cannot enforce the standards they have issued". These are some of the controversies that dodge the whole harmonisation venture and to some extent make it difficult for accountants and other interested parties to arrive at any consensus.

Currently, the UN guidelines, which were in any case restricted to disclosure issues, lack the force of law. So, it has to rely on member nations to enact and enforce its guidelines if they wish to do so. This is a major weakness of the standard or guidelines set by the UN.

2.4 THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

The OECD, an economic grouping of the world's leading industrial countries, came into formal existence on 14th December, 1960, when twenty countries signed the charter establishing the organisation in Paris. The twenty countries are: Austria, Belgium, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States of America. Four other countries later joined the OECD - Japan in 1964, Finland in 1969, Australia in 1971 and New Zealand in 1973, to bring the total membership to twenty four.

By joining the OECD, the members undertook to promote policies designed to:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral non-discriminatory basis in accordance with international obligations.

Given the composition and objectives of the OECD the reasons for its interest in accounting and harmonisation issues are not far fetched. Jean-Claude Paye former Secretary General of the OECD proffers two major reasons (OECD, 1986, p.10). Firstly, the OECD aims to ensure that "international rules of the game" are adhered to, as this will facilitate the creation of a climate of confidence conducive to foreign investment. Secondly, The OECD is of the opinion that the harmonisation of accounting standards is one of the vital ingredients necessary for the fulfilment of its objectives.

The first major involvement of the OECD with international accounting issues was in the form of its 1976 "Guidelines for Multinational Enterprises." The Guidelines were an effort by the OECD to lessen conflict between MNC's and host governments without curtailing the freedom of MNC's or laying onerous burdens on them. According to the OECD's guidelines companies should with due regard to their nature, size, requirements of business confidentiality and cost, publish within reasonable time limits, on a regular basis but at least annually, financial statements and

other pertinent information relating to the enterprise as a whole, comprising in particular:

- i) The structure of the enterprise, showing the name and location of the parent company, its main affiliates, its percentage ownership, direct and indirect, in these affiliates, including shareholdings between them;
- ii) The geographical areas where operations are carried out and the principal activities carried on therein by the parent company and the main affiliates;
- iii) The operating results and sales by geographical area and, as far as practicable, by major lines of business for the enterprise as a whole;
- iv) Significant new capital investment by geographical area and, as far as practicable, by major lines of business for the enterprise as a whole;
- v) A statement of the sources and uses of funds by the enterprise as a whole;
- vi) The average number of employees in each geographical area;
- vii) Research and development expenditure for the enterprise as a whole;
- viii) The policies followed in respect of intra-group pricing;
- ix) The accounting policies, including those on consolidation, observed in compiling the published information.

It is reasonably fair to say that the financial disclosure requirements of the guidelines are of a broad and general form, in contrast to the more specific disclosure requirements of the UN guidelines. On the controversial issue of segmental reporting the note to the annex of the OECD's guidelines leaves the determination of what constitutes a 'geographical area' entirely to the discretion of each company. Given the vague nature of the requirements of these guidelines, it is not surprising that the financial disclosure guidelines of the OECD have attracted little or no controversy.

The OECD, realising that the recommendations in its Guidelines are "couched in general terms" (OECD, 1986,p. 97), set up a Working Group on Accounting Standards in 1979 to clarify the accounting terms contained in the guidelines and to promote efforts directed towards international harmonisation and comparability. By 1982 the Working Group had become convinced "that given the complexity of the issues involved", it was needful to "abstain from standard-setting activities". Consequently, the OECD adopted a modified approach. This modified approach entails the use of technical subgroups embracing representatives of other bodies interested in international accounting harmonisation like the IASC to stimulate meaningful discussions and exchanges on selected accounting issues. Rainer Geiger, former Head of Division at the Directorate for Financial, Fiscal and Enterprise Affairs of the OECD summarised this new approach in the following words: "It is through dialogue, co-

operation and partnership that we manage to contribute to the evolving international framework for accounting and reporting" (OECD, 1986,p.99).

The OECD organised a Forum on Harmonisation of Accounting Standards in April 1985. About 180 participants from different professions and organisations attended the meeting which was designed to: "highlight the need for increased comparability and harmonisation; to identify common problems and stimulate the standard-setters to greater co-ordination of their efforts; to inform the standard-setting bodies and other interested parties of the activities of the OECD in the area of accounting..." Commenting on the primary achievement of this forum Jean Dupont Chairman of the OECD Working Group on Accounting Standards, who also chaired the forum, noted that the deliberations produced "a shift in attitudes" in favour of international accounting harmonisation (OECD, 1986, p.). Since the basic aim of the meeting was to provide a forum for exchange of ideas it is difficult to assess the effect of this forum on the international accounting harmonisation process. However, it demonstrates in a practical way the commitment of the OECD to international accounting harmonisation.

Apart from, the foregoing, OECD's participation in international accounting standards extends to the IASC where it has an observer status. Gray [1984, p.61] opines that the OECD intends to:

"... contribute to and participate in the international standard setting process and work, in the longer term, towards promoting international agreement on a conceptual framework as a basis for improving the comparability and harmonization of accounting standards."

The individual and collective economic and political clout of the OECD countries, undoubtedly, can go to some lengths in promoting international harmonisation. This depends of course on the degree of accord or discord existing between individual members and the degree of the group's commitment to accounting harmonisation.

The weakness with the OECD's guidelines is the fact that they lack the force of law and so cannot be legally enforced within each country, unlike the EC directives. Furthermore, the composition of the OECD is likely to cause developing countries to treat OECD guidelines with caution, suspicion and distrust.

2.5 THE EUROPEAN COMMUNITY (EC)

The EC is an organisation of West European countries committed to economic development and economic integration of countries in the community. Currently the EC has twelve member states, namely: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Spain, United Kingdom and Portugal. The EC's involvement with accounting harmonisation is a natural derivative of its commitment to the elimination of obstacles to the free movement of persons, goods, services and capital within the community. Consequently, the community considers it essential to have a harmonised system of company law, taxation and capital markets so as to promote fair competition.

The EC differs significantly from other bodies engaged in international harmonisation of accounting in that its pronouncements have the force of law in each member state, and so are more readily enforceable. The pronouncements of the EC can be classed as Directives, legislation or Recommendations. The Directives require incorporation into the national laws of each individual member state before they can become binding on the citizens. EC legislation applies to all member countries across the board and do not need incorporation into each members national laws to be binding. The recommendations do not have the force of law. However, there is a strong moral pressure for those affected to comply with the opinions expressed therein.

The EC Directives of prime accounting importance are the Fourth and Seventh Directives. The Fourth Directive was approved by the EC Council of Ministers on July 25, 1978. However, it was to become effective in each member state at the latest by 1982. The directive deals with such issues as accounting principles, presentation formats of accounts, publication and the audit of individual company accounts. The topic of consolidated financial statements was reserved for treatment in the Seventh Directive. These directives do not apply to banks and other financial institutions or insurance companies. Such companies are taken care of under a separate directive.

The Fourth Directive is a landmark in the attempts at co-ordinating the accounting practices of member states of the EC. It is hardly envisaged that its implementation will alter drastically the accounting and financial reporting practices of member states. However, no one country within the community is likely to retain all its previous accounting practices intact.

The Seventh Directive of the EC which deals with consolidated financial statements of

companies was approved by the EC Council of Ministers in 1983. The national legislative bodies of the EC countries were expected to have enacted the provisions of the Seventh Directive into their respective laws by 1988, the laws being effective as from 1990.

In addition to the Fourth and Seventh Directives, there are other directives of less importance to the topic of this study. Such directives include: the Fifth Directive dealing with the structure, management and audit of companies; the Eighth Directive on qualifications and work of auditors. Others include, the Directive of 8 December, 1986 on the annual accounts and consolidated accounts of banks and other financial institutions; the Directive of 13 February, 1989 relating to branches of credit institutions established in a member state, to name a few.

In order to ensure compliance with its directives, the EC relies on two main techniques. Firstly, countries are given a reasonably adequate time between the approval date of the directive(s) and the expected effective date of the directives. For instance, although the Fourth Directive was approved in July, 1978, it was to take effect in member countries about four years later. The second technique is the giving of generous options in the directives. This ensures that the preferences of most member nations are accommodated.

The extensive use of options has been criticised. Critics point out that options create a situation whereby the much vaunted harmonisation is merely cosmetic, leaving the substance untouched (Hulle 1989). While agreeing that there are some truths in the view expressed by critics of options, it has to be remembered that some of the options relate to accounts formats or manner of disclosing an item. Those will not pose any serious danger to comparability of financial statements. The real problem lies with options relating to measurement and valuation rules. For the time being the EC appears to be helpless on this issue. Professor Karel von Hulle of the EC Commission expressed the Commission's predicament aptly when he said that: "If options can be avoided this must be done, but considering the different approaches which still exist in member states, it will be very difficult to rule them all out" (Hulle (1989, p.98).

So it appears that for some time to come, options will continue to be a feature of the EC directives. Against all odds the EC has continued to get on with its harmonisation endeavours. No doubt, it provides a ready test case for other regional groupings like the Association of East Asian Nations (ASEAN), the Caribbean Common Market (CariCom), and the Economic Community of West African States (ECOWAS).

EC and IASC

The EC by the instruments of the Fourth, Seventh and other Directives is trying to harmonise accounting and financial reporting among her member states. On the other hand the IASC has set for itself the goal of global harmonisation. This is not the only point of divergence. McComb (1982, p. 45) observes that within the EC framework, "corporate reporting is envisaged as a tool of bureaucratic planning rather than, as in the UK/US model (favoured by the IASC)", a source of information for decision making by investors, creditors, employees, and so on." He goes on to conclude that this "must pose an obstacle to the development of IASC activities in Europe" (McComb 1982, p.47).

Apparently, there are differences between the EC accounting harmonisation programme and that of the IASC. These gaps are likely to widen as the IASC intensifies its efforts to lessen alternatives allowed earlier in the International Accounting Standards it issued. The Fourth Directive for instance gives many options and from all indications, the EC is not about to eliminate these options in line with the proposals outlined by the comparability project of the IASC.

There is another way in which the accounting harmonisation programme of the EC can hamper attempts at global harmonisation. If the EC' programme succeeds, it might induce other regional groupings to insist on having their own sets of standards. That will likely lead to a situation where instead of one set of standards meant for global application as the IASC would wish to see, there would be different standards for different regions of the world.

The IASC has tried to cope with this threat from the EC by appointing representatives of the EC to its Consultative Group. It is, however, doubtful whether that can completely eradicate this threat in so far as the EC decides to continue with its regional harmonisation endeavours. The stance adopted by the IASC thus far has been to play down this threat. The truth remains that the European Community is an important region and to a large extent the IASC needs her co-operation if it is to succeed. If both the IASC and the EC decide to continue in the same direction they are both headed currently, the incompatibility of their positions will be made manifest sooner rather than later.

2.6 FEDERATION DES EXPERTS COMPTABLES EUROPEENS (FEE)

The Federation of European Accountants commonly known as FEE was formed in October 1986 following the merger of two earlier bodies - the Union Européenne des Expertes Comptables Economiques et Financiers (UEC) founded in Paris, France in November 1951 and the Groupe D'études des Experts Comptables formed in 1961. Whereas the UEC was composed of both EC and some non EC European countries, the Groupe D'études was a more specialised group consisting of notable accounting bodies from various European Community countries. The Groupe D'études was mainly concerned with providing some guidance with respect to the technical aspects of the accounting directives of the EC. On the other hand, the UEC apart from having a wider spread than the Groupe D'études, also differed in that its work was devoted mainly if not solely to issues pertaining to auditing and accounting practice.

As at December 1990, FEE had over 300,000 members from 33 accounting organisations from twenty countries, namely: Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom (European Accountant, February, 1991, p.11). The Secretariat of FEE is at Brussels.

For the time being, FEE appears to be adopting a completely different perspective from the UEC. This can be supported by FEE's unwillingness to be directly involved with issuing either accounting or auditing standards. Rather, it has contented itself with playing facilitating and supportive roles through organising conferences on its own as was the case in October 1989 or jointly with others, for example, the FEE/IASC joint conference of June 1991, and through the undertaking of empirical research relating to international accounting harmonisation.

This mode of operation adopted by FEE is less likely to lead to frictions with other regional and international accounting bodies. This partly explains the ease with which FEE can cooperate with bodies like the European Commission as well as the IASC. Hence, at the request of the European Commission, FEE in 1989, embarked on its first major empirical survey with the objective of throwing "light on whether or not the implementation of the Fourth EC Company Law Directive, which was adopted in 1978, has resulted in increased harmonisation of accounting practices and comparability of financial reporting within the Member States" (FEE,1989,p.4). The approach adopted by FEE in addition to enabling it to work together with various other bodies can also place it in an advantageous position to mediate between bodies

like the IASC and the European Commission on those areas where it would otherwise be difficult for the two organisations to have some consensus.

2.7 THE AFRICAN ACCOUNTING COUNCIL

The African Accounting Council (AAC), founded in 1979, comprises over twenty six member countries of the Organisation of African Unity. The various nations that belong to the AAC are represented by the bodies responsible for issuing accounting standards in each country. The objectives of the AAC are as follows:

1. To help set up accounting standardisation bodies in African countries;
2. To promote and perform studies of all types concerned with the standardisation of accounting;
3. To promote initial and further training activities in accountancy;
4. To undertake research into accountancy and related subjects;
5. To encourage the development of the teaching of accountancy and related subjects;
6. To undertake the publication, translation and dissemination of works on accountancy by African authors;
7. To encourage regular contact between members;
8. To encourage consultation and exchanges between African specialists and experts;
9. To establish relations with international bodies and organisations in other countries whose work and activities are similar to those of the Council;
10. To promote the harmonisation of accounting practice so as to encourage the dissemination of management information throughout the continent of Africa.

In order to achieve the AAC's aim of harmonising accounting practices within the African continent a Technical Commission on Accounting Standardisation was set up and charged with the work of preparing, by 1985, the modus operandi for an African Standard Accounting System (SCAR). Basically, the programme is geared towards combining various features of the French accounting system and British accounting system inherited by most of the members of the AAC at independence and adapting them to suit the environment of each individual member of the AAC. It is intended that the AAC will issue accounting directives, as approved by the Organisation of African Unity (OAU) which will have to be applied in all member states of the OAU (Kinzonzi, 1986,p.113). If this arrangement is successfully implemented as envisaged,

then this harmonisation endeavour comes closest to that of the EC.

In addition to the need for harmonisation of accounting within the African continent, one other prime purpose of the work of the AAC is to provide some mechanism for controlling the transnational corporations that operate in Africa. According to Kinzonzi (1986, p.113): "Through the SCAR, therefore, African States will be able to impose on economic agents and, more particularly, on multinational and transnational enterprises operating in Africa, standards as regards accounting and the presentation of financial statements and reports". The emphasis on controlling transnational corporations should be expected in view of the fact that there are virtually no significant transnational corporations originating from this region. In contrast many of the member countries of the AAC play host to these corporations. It is therefore in their interests to highlight the control function of financial reporting with particular respect to the activities of transnational corporations.

2.8 CONFEDERATION OF ASIAN AND PACIFIC ACCOUNTANTS (CAPA)

The first meeting of the Confederation of Asian and Pacific Accountants then known as the Asian and Pacific Accounting Convention was held in Manila in 1957. However, it was not until 1976 that CAPA became formally organised. According to the Constitution of CAPA, its main aim is to develop " a co-ordinated regional accounting profession with harmonized standards" (Shoenthal, 1989). So far, CAPA has not issued any accounting standards of its own neither has it articulated any intention of doing so in the near future. Instead it has concentrated its efforts on promoting accounting education in member states as a precondition for meaningful harmonisation of accounting practice. Though Shoenthal (1989) suggests that differences in accounting education can lead to differences in accounting principles, it is doubtful whether elimination of differences in accounting education (even if it were possible), will automatically lead to increased accounting standards harmonisation. Therefore, this raises some doubts about the ability of CAPA to fulfil its major stated aims.

The greatest obstacle to accounting harmonisation within the CAPA zone can be traced to the composition of the body. CAPA comprises about twenty countries ranging from industrialised Australia, Canada, Japan and the United States of America to developing countries like Bangladesh, Fiji, India and Pakistan. It should be expected that the cultural, political and economic differences which are not

insignificant existing between the member countries of CAPA will make it extremely difficult for it to attempt successfully a regional accounting project for the CAPA zone. Choi (1981, p.31) rightly observed that the composition of CAPA is so heterogeneous that it cannot possibly form a viable accounting cluster.

2.9 ASEAN FEDERATION OF ACCOUNTANTS (AFA)

The Association of South East Asian Nations a regional grouping of five countries, namely, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, was formed, to facilitate the economic development in the member states, promote the establishment of closer ties and co-operation between member countries. ASEAN strives to promote regional trade and commerce by reciprocal reductions in tariff and other barriers to international trade (Choi, 1979, p.55). The long-term aim of the group is to create a free trade zone perhaps similar to that of the EC.

In order to further the aims of closer economic integration of the ASEAN, accountants from the five countries that comprise ASEAN after a series of meetings which began in 1976, formally founded the ASEAN Federation of Accountants (AFA) on March 12, 1977, in Bangkok, Thailand. The five member countries of the AFA are represented by their various accountancy bodies, that is: Ikatan Akuntan for Indonesia, the Malaysian Association of Certified Public Accountants, the Philippines Institute of Certified Public Accountants, the Singapore Society of Accountants, and the Institute of Certified Accountants and Auditors of Thailand.

The key aims of AFA whose permanent secretariat is in Manila, Philippines are as follows:

- a) to provide an organization for the ASEAN accountants for the further advancement of the status of the profession in the region with the view to establishing an ASEAN philosophy on the accounting profession;
- b) to establish a medium for closer relations, regional co-operation, and assistance among ASEAN accountants; and
- c) to work in cooperation with ASEAN business regional groupings whose economic development efforts may be complemented by ASEAN accountants.(Choi, 1979, p.61).

In furtherance of its aims, the AFA set up an Accounting Principles and Standards Committee (APSC) to issue Accounting standards which will be applicable within the ASEAN zone. The APSC adopted a two-stage method in an attempt to harmonise accounting practices within the member countries of the ASEAN. Firstly, it conducted

a survey of the prevailing practices with a view to identifying topics with similar treatment in all the member countries. The survey showed that on eight topics, viz. fundamental concepts, materiality, disclosure of profit or loss, accounting changes, extraordinary items, income taxes, cost of sales, and depreciation, there were similarities in treatment across the board. Consequently, AFA issued ASEAN Accounting Standard No. 1 formalising those principles and practices whose treatment was found to be similar across member countries, as a major step in its regional harmonisation venture. The second stage entails working on the areas where significant differences exist with a view to resolving the differences over time. This phase as should be expected is on-going as it is often difficult even within a country to eliminate completely all accounting differences.

2.10 CONCLUSION

This chapter was devoted to the reviewing of some organisations in the vanguard of the crusade for harmonising or standardising accounting regulations. The objectives, membership and methods of these numerous bodies involved in international accounting issues overlap, converge and even diverge at some points. For instance, the work of the EC might frustrate the endeavours of the IASC in publishing standards with world-wide applicability. McComb [1982] described this condition as one of a "conflict of disparate objectives".

Notwithstanding the kind of relationship that exists between these organisations, the foregoing review demonstrates that since 1973 these organisations have spent a lot of resources in pursuit of the goal of reducing international differences in accounting and financial reporting practices. The critical question then is to what extent have these organisations succeeded in achieving the objective of harmonisation of accounting practice internationally? Though there are other factors apart from the activities of these bodies contributing to the harmonisation of accounting practices internationally, one way of gaining some insight into the extent to which the activities of these bodies have been successful or otherwise, is by ascertaining the extent of differences in the accounting practices of some major countries before 1973 and comparing it with a more recent time period. If these organisations have been successful, then there should be a narrowing of extent of differences in the accounting measurement and associated disclosure practices of companies internationally over the two intervals. Some empirical answers regarding the degree of success or otherwise of these bodies in achieving their main objective of reducing international accounting differences are furnished in chapters 6, 7 and 8 of this study.

CHAPTER THREE

THE COSTS AND BENEFITS OF INTERNATIONAL ACCOUNTING HARMONISATION

SECTION 3.0: INTRODUCTION

In spite of the activities of the IASC and other organisations working to achieve the goal of accounting harmonisation, there are conflicting view points regarding such fundamental issues as the desirability and feasibility of international accounting harmonisation. Therefore, this chapter addresses the following key questions: (1) is harmonisation desirable? (2) What factors encourage and discourage harmonisation? (3) What should be harmonised? (4) Who should set international accounting standards? (5) To whom should international accounting standards apply? (6) Who benefits from international accounting harmonisation? (7) Who should bear the cost of international accounting standards? (8) Is global harmonisation feasible? International accounting harmonisation as used in this chapter refers mainly to the issue of accounting standards or pronouncements (for example IASs issued by the IASC) that are supposed to apply globally with a view to reducing or if possible eliminating international accounting diversity. However, before discussing these fundamental issues, an attempt is made to explain some key and vital words.

SECTION 3.1: CLARIFICATION OF KEY WORDS - HARMONISATION, STANDARDISATION AND UNIFORMITY

There has been a tendency for writers to use the terms "harmonisation" and "standardisation" as if they were synonymous (Tay and Parker, 1990, p.71). However, some researchers have attempted to highlight differences in the meaning of the two words. For instance, according to Choi and Mueller [1984, p.470], harmonisation means that: "...different standards might prevail in individual countries, so long as they are 'in harmony' with each other - meaning they should not logically conflict." On the other hand, standardisation "means that a single standard or rule is applied to all situations."

While the definition of standardisation given here is a bit straight forward, that for harmonisation raises an additional question. For instance, when do different standards

"not logically conflict"? If one country allows construction companies to use the percentage of completion method of revenue recognition, while another country allows only the completed contract method, can the two methods be said to be in "logical" accord?

Tay and Parker (1990, p.73) see harmonisation as a process which entails "a movement away from total diversity of practice" and standardisation also as a process but one which involves "a movement towards uniformity." This definition adopts the notion of harmonisation and standardisation as points on a continuum which has total diversity and rigid uniformity as the two extremes. Harmonisation therefore is seen as any point between total diversity of accounting practice and rigid uniformity.

Harmonisation and standardisation can also be used to describe or differentiate the endeavours of the different groups involved in international regulation of accounting practice. For example, the work of the IASC is allegedly aimed at achieving standardisation. Hence the ED32 on Comparability of Financial Statements attempts to reduce the latitude given to firms to choose from among alternative accounting methods. In contrast, the Fourth Directive of the EEC, has harmonisation of financial reporting practices among member states of the European Community as a target. The many options allowed in the Directive to accommodate the diverse practices in the various member states it can be argued, is a vivid illustration of this point.

At first glance, the two terms might appear dichotomous but this apparent dichotomy is only superficial. As can be construed from Tay and Parker [1990] both are processes, the main difference being that whereas harmonisation aims at moving financial statements away from total diversity, standardisation attempts to move them towards uniformity. In practical terms, however, it might not always be easy to determine at what point on the continuum an accounting regulatory process changes from harmonisation to standardisation.

Uniformity, a related word, is perhaps the most difficult to define precisely. The accounting usage of "uniformity" has also undergone some evolutionary process over the years. Before authoritative standards of financial reporting were issued by bodies such as the Accounting Standards Committee (ASC), in the U. K. and the Financial Accounting Standards Board (FASB), in the U. S. A., "uniformity" was often used to imply the setting of rules and guidelines for application in the preparation of financial statements (see for example, Baxter (1964)).

The concept of setting mandatory rules and guidelines which was in sharp contrast to the then prevailing practice of leaving the determination of accounting methods to the judgment and discretion of the preparers of financial statements, therefore, gave the word "uniformity" the notion of being "a restrictive codification of do's and don'ts" (Tippit, 1963, p. 78). Under this scenario uniformity is taken to mean the bringing into operation of a uniform chart of accounts perhaps patterned after the French Plan Comptable. This view is usually espoused by opponents of accounting regulation (Tippit, 1963), in the bid to highlight the alleged rigidity and inflexibility arising from such a system as a case against accounting uniformity.

Another notion of "uniformity" is the idea of treating like transactions in the same way. This is the notion of uniformity usually adopted by opponents of free choice of accounting methods (for example, Chambers (1967); AAA (1966)). However, in this post standards era this notion of uniformity is becoming less acceptable as the conventional usage of the word tends to describe the idea of rigid compliance to some sets of rules (see for example Tay and Parker, 1990, p.73).

As a consequence of the imprecise usage of the term "uniformity", we will restrict ourselves to the terms "harmonisation" and "standardisation". Both terms will atimes be used interchangeably to connote the reduction or elimination of diversity in accounting methods and practice.

SECTION 3.2: IS INTERNATIONAL HARMONISATION DESIRABLE?

The IASC and other advocates of international harmonisation persist in their efforts partly due to the perception that there are some benefits to be derived from it. Some of these perceived benefits have been articulated in the literature by some supporters of international harmonisation. However, there are those who are of the opinion that international accounting harmonisation, even if it is feasible, is not desirable. People in this school of thought equally advance reasons to buttress their case. This section will, therefore, present and discuss the significant merits and demerits claimed for and against international harmonisation.

SECTION 3.2.1: MERITS OF HARMONISATION AND STANDARDISATION

1. Enhancing Comparability

One of the most important advantages of harmonised accounting practices is that it will enable easy comparison of the results and financial positions of companies across national boundaries. Notable scholars and practitioners who have expressed this view include [Kraayenhof (1960), Mueller (1966), Stamp (1971), Trueblood (1972), Hauworth (1973), Hepworth (1974), Cummings (1975)]. In this regard Turner [1983, p.58] wrote that: "the greatest benefit that would flow from harmonisation would be the comparability of international financial information. Such comparability would eliminate the current misunderstandings about the reliability of "foreign" financial statements and would remove one of the most important impediments to the flow of international investment."

McComb [1979, p.2] expressed the same strand of thought in different words when he opined that: "There can be little criticism of the aim of improving the intelligibility of corporate financial reporting at an international level. It would indeed be admirable if we could lift an American, British, French, German or Japanese set of accounts and feel confident that using our own background of accounting principles we should be equally at home in understanding them. Unfortunately that is not possible at the present time." Furthermore, Mason (1978, p.130) states that, "Investors want to be able to make meaningful intercompany comparisons without needless effort or expense, regardless of the countries of incorporation of the companies whose prospects they are assessing".

Investors, suppliers, creditors and others who deal with firms would like to make an informed comparison of firms, so as to choose those they would like to associate with. The internationalisation of capital markets and increase in the activities of multinational companies compels users of corporate financial reports to look beyond the confines of their borders. The realisation that what is profit in another country might translate into a loss using the set of accounting principles familiar to a particular user might quench the zeal to invest in or transact with foreign concerns.

However, for financial statements to be easily comparable they need to be prepared using the same measurement policies in all the countries of the world such that for instance whether it is the financial statement of a French, Swiss or US company one is looking at, there is the realisation that there is no overstatement or understatement of

profits and asset values solely due to the use of conflicting accounting methods. An alternative to such a rigid system would be to require more elaborate disclosures which will provide the user with the tools for restating the foreign accounts using his/her home country principles. But then, how many users of company accounts have the skill, time and patience to engage in such an arduous task? Advocates of harmonisation will argue that even barring this difficulty, that it is still necessary to harmonise the level and detail of disclosure adequate for this purpose (Bedford, 1983, p.5).

2. Savings in Resources

The prevalence of different accounting practices in different countries entails that companies must spend time, money and other scarce resources in consolidating the financial reports of subsidiaries in various countries. In the same vein, analysts and other users of corporate financial reports will expend resources if they must reduce the financial reports from firms in different nations to a level where meaningful comparisons can be made. International harmonisation it is claimed can save those resources for re-channelling to more strategic areas of the economy [Kraayenhof (1960), Mueller (1961), Spacek (1971), Shashikatu (1972)]. According to Turner [1983, p.58]: "A second advantage of harmonization would be the time and money saved that is currently spent to consolidate divergent information when more than one set of reports is required to comply with different national laws or practice".

Hence, it is argued that accounting diversity is a source of unnecessary cost to companies. A logical extension of this argument, is therefore, that harmonisation can have a favourable impact on the economic development of nations due to better usage of resources arising from minimisation of avoidable costs such as are occasioned by accounting diversity.

However, this argument needs to be balanced. The fact still remains that no one knows, and it does not appear possible to ascertain with any reasonable degree of precision, the extent of the hypothesised potential cost savings to companies that can flow from internationally harmonised accounting practice. Even if this were known, it is not sufficient to make a firm case for international harmonisation until this cost savings is weighed against the costs of the harmonisation process itself.

3. Lifting the general standard of accounting practice

Harmonisation will tend to lift the standard of accounting practice, especially in those countries where the accounting system is relatively underdeveloped [Baaccouche (1969), Mahon (1973), Benson (1975), Turner (1983), Wyatt (1991, p.13.9)] suggest that by using international accounting standards, financial reports from these underdeveloped countries will likely gain the respect of the international business community which would not be the case if they used their own national accounting standards. In this vein, it has also been argued that some developing countries do not have the facilities and requisite expertise to set their own accounting standards. Consequently, international harmonisation will relieve such countries of the burden of spending the scarce resources which they do not have on setting accounting standards. Countries such as Cyprus, Malawi, Pakistan, Trinidad, and Zimbabwe are usually cited as ready examples (Wallace, 1990, p.6). On the other hand, several writers (for example Perera (1985), Samuels and Oliga (1982) have expressed doubts as to the relevance of international accounting standards to developing countries with economic environments that are very different from the more advanced Western countries after whose models the international accounting standards are patterned.

Perhaps international harmonisation bodes some prospects for the uplifting of accounting practices internationally. However, the attainment of this objective is highly dependent on the harmonisation process itself. This objective can only be achieved if the resolution of the problem of divergent accounting practices does not take the form of settling for the most prevalent practice irrespective of the quality of the practice.

4. Improving Management Decisions in Multinationals

It has been argued that international harmonisation of accounting will improve the quality of decisions made by managers of multinational companies [Stamp (1971), and Hauworth (1973)]. The contention is that managers of multinational companies need a uniform accounting system to facilitate decisions affecting their operations across different countries. The absence of such harmony is likely to lead to suboptimal decisions. But with the harmonisation of international accounting practice this problem it is claimed, will be minimised if not completely eliminated (Hauworth, 1973).

The case against this argument lies in the fact that most actors in the international

harmonisation scene have been mainly concerned with financial reporting as it affects investors and other parties not closely associated with the day to day running of a business enterprise. The responsibility for determining the form, nature and extent of information needed for management decision making rests squarely upon the management of the multinational corporations, who presumably have unlimited access to company-specific information - financial or otherwise. It therefore does not appear proper for the international harmonisation efforts to have the objective of improving the quality of management decision making in multinationals as a goal. Hence, crediting harmonisation with such a goal as an advantage is questionable.

SECTION 3.2.2: DEMERITS OF HARMONISATION AND STANDARDISATION

1. Illusion of Comparability

Both standardisation and harmonisation endeavours of various involved institutions are geared towards enabling comparability of corporate financial statements. As stated earlier, standardisation tends towards the imposition of uniform accounting practices on firms from differing environments. The underlying legal, economic and cultural conditions under which the different firms operate might in reality mean that the much orchestrated uniformity arising therefrom might be more apparent than real [Kraayenhof (1960), Moonitz (1963), Mueller (1968), Frank (1979), McComb (1979)].

This is perhaps one of the strongest arguments often made against efforts at achieving international accounting harmonisation. Mueller (1968) opines that : "If we accept that (1) economic and business environments are not the same in all countries, and (2) a close relationship exists between economic and business environments and accounting, it follows that a single set of GAAPs cannot be useful and meaningful in all situations. ... Let us postulate for a moment that accounting principles generally accepted in the United States were enforced in all countries of the free world. This would create an international uniformity which would have some intellectual appeal and would ease many problems in international accounting practice and international financial reporting. At the same time, such uniformity would lack meaning" (p.97).

However, not all agree with this position espoused by Mueller (1968), Choi and Bavishi (1982) and others. Aitken and Islam (1984) argue that while it cannot be controverted that business and economic conditions differ between nations, the

relationship between company financial reporting and these variables cannot be said to be a direct relationship. Aitken and Islam (1984, p.38) maintain that there exist fundamental similarities in business entities in various countries, developed or underdeveloped. "These similarities include the facts that businesses everywhere buy and sell in markets, own assets, borrow and lend money, buy and sell for cash and on credit, employ people, and pay taxes. Universally, their survival depends on two factors: maintaining solvency and earning profits" (p.36). Consequently, Aitken and Islam see no reason why the same measures cannot be used for accounting for these transactions meaningfully irrespective of the particular business or economic environment facing a business enterprise.

2. Stifling Accounting Creativity

The internationalisation of accounting practice and regulation due to harmonisation will tend to stifle accounting inventiveness. A national accounting regulatory body which is totally independent of any external linkages will, all things being equal, be more flexible and daring in introducing novel and progressive accounting practices. There will be little or no room left for such creative manoeuvres if the regulation of accounting becomes centralised globally.

It is however debatable whether leaving room for creativity in a measurement system like accounting should be encouraged or not. Some writers like Briloff (1972), have attacked the practice of companies and their accountants using practices that are at times dubious to achieve some preset objectives as a result of the flexibility offered by accounting regulatory systems that allow room for such 'creative accounting'. This is perhaps an extreme illustration of the likelihood of abuse of an accounting system that gives scope for manoeuvres either on the side of the regulatory authorities or from the perspective of the preparers of financial statements. On balance, it does however appear that a more decentralised accounting regulatory system is more likely to make room for the swift adoption of new accounting techniques that are demonstrably superior to existing ones than a globally centralised accounting regulatory system.

3. Harmonisation takes time and other vital resources

The elaborate network of consultations required to reach international agreement on accounting issues must act to prolong the gestation period needed to promulgate accounting rules that will enhance harmonisation. Money and other vital resources are undoubtedly needed to keep the machine of harmonisation functioning. Little wonder

Professor Hulle, of the EC Commission, described harmonisation as a time consuming and difficult exercise (Hulle, 1989, p.99).

However, the apparent costs of harmonisation must be weighed against the likely benefits. Though it has to be admitted that while it is relatively easy for organisations involved in accounting harmonisation to determine the costs to them of their various harmonisation efforts it is not that easy to ascertain or put a number on the benefits of harmonised international accounting practice. This difficulty might tend to over-emphasise the cost implications of harmonisation programmes relative to the benefits of harmonisation.

4. Promoting accounting imperialism

For harmonisation to be meaningful, some countries must have to give up some of their traditional accounting practices for new ones. This presents a ready situation for some countries to use harmonisation as a cloak for imposing their accounting practices on other countries. For instance Nair and Frank [1981, p. 62] observe that accounting practices adopted in the United States of America appear to influence considerably the direction taken by the IASC.

Wilkinson (1965, p.11, 12) posits that "When two countries have different principles and want to resolve the difference, one of them has to change, or both of them have to change to a third principle". In a situation of conflicting accounting systems and principles the ideal scenario should have been for the pros and cons of each system to be evaluated critically and the more defensible methods be adopted irrespective of their countries of origin. However, in practice this is not always so. Wilkinson (1965, p.12) continues by observing that "The accounting principles of one country have never been 'sold' to another country on the basis of convincing arguments in support of those principles. Accounting principles of one country have moved to another country when two conditions have existed:

1. The second country had no organized body of accounting principles in the first place, and
2. Large amounts of capital from the first country were invested in business in the second country, with the consequent ability on the part of those investors to impose their own accounting requirements on the business". This suggests that the resolution of scenarios of accounting diversity is doomed to assume the form of imposition of the accounting practices of powerful countries upon the other nations.

Writing on this theme, Samuels and Oliga (1982, p.72) argue that considering the dominance of the Anglo-American accounting principles and practices over the current attempts at international harmonisation, that the "attempt becomes largely a one-sided exercise and 'international' standards essentially represent internationalization of domestic standards of dominant members of the standard-setting bodies". This is perhaps one of the sources of deep suspicion with which developing countries and other countries that are not adequately represented in the present IASC structure view International Accounting Standards issued by the IASC.

Though the IASC has been endeavouring to be seen as taking steps to address the dominant position of the Anglo-American accounting orientation, the fact still remains that the IASC itself is a creation of the Anglo-American accounting tradition. The setting of standards by a private regulatory body is alien to countries like Germany for instance where accounting regulation takes the form of statutes. It therefore becomes highly doubtful whether there is really much the IASC can do short of disbanding itself to ward off this criticism.

In spite of the claimed merits and demerits of international harmonisation the harmonisation efforts have continued. Responses of the various interested parties also continues to be varied. In the next section, therefore, the factors motivating the drive for harmonisation are examined against the background of the factors that militate against international harmonisation efforts. An attempt is also made to assess on which side the scale is tilted.

SECTION 3.3: INTERNATIONAL HARMONISATION: MOTIVATING AND MILITATING FACTORS

Many strong arguments have been advanced against the international harmonisation movement yet the process appears to be gathering momentum. On the other hand despite the likely benefits of harmonisation its opponents have refused to be impressed. It is therefore posited here that there are strong undercurrents that push and pull at the same time the harmonisation train, and in so far as these conflicting underlying conditions, which will be discussed shortly, persist the answer to the question of the desirability of international harmonisation will continue to be neither here nor there.

SECTION 3.3.1: The Motivating Factors

Three key factors can be identified as being responsible for the persistence of the current efforts at international harmonisation of accounting. The factors are as follows:

1. The development and globalisation of capital markets
2. Increase in the activities of Multinational Corporations, and
3. The activities of international accounting standard setting organisations.

Each of these factors is now discussed in more detail.

1. The Development and Globalisation of Capital Markets

The method of financing business ventures by the issue of stocks or shares made it possible for very many people from far and near to pull together their resources for the pursuit of common enterprise goals. Before then, businesses were funded mainly by wealthy persons acting in sole proprietorships or through partnerships. This encouraged a somewhat closed system of accounting and financial reporting since only the financiers and owners of the business had a reasonable right to know about its operations and financial well-being. Consequently, there was no need to have well devised accounting standards upon which the preparation of accounts are predicated. This period corresponds to the period described by Carrington (1977, p.42) as the "age of innocence" when "Accountants knew what they were doing", and so there was no need for them to make explicit the basis for the policies they use in preparing financial statements.

With the advent of joint stock companies, the ownership of companies was no longer restricted to just a few individuals. There now arose the need to report to all those who have a stake in the business. This in turn meant that objective principles and bases for accounts preparations which made sense to all interested persons needed to be devised. This need is also justified on the grounds of providing some protection for those investors who are not directly involved in the running of the business. However, at this stage the stakeholders were usually located within the country of incorporation of the business in question. Hence, GAAPs with national applicability were adequate and there was then no great need for the international harmonisation of accounting principles. However, this is no longer the case in today's world.

Following the end of the Second World War the global economy started taking some steps towards a phenomenon that has been variously described as "globalisation" or

"internationalisation" or "integration" of capital markets (Ayling, 1986, p.3). The global financial system consists of three vital component parts, namely: domestic markets, euromarkets, and foreign exchange markets. The domestic market refers to the network of banks, financial houses, stock exchange and all the other participants within each country that facilitate the transfer of funds from capital surplus entities to capital deficit units. On the other hand, the euromarket refers to the market for trading securities denominated in currencies other than the currency of the country where the transaction is made. For instance, US dollar loans made by a UK bank to another company in, for example Germany. The foreign exchange market is the market or facility for the selling and buying of currencies. Broadly speaking, the globalisation of capital markets refers to the arrangement whereby each of these three markets are highly integrated. More specifically, this should mean the absence of barriers such that a Swiss company can participate in the German domestic financial market to the same extent as her German counterparts. Also natural persons from say the Netherlands can own financial assets in Japan or of Japanese companies to the same degree as Japanese citizens.

The situation described above is illustrative of an ideal scenario or of a situation of perfect globalisation as there are still many barriers to the attainment of such a level of global economic integration. Some such barriers relate to technological obstacles but many more can be attributed to regulatory provisions. However, many writers agree that some giant steps have been taken towards the attainment of a highly integrated global capital market. Two such writers are quoted below.

Ayling (1986, p.3) states that "The world's capital markets have become increasingly internationalised since the Second World War. Previously, in many cases, national capital markets either did not exist or were hemmed in by protective regulations and exchange controls. Any cross-border transfers of funds that did occur were largely under government control and the price allocation system of the free market (as we know it) had little opportunity to operate. Over the next forty years, confidence in the international monetary system and facilities for foreign investment have led (gradually at first, but now significantly faster) to a relaxation of controls over foreign money and capital. As a result, nowadays, albeit with teething troubles, lenders and borrowers in developing and industrial countries alike have access to a broad range of sources and uses of funds outside their national boundaries (although restrictions are far from being totally extinct)"

Another writer Moulin [1988,p.2] described this phenomenon in the following words:

"One time capital markets were mostly national. For example, UK companies raised capital in the UK market, and UK investors evaluated one UK company against another to determine their best investment choice. Today, the capital markets have become much more complex and less tied to geographic boundaries. Companies can decide whether to raise capital onshore, offshore, or both, while investors search the world for their best risk adjusted rate of return."

From all available evidence, especially in view of the triumph of the free market system over the central allocation mechanism of the former communistic countries, this globalisation trend is more likely to intensify rather than abate.

This situation, is argued by most proponents of international harmonisation has provided an urgent need for the harmonisation of accounting practices [Smith (1991), Walters (1989), Thomas (1987), McComb (1982), Hauworth (1973), Choi and Bavishi (1983), Wyatt (1991), Burton (1980)]. However, some people disagree with the attempt to link the perceived need for accounting harmonisation with the fact of globalisation of capital markets in this manner.

The alternative viewpoint is that the international capital markets have grown even without common international accounting standards and so harmonisation is irrelevant to the growth and sustenance of the internationalisation phenomenon. Goeltz (1990, p.86), citing statistics from the International Monetary Fund, states as follows: "It is not hyperbole to describe the recent growth of the international capital markets as explosive, and it took place despite the absence of Global GAAP". While commenting further that investors and issuers seem able to make investment decisions without the convenience of International Accounting Standards, contends that: "There seems no reason to expect that our integrated global capital markets are likely to shrink in the future as a result of this lack. Indeed, it seems much more plausible to expect these markets to continue to grow". A Similar thought has been expressed by Rivera (1989, p.323) that "...lack of compliance with international accounting rules has not impeded the development of international financial markets and foreign operations.". However, empirical evidence provided by Choi and Levich (1990) does suggest that accounting diversity presents some considerable obstacles to key participants in the global financial market place. This will further suggest that the elimination of such diversities through accounting harmonisation is likely to facilitate the smoother working of the integrated global capital markets.

Securities market regulators also appear to share the view that the minimisation if not total elimination of accounting diversity will be a welcome development. The serious

interest the International Organisation of Securities Commissions (IOSCO) shows in the work of the IASC particularly in the comparability project of the IASC lends some credence to this thinking. It can then be reasonably concluded that while lack of harmonisation of accounting principles and practices cannot on its own stop the process of globalisation, it can make for a smoother and more efficient working of the international capital market mechanism as it currently exists.

2. Increase in Activities of Multinational Corporations

Up until now, there is no universally accepted definition of what the term multinational corporation means. Caves (1982, p.1) defines a MNC as "an enterprise that controls and manages production establishments - plants- located in at least two countries". Hood and Young (1979), however, see a MNC as "a corporation which owns (in whole or in part), controls and manages income-generating assets in more than one country". Vernon (1971) supports a more restrictive criterion that limits the usage of the term MNC only to those companies with operations in six or more foreign countries. Some others [for example Bruck and Lees (1968), and Rugman (1979)] prefer a definition which relies on the use of the ratio of foreign (F) to total (T) operations, such that a MNC is a corporation which has a certain subjectively determined percentage of foreign sales to total sales. The ratio can range from 10 percent upwards depending on how restrictive the definition is intended to be. The main flaw of this definition like the others is the arbitrariness of the ratio of foreign to total operations a company must have to qualify as a MNC.

While there might not be a consensus on how to define the MNC, most experts agree that more than ever before international trade and commerce is now dominated by multinational corporations. Multinational corporations (MNC's) are known to control at least one fourth of the world's total economic output (Choi and Mueller 1984, p.5). The multinationality of corporations is also no longer limited to production and selling of products in many countries. Rather, companies are now becoming truly multinational even in ownership as well. There is hardly any major company in the world whose shares are held exclusively by the nationals of the country of origin. The implications of this for the argument that the business environment of each country should dictate its accounting practices will be explored further later in this section.

The major difference between the phenomenon of the MNC and other previous forms of international trade and business is the fact that the MNC strives to produce goods and even raise capital outside its originating country. This immediately raises some

problems which otherwise would not have been encountered to any significant degree were international trade and exchange to follow the traditional path of exporting.

Multinationality carries with it the ownership of considerable assets spread across many countries. The governments and other regulatory authorities of each of these countries justifiably will like to bring those foreign subsidiaries of the MNC situated in their countries under their control using all sorts of regulatory means. Such intricate accounting issues as - consolidations, foreign currency accounting, price level changes, segmental reporting, asset valuation, employee welfare accounting and deferred taxes, to name but a few, assume even more complex dimensions as the company now has to contend with the socio-economic as well as accounting practices and traditions of many countries in addition to those of its originating country.

Faced with this problem of conflicting national accounting regulations and practices the management of the MNC can try to cope by preparing multiple financial statements to suit each country that has some jurisdiction over it. This in effect implies that the accounts of each subsidiary are prepared according to the dictates of the Generally Accepted Accounting Principles of the subsidiary's country of domicile. The various accounts are then consolidated to give a total picture of the operations, profitability and state of affairs of the MNC. Apart from the fact that this process of amalgamating accounts prepared using different sets of GAAP can be both time and resource consuming, another objection that can be raised regarding this practice, relates to the defensibility of the action of combining figures that were derived using different bases. This can be likened to adding oranges to apples.

As a result of these added complexities arising from international accounting diversity the clamour has been heard from several writers that accounting principles and practices ought to be harmonised in the interest of multinational corporations [for example Thomas (1987), Fitzgerald (1981), Cummings (1975), Wyatt (1991)]. Going by this line of reasoning the continued rise in the phenomenon of multinationality of corporations is likely to exert more pressure on the necessity for having accounts and financial statements that are comparable internationally.

3. Efforts of International Harmonisation Organisations

In the past twenty years, the number and activities of bodies committed to the cause of producing financial statements that are comparable, seem to be on the increase. There

is some empirical evidence to support the view that the period of the existence of the IASC, has coincided with some observed harmonisation on certain accounting practices internationally (Nair and Frank 1981, p.77). In the European Community, the Fourth Directive of the EC, which was the first major EC document with much significance to accounting harmonisations was approved in 1978 and ever since then the accounting harmonisation efforts of the EC have become more prominent. These and the many other regional groups interested in harmonised financial reports can rightly be said to be the main driving forces behind the harmonisation crusade.

Change, whether positive or negative is always brought about by a combination of a conducive atmosphere and human or institutional pressures for such change. In this case, the harmonisation movement has one point in its favour. Whereas, there are individuals who have expressed very strong reservations against international harmonisation of accounting [for example Fantl (1971)], these opponents are not organised and at least to date there does not exist an organisation, to champion the cause of those opposed to harmonisation. Historically speaking, it can be observed that most contests for change are won by groups that are better organised and well mobilised. Relative to those opposed to harmonisation, the international harmonisation organisations are far better organised. This should ensure that the pressure for harmonisation persists.

In concluding this section, it is argued that the increasing trend of multinationality of corporations, together with the development and subsequent globalisation of capital markets provide the greatest impetus for international harmonisation. Global harmonisation agencies such as the IASC, the International Organisation of Securities Commissions (IOSCO), and regional organisations like the European Community are merely catalysts and agents working towards a goal dictated by the above two mentioned phenomena. It is also argued that in so far as these trends that propel the moves towards international accounting harmonisation persist, so also will the call for increased comparability of companies' financial reporting continue to be heard in several quarters. This will continue no matter the claimed cultural, practical and nationalistic impediments to the introduction of standards with world-wide applicability.

It is also argued that if complete worldwide harmonisation was never attained, a plausible explanatory variable might be that the world may never get to the stage where companies are completely multinational and capital markets completely globalised. If the nations of the world were to close their borders to each other, then

attempts at harmonisation would become totally irrelevant. However, in so far as there exists some degree of cross-border capital and investment flows, the idea of having some form of harmonisation of accounting will continue to have some intuitive appeal.

Based on the foregoing, it is further argued that the degree of harmonisation that exists or should exist ought to be related to the degree of integration of the economies of the world. For the above reason, endeavours at harmonisation prior to 1990 have proceeded without any attempt whatsoever to involve the closed economies of the communist countries such as the former USSR, China, Cuba, and so on. On the other hand, the closer integration of the economies of the European Community nations has given relevance to the accounting harmonisation efforts of the EC as demonstrated by the Fourth, Seventh and Eighth Directives. The implication of this is that as the world's economy gets more integrated, some sort of harmonisation is called for.

SECTION 3.3.2: MILITATING FACTORS

Despite the powerful factors working in favour of harmonisation, it is still far from becoming a reality. This can be explained by some equally powerful opposing forces. These factors which are discussed in more details in the remainder of this section have been identified as: (i) Nationalism; (ii) Differences in legal systems; (iii) Differences in the development of capital markets; and (iv) economic consequences of financial reporting.

1. Nationalism

This is perhaps the most serious obstacle to reaching agreement on accounting issues in the international arena. Realistically, reducing or eliminating accounting differences must involve abandoning traditional practices for novel and alien ones. This evokes feelings of loss of accounting sovereignty. Theodore Wilkinson [1969, p.473] expressed this aptly when he commented that:

"No accountant, no matter how eager a proponent of minimizing differences, willingly accepts the idea that someone else's accounting principles are better than his." Still on the same theme, Arpan and Radebaugh (1985,p.346), argue that:

" Nationalism, egotism, and pride also impede progress: the French would like to have the new global system patterned after the French system, the Germans after the German system, the Americans after the American systems (sic). Each country believes its system is the best and is

reluctant to adopt a system it perceives to be inferior or unsuitable. Some countries, companies, and individuals prefer to retain the imperfections and inefficiencies caused by the differences in accounting in order to take advantage of them. The secrecy offered by the Swiss banking and accounting is one example."

The elaborate options contained in the EC's Fourth Directive can only be justified by the reason of allowing each country to choose those accounting practices with which they are familiar. Otherwise, it is doubtful whether the Directive would have been endorsed in the first place. Hence some studies [for example Melliani 1988] have found that in their legislations, the accounting legislators of the various countries have always used the options to keep intact their existing accounting practices, especially as they relate to valuation and profit measurement bases.

2. Differences in Legal Systems

Some countries such as the United Kingdom have common law systems. Others such as France and Germany have legal systems based on code law. Accounting regulation in code law countries is often detailed. For common law based systems the accounting regulations are less prescriptive, leaving room for the directors and chief accounting officers to use their judgments in some areas. Hence in any harmonisation and standardisation venture there is an obvious potential for conflict. The code law countries will naturally favour a detailed document like the French National Accounting Plan. Accountants and accounting regulators from common law based background are likely to resist this, seeing it as a measure that will strip accounting of creativity and professional judgment.

This conflict can be seen in the Fourth Directive. In the main, the Directive adopted the prescriptive approach characteristic of code law continental European accounting regulations. However, in order to accommodate the interests of the UK and Ireland, the concept of "True and Fair view" was introduced into the Directive. It remains to be seen the extent to which the prescriptive approach of code law countries can co-exist with the British concept of "Truth and Fairness" which leaves a lot to the use of professional judgment.

This problem becomes more magnified in the context of the whole world. In addition to the dichotomy between common law and code law based systems, some other countries like Saudi Arabia and Iran have legal systems based on Islamic principles

which contains some provisions governing the operations of business and commercial life. Harmonising these conflicting legal systems in order to devise the best form of regulatory framework suitable for regulating international accounting principles and practice becomes a very daunting task indeed.

3. Differences in the Development of Capital Markets

The importance of stock exchanges as a source of finance for companies varies from country to country. The United Kingdom and the United States have active and open capital markets easily accessible to companies attempting to borrow funds or issue new shares. The London Stock Exchange and the New York Stock Exchange are among the world's leading exchanges. Given this scenario the listing requirements of the stock exchange and the accounting information preferences of investors is likely to be a vital force shaping accounting practices.

In contrast, some other countries such as France, Germany, Italy, though equally industrial economies, have relatively underdeveloped stock markets. As a result of this, French and German banks provide the bulk of the finances needed by companies. These differences lead to different accounting treatments. Gray [1980, p.105] attributes the relative conservatism of Continental European accounting to the influence of banks and other fixed interest creditors.

Some other countries like Japan though endowed with well developed and active stock exchanges occupy a hybrid position between the stock market orientation of the UK/US type and the bank finance dependent orientation of the Germanic and French model. In spite of the world class stature of Japan's stock exchanges, banks still play a dominant role in company finance and affairs.

In so far as these institutional differences exist, accounting practices will continue to vary. These variations will act to hinder meaningful harmonisation of accounting and financial reporting practices.

4. Economic Consequences

Accounting and financial reporting practices have been demonstrated to have some economic consequences on the fortunes of companies and individuals alike (Zeff 1978). Consequently, firms and other interested parties will resist any accounting change which will reduce their wealth. This should also be expected even if the change is to promote accounting harmonisation.

Nair and Frank [1981, p.76] have suggested that in the international arena, such resistance by interested parties will even be more intense than that which obtains within a single country context. The reasons for this are not far fetched. In an international context there are more interested parties to contend with. Secondly, in an international context one country's gain is a loss to some other country elsewhere. For instance, an accounting policy change by FASB that has the potential to transfer wealth from developing countries to the multinational corporations will all things being equal not encounter a lot of opposition in the United States. The same cannot be said of any similar standard set by the IASC or the United Nations.

SECTION 3.4: WHAT SHOULD BE HARMONISED AND TO WHAT EXTENT?

This section deals with the aspects of accounting which can and ought to be subject to the exercise of harmonisation and standardisation. Turley [1983] identifies the following aspects of financial accounting as being appropriate for harmonisation:

1. disclosure requirements
2. principles that constitute the basis of financial accounts
3. agreement on the main objectives of producing corporate accounts, the users and the purposes accounts are intended to serve.

1. Disclosure Requirements

Gray [1988, p.11] highlighted the tendency for firms in some countries to be secretive in their disclosures. Consequently firms in such countries might enjoy undue competitive advantage over competing firms in countries with more disclosure requirements. Empirical research has shown that firms are of the opinion that disclosing certain types of information places them at a competitive disadvantage [Roberts and Gray 1988, p.120]. In view of the foregoing, it becomes imperative that in the interests of fair competition, internationally recognised minimum items of disclosure expected of firms meeting certain criteria should be properly spelt out.

Another reason why the harmonisation of disclosure aspects is vital is because of its potential to bridge the differences in valuation methods. So far, it has not been possible even within the EC to reach agreement on one acceptable method of stock valuation. It might not even be necessary to arrive at such a consensus. However, it is

relatively easier to get all parties to agree to disclose whichever stock valuation method they adopt. In other words, given that environmental factors and other firm-specific situations at times justify the use of different methods for treating similar transactions, it becomes necessary for disclosure aspects of financial reporting to be harmonised. This might be the only way of ensuring pragmatic comparability, albeit, for those who possess the expertise to synchronise company accounts prepared on divergent bases from supporting notes and related disclosures.

2. Accounting Principles and Valuation Methods

Accounting principles and valuation policies provide the basis for determining such variables as profits, turnover, assets and liabilities. Therefore, it will not be prudent for an investor to make comparisons among firms based only on the profits figures disclosed by each firm, without due reference to the principles which formed the basis for such accounts.

Gray [1988] observes that countries have the inclination to prefer certain valuation methods depending on whether they have a conservative or optimistic disposition in their corporate financial reporting practices. In an earlier study involving Germany, France and Britain, the quantitative effect of the use of different principles and valuation methods was found to be significant (Gray 1980). Consequently, if the goal of producing accounts which are easily comparable and intelligible to the average user is to be achieved, it is necessary for various accounting regulatory bodies to agree also on issues relating to principles and valuation methods for profit and asset measurement. However, this is easier said than accomplished.

This is the aspect where writers have displayed a considerable degree of equivocation. In that, if profits and asset values should have the same meaning across countries, then rigid valuation methods must be put in place. This will make for utmost apparent comparability of financial statements. But then, this approach negates the mountain of comparative accounting research evidence [e.g. Benston 1975, 1976; Previts 1975; Choi and Mueller 1978, 1984; Schoenfeld 1981; Zeff 1971; Radebaugh 1975; Nobes 1984; Arpan and Radebaugh 1985; Nobes and Parker 1985] which highlights the importance of nation-specific environmental factors in providing justification for international differences in accounting systems and practices.

Here then is the dilemma. No noteworthy writer has expressed outright dislike for the notion of having accounts which are comparable. On the other hand, few writers will

support the unilateral and global imposition of rigid accounting practices on all firms. This ambivalence manifests itself in the harmonisation programme of the IASC in the form of the many options contained in various international accounting standards. The same can be said of the harmonisation efforts of the European Community in reference to which Schoenfeld [1980, p.395] observed that: "standardization with respect to valuation was not attempted - or even deliberately avoided." This is quite unfortunate, for if harmonisation is to be meaningful, the issue of valuation and profit measurement bases must be addressed forthrightly.

3. Harmonisation of the Main Objectives and Users of the Corporate Report

Ownership structures of firms are likely to exert considerable influence on the patterns of corporate financial reporting. Consequently, countries like the United Kingdom and the United States of America with active and well developed stock markets have reporting practices biased towards the investors. In contrast, countries like Germany and France which are highly dependent on banks for their financing might favour accounting practices which understate profits. Hence for firms in some countries the overriding objective of corporate financial reporting might be to inform the investors and shareholders who finance the company. For some others, the interests of other parties like banks, employees and host governments may be considered more important.

It is hardly controversial to say that reaching agreement on the primary user(s) and major objective(s) of corporate financial reporting will be a laudable achievement. At least, it will help to delineate more precisely boundaries for acceptable disclosure levels. However, it will not be very easy to reach a consensus on any particular group to be preferred. This is one of the areas in accounting which is closely linked with the environment in which a company operates. For instance, it will be too naive to expect that in a country where banks provide the bulk of company finance, the regulatory authorities should accede to a request to accord shareholders a primacy in corporate reporting just to promote harmonisation.

In view of the foregoing, efforts at identifying users of corporate reporting have always tended to be as broad and as ambiguous as to include the general public. This makes it difficult to identify areas of disclosure acceptable internationally to be made compulsory for all firms. However, until some understanding is reached on these fundamental financial reporting issues the quest for international accounting harmonisation will continue to encounter set-backs.

SECTION 3.5: WHO SHOULD SET INTERNATIONAL ACCOUNTING STANDARDS?

For some writers [for example Carrington (1977), Wells (1980)] their objections to international harmonisation centres mainly on the question of who should be charged with this task. The issue of who co-ordinates harmonisation is a matter of prime importance. It is closely related to the question of enforcement and mode of regulation of accounting principles and practices. The remainder of this section examines the current international harmonisation arrangements and its shortcomings, discusses some alternative mechanisms and suggests the most appropriate mechanism and outlines some of the merits of the preferred mechanism.

Currently, the international harmonisation attempt is dominated by the International Accounting Standards Committee a private sector organisation. Several writers have expressed disquiet at the current arrangement whereby the IASC a private sector organisation occupies the centre stage of international accounting harmonisation. The bases of this controversy are examined in the next few paragraphs.

Carrington (1977, p.45) has observed that accounting regulation involves five vital aspects, namely:

1. identifying problems and devising new and alternative methods;
2. testing the feasibility of possible alternatives;
3. researching the likely effect of each feasible method on different groups and society as a whole;
4. deciding upon conflict of interest situations; and
5. regulating and enforcing the pronouncements.

The first three he observes are professional functions, while the last two fall into the governmental domain.

Carrington (1977, p.46) underlines the fundamental flaw in an accounting regulatory process spearheaded by a private sector organisation by contending that "No other profession seeks to decide essentially political issues by way of unilateral pronouncements. Consider the likely reaction to the Institute of Automotive Engineers imposing rules on permissible air pollution standards or on gasoline rationing..... Given our confidence in democratic processes over autocratic ones," he continues, "the decision of government or its agencies, however imperfect, should be accepted as

a better reflection of the public interest than the unilateral decision of a professional group - however 'unbiased'." Similarly, Wells (1980, p. 9) wondering why the accounting bodies should duplicate the infrastructure of the United Nations argues that "At least the question of who should control multinational corporations should be debated, and not just subsumed by a collection of professional bodies which cannot enforce the standards they have issued".

Evidence exists to suggest that the standards issued by the IASC have a low compliance rate [Rivera (1989, p.323)], and are not taken seriously even in some founding member countries [Gray 1984, p.63]. This is not very surprising given the fact that the IASC lacks the political and legal mandate to do what it claims to be doing, especially in view of the fact that it is populated by accounting professional groups who in most cases do not have the brief to set standards in their various countries. Even in countries where accounting standard setting is a private sector affair, it is highly doubtful whether the statutes establishing the accounting groups in these countries authorises them to delegate this mandate to an external body such as the IASC.

The high profile adopted by the IASC has always led to a situation where accounting harmonisation tends to get discussed within the IASC framework as if there are no other workable alternatives. Discussants at the Arthur Young Professors' Roundtable, May, 1980 which discussed the issue of accounting harmonisation extensively identified the following alternatives to the present predominant IASC paradigm (Arthur Young 1980, p.14). International accounting standards can be set by: the United Nations, governments acting in concert with each other, multinational corporations (including international accounting firms) in agreement with each other, and finally by an international organisation composed of the standard setting bodies of the profession in each country such as the FASB (for the USA), ASB (for the UK) and so on.

The alternatives mentioned above go back to the fundamental issue of what should be the accepted mode of regulating accounting practice. In the domestic context many countries have had to contend with this issue for many years. For instance recently the UK had to disband the Accounting Standards Committee (ASC) a predominantly private sector organisation to replace it with the Accounting Standards Board (ASB) after the US FASB model. This development in a country like the UK with an entrenched laissez faire tradition in accounting regulation raises some serious questions about the wisdom of entrusting the whole international accounting

harmonisation to the IASC a private sector organisation.

From the foregoing, it might appear that a more appropriate mechanism will be one of a partnership between professional accounting associations acting in an advisory role and the governments or an international government agency issuing and enforcing international accounting pronouncements. There are three main advantages to be derived from the proposed arrangement. Firstly, it makes for greater enforceability of international accounting standards or guidelines. Secondly, it ensures that the cost of global harmonisation is borne more equitably. Thirdly, it ensures that the interests of the wider community are well represented and served.

However, the failure of accounting groups to come to terms with this in the international context only serves to buttress the arguments of those like Wells (1980), and Buckley (1980) who contend that the professional accounting groups dominated by the international accounting firms are only using the IASC framework as a tool to protect their own interests rather than the much vaunted "public interest". Little wonder Wells (1980, p.13) described the IASC as "at best a misguided attempt by the professional accounting bodies to gain prestige or forestall action by agencies such as the United Nations by being seen to be international in scope."

Section 3.6: To whom should international accounting standards apply?

Even among those who support some form of international harmonisation of accounting practice there are still some disagreements on the entities that should be the subject of harmonisation. While some support worldwide application of international accounting standards, some others insist on targeting big multinational corporations, others favour localisation of the international harmonisation efforts. In this section each position is discussed in some depth. Occasionally an attempt will be made to highlight the strengths and weaknesses of each viewpoint.

The Worldwide Applicability Hypothesis

The IASC and its arch supporters like Lord Benson the first IASC chairman and others like Aitken and Islam (1984) are the prime advocates of the worldwide applicability hypothesis. The IASC (April, 1990, p.1) reiterates the position of the committee on this issue by stating that the "IASC has an ambitious programme to develop truly international standards of accounting and disclosure that result in like transactions and events being accounted for in a like way wherever in the world they take place".

Aitken and Islam (1984, p.45), concede that as for disclosure under some rare circumstances, conditions might dictate the varying of the extent, but never nature of disclosure, but see "no reason why the measurement methods applied should differ within or among countries". The basic rationale underlying this view point is that business entities are the same all over the world irrespective of size or their originating countries and so their transactions should be accounted for similarly.

However, the balance of this argument lies in the fact that some economic environments call for different accounting responses. The area of inflation accounting is one that readily comes to mind. If accounting numbers are to remain meaningful, there has to be ways of reflecting the impact of rising prices in an environment of hyperinflation. This need is made redundant in another environment devoid of inflationary pressures. Given this scenario, applying the same asset valuation and profit measurement methods on all businesses in every country can lead to misleading accounting numbers.

Size Distinction Hypothesis

Some notable writers who have expressed support for directing the international harmonisation efforts at the multinational corporations include (Gray, Shaw and McSweeney, (1984), Nobes 1984, p.96, Choi and Bavishi (1982, p.161). The justification for this reasoning can be found in the reasons that have been advanced to support the international accounting harmonisation efforts. It has often been argued that multinational corporations and international capital markets provide the impetus for accounting harmonisation. According to this school of thought, international harmonisation has relevance only if restricted to multinational corporations.

The adoption of this position will go some ways to defeat the major objection to international harmonisation relating to the differences in environments justifying the use of different accounting principles to reflect each business environment. Multinational companies operate in several environments. Their ownership also spans investors from different environments. Hence it appears more appropriate that an international basis has to be adopted in the preparation of the financial statements of multinational companies. The same cannot be said of companies that are both unational in operation and ownership.

This viewpoint is not fault proof. Depending on the stringency of the disclosure and

measurement methods expected of the multinational corporations, it might place them at a competitive disadvantage relative to their unimational competitors both in their countries of origin and abroad. The other flaw arises from the absence of a universally agreed definition of what the multinational corporation is. This will compound the problem of operationalising this concept.

Localised harmonisation hypothesis

The basic thesis of this school of accounting thought is that given the differences in environment of business from one country to another, and granted that some countries have environments that are similar to others, meaningful international harmonisation should seek to harmonise the accounting practices of those countries with similar environments. The supporters of this view point include Mueller (1968), Rivera (1989), and Perrera (1989).

There are some flaws with the systems recommended above. Firstly, no two countries are exactly alike in their economic, business, political and social environments. In the more advanced countries of the West, differences abound between various countries. The different legal and capital market orientations of various countries of the more advanced western countries was highlighted earlier on in the chapter. There is therefore the problem of defining with some precision the various relevant factors to be employed in grouping the different nations of the world into different harmonisable zones. Studies on the classification of accounting systems [for example Frank (1979), Nair and Frank (1980)] are usually cited as a starting point for such a differentiating exercise (Rivera, 1989,p.329), and often group developing countries with some more advanced countries with widely differing economic environments. So the various categorisations of national accounting practices do not seem appropriate for the purposes of delineating accounting common zones for localised harmonisation purposes. Without doubt, it will not be an easy task defining acceptable zones for the purposes of localising harmonisation.

Another objection relates to the fact that business financial reporting should focus on companies and business entities and not on countries and their environmental backgrounds. It appears more intuitively appealing that companies in the same industry of the same approximate size should have their transactions accounted for using similar methods instead of differentiating them based on nations of origin.

SECTION 3.7: MAJOR BENEFICIARIES FROM INTERNATIONAL HARMONISATION

Earlier in the chapter it was seen that harmonisation is strongly perceived by some to be beneficial in several aspects. In this section the likely main beneficiaries from harmonisation are identified and discussed, the implications of this for funding the harmonisation programme is deferred to the next section.

Mason (1978, p.53) identified the following as the major beneficiaries from internationally harmonised accounting practice:

1. Investors and potential investors
2. International Accounting firms
3. Multinational corporations
4. Nations too small or not sufficiently developed to have their own standards
5. Grantors of credit.

1. Investors and Potential Investors

Investors need to decide which companies to invest in. In order to do this rationally they need objective information about the company usually in the form of that disclosed in company financial statements. They also need to compare the performance of one company against that of another company. It is therefore logical to expect that if the financial statements of companies are prepared using the same accounting principles and methods, this comparison between different companies will be made easier for the investor or potential investor.

In the absence of easily comparable financial data, the investor will be compelled to spend time and other vital resources to attempt to reduce the different financial statements to some comparable basis. This might explain the staunch support the International Organisation of Securities Commission gives to the IASC in respect of its comparability project.

2. International Accounting Firms

International accounting firms have also been cited as one of the groups that will benefit the most from harmonisation. International harmonisation of financial reporting will facilitate considerably the operations of the international accounting

firms in many respects. Under conditions of accounting diversity, international accounting firms are compelled to prepare several instruction manuals for their partners and staff to cover all the countries where they have operations and even beyond. The enormous resource spent in compiling and producing these manuals can be conserved if international accounting standards are to replace national accounting standards.

Secondly, if one set of global standards prevails, companies who require the services of accounting firms are more likely to prefer international accounting firms to domestic accounting firms as any previous advantages conferred on domestic accounting firms by familiarity with the local accounting provisions will be rendered redundant. It is intuitively appealing that with the introduction of global GAAP it makes more sense (for prestige and credibility reasons) to use the services of accounting firms with global reach rather than local accounting firms.

Global GAAP will facilitate transfers of staff and skills between the various national branches of the international accounting firms. The most important resource of international accounting firms is the skill and expertise of their partners and staff. If different accounting standards prevail in different countries, the international accounting firms are severely constrained in that they cannot easily transfer or move around their key staff and partners to locations where their skills are needed at very short notice. This will not be the case if Global GAAP were to be in place. In other words, harmonisation will bring about the maximisation of the benefits that flows from the vital resource of the international accounting firms.

International accounting firms, as a result of their global reach, are more likely to be in a position to co-operate with other firms as joint auditors. If Global GAAP are in operation they will reduce the scope for conflict and confusion arising from the use of different GAAPs in the jurisdiction of each of the joint auditors.

3. Multinational Corporations

Multinational corporations will benefit from harmonised international accounting practice in three major ways. Firstly, Global GAAP will minimise the costs incurred by multinational companies in consolidating and adjusting the financial statements of its subsidiaries prepared using different national GAAPs. Secondly, Global GAAP will minimise if not eliminate the problems multinational companies encounter in dealing with stock exchanges in different countries of the world. There is empirical

evidence to support the view that some multinational companies have refrained from seeking listing in some foreign stock exchanges due to disclosure requirements in those stock exchanges which they consider onerous relative to the GAAP in their domestic exchanges (Nakanishi (1987, p.113). Thirdly, Global GAAP will facilitate the development of uniform measures of performance in multinational corporations.

4. Nations without standard setting capabilities

There are some countries in the world that lack the expertise and resources needed to set their own national accounting standards. The existence of Global GAAP will obviate the need for these countries to spend what little resources they have in an attempt to set or develop their own standards. Evidence for this is provided by noting the several countries like Cyprus, Malawi, Zimbabwe, Botswana and so on that have adopted the IASs. The adoption of Global GAAP will ensure that the financial statements of companies originating from these countries are not looked down upon by the international investment and credit granting community.

5. Grantors of Credit

It is vital that banks and other institutions that grant credit to companies should have a good understanding of the bases on which the financial information they need to assess the financial position of the company are prepared. When they have to deal with companies from different countries they are forced to contend with the problem of duplicity of GAAP. This might lead to the making of suboptimal lending or credit granting decisions or missing a good client as a result of failure to comprehend and interpret correctly the financial position of that client. This kind of complications will be minimised in a regime of Global GAAP.

SECTION 3.8: WHO SHOULD BEAR THE COST OF INTERNATIONAL HARMONISATION?

This section examines issues relating to how the current harmonisation efforts are being funded and tries to identify a more appropriate method of footing the cost of the international harmonisation endeavours. The issue of who funds the harmonisation programme is very important because to a significant extent it determines who controls the process. Also, it is indicative of interest in and support for the harmonisation programme. The discussions in this section will centre on global harmonisation efforts such as is being undertaken by the IASC or the UN as opposed

to regional harmonisation programmes like that of the European Community.

The cost of the current international harmonisation efforts spearheaded by the IASC to date has been borne mainly by accounting bodies. IASC (1990, April, p.1)) shows that since inception in 1973 the annual budget of the IASC which amounted to an average of about \$650, 000 (excluding uncharged time of board members and members of the various steering committees) has been borne "entirely by the organisations on its Board and the other member accountancy bodies around the world." This situation has earlier on been deplored by Wells (1980) who contends that if international harmonisation is said to confer some benefits on other groups such as the international money market and multinational corporations, then such groups should be expected to contribute to the funding of the international harmonisation programme.

This situation raises an interesting question - if international harmonisation is deemed to be beneficial to multinational companies why do they not support the efforts of the IASC financially? There are some different likely explanations for this. Firstly, the IASC might not have involved them adequately. Secondly, the multinational corporations and participants in the international money market might view the IASC as lacking in legitimacy and so undeserving of their patronage. Thirdly, the multinational corporations might perceive international harmonisation as not being beneficial to them in any way.

The third proposition above can easily be dismissed on the grounds of the interest that has been shown by multinational corporations and their chief executives on this issue [for example Miller (1974, p.22); Donner (1962, p.54)]. On Monday 28th September, 1992, the *Financial Times* newspaper, published in London, reported that the "Worlds Airlines will agree this week to set up a task force to develop international accounting guidelines to improve and harmonise financial reporting in the airline industry" (p.2). Consequently, multinational companies such as the airlines cited above must perceive that international accounting harmonisation is in some respects beneficial to them.

Therefore, we turn to propositions 1 and 2, for more plausible explanations. Since its inception the Board of the IASC has been and continues to be dominated by professional accounting bodies. Other interested parties are involved mainly in advisory and consultative capacities. It is therefore argued here that such low key levels of involvement is not likely to attract financial support from those interested parties like the international money market and the multinational corporations that are so peripherally involved. In this connection, Aitken and Wise (1984, p.176) comment

that "We view the October 1981 attempt to broaden the IASC's structure, by including a non-accountant-based consultative group into the process as being a minimal change which is likely to have no real influence on the acceptance of International Accounting Standards by multinational corporations"

The other plausible explanation could be the fact that multinational corporations are aware that the standards issued by the IASC "lack teeth". Gray (1984, p.63), has observed that "standards in the IASC context are more in the nature of recommendations which members endeavour to follow than mandatory requirements". It is therefore possible that multinational corporations have withheld their financial support from the IASC because they realise that the IASC cannot enforce its standards, such that even though they welcome international harmonisation, they do not believe that they IASC can be of help to them in bringing it about.

The current funding predicament of the IASC can be said to be a direct consequence of an accounting regulatory framework that relies on a private sector body. It is obvious that accounting bodies who dominate the membership of the IASC control its operations. That funds are not forthcoming from other constituencies is in keeping with the popular dictum that "he who pays the piper should dictate the tune", only that in this case it is working in a reverse order, that is "he who dictates the tune should pay the piper"

A more appropriate funding scheme for the international harmonisation programme ought to ensure that the major beneficiaries from the exercise contribute to the costs. However, a major problem with the operationalisation of this concept is the identification of all those likely to benefit from harmonisation, and the extent of their gains. This is a nigh impossible task. It is therefore submitted that since harmonisation has the features of a public good, the only way to overcome the free rider problem is to entrust it into the hands of a governmental agency. By so doing the cost of international harmonisation can be spread more equitably than is the case under the IASC framework.

SECTION 3.9: IS GLOBAL HARMONISATION FEASIBLE?

It is pertinent to highlight from the onset, the speculative nature of the discussions undertaken in this section. The feasibility of any issue is futuristic, and subject to a lot of unforeseen contingencies. The issue of international harmonisation is not excepted. What is meant by feasibility in this section is not just the ability to write accounting

standards or issue accounting pronouncements. But, in addition, the possession of the capability to ensure that international accounting standards or guidelines are either complied with by those for whom they are designed or sanctions are applied against them.

To date most writings on the feasibility of international harmonisation of accounting practices have always tended to be made with the IASC in mind and so tend also to reflect the prejudices and biases of those making the assessments towards the IASC. Consequently opinions have also tended to differ sharply. Writers such as Goeltz (1990), Wells (1980), Stamp (1973), are of the opinion that international harmonisation is not feasible if the status quo persists. Other writers like Cummings (1975), Aitken and Islam (1984), Kanaga (1980), disagree.

There have been very few empirical studies dealing with this issue. One of the few studies in this area by Yokarn (1984) polled the opinions of the partners in charge of international accounting operations in the leading international accounting firms and concluded based on the survey that harmonisation is perceived to be feasible. The problem with this kind of study is that it is one thing for a group of professional accountants to say that they think international harmonisation is feasible, it is entirely a different matter for real life happenings to accord with their expectations. The forces that dictate the feasibility or otherwise of harmonisation is far beyond the control of accountants and so opinion surveys especially one restricted to one professional group is grossly inadequate as an indicator of the feasibility or impracticability of international harmonisation.

Looking forward to the future, apart from the recent ally the IASC has found in the International Organisation of Securities Commission (IOSCO), especially, with respect to the IASC comparability project, there does not appear to be any basis to expect the trend of things to change dramatically for the better.

However, it is comforting for all those who desire harmonised international accounting practices to realise that the IASC framework is not the only option. The whole problem of feasibility arises of course because the IASC and other international organisations interested in accounting harmonisation lack the authority to enforce their pronouncements and so have to depend entirely on persuasion and co-operation of the very companies whose operations are supposed to be accounted according to their standards. When entrenched economic interests are at stake persuasive arguments alone are usually inadequate as a means of securing a change in behaviour or attitudes.

For instance, in spite of all the good points that can be made in favour of taxes, without the force of law few persons and corporations will elect to pay them. In other words entities are more likely to pay taxes so as to avoid legal sanctions rather than on the grounds of rationality and public interest arguments. Therefore, it is argued that if an appropriate international accounting regulatory framework is devised that confers enforcement authority on international accounting standards and guidelines, then the feasibility of international harmonisation can be more assured.

SECTION 3.10 CONCLUSION

This chapter has reviewed issues pertaining to the desirability, scope, funding and feasibility of global harmonisation. It was observed from the review that the feasibility of global harmonisation depends to a large extent on the regulatory framework adopted for the international regulation of accounting. It was argued that the current arrangement that has the IASC - a private sector body, at the centre stage of global harmonisation, is inadequate. A more appropriate mechanism it appears will be one that has some democratic legitimacy conferred upon it through the involvement of governmental agencies working in close cooperation with accountants.

In conclusion, it is pertinent to observe that the whole debate about international harmonisation of accounting practices has continued to be relevant due to certain motivating factors. One of the most important of these factors, it is argued, is the globalisation or internationalisation of capital markets. If this is so, it is therefore to be expected that both nationally and internationally, there should be some differences in the financial reporting practices of those companies that have tapped into international capital markets and those that are still domestic in their sourcing of funds. On disclosure aspects, some prior research [eg Cooke (1992)] suggests there are differences in level of disclosures between multi-listed and domestic listed companies within the Japanese context. The empirical chapters of this study will seek to ascertain whether the same thing holds true for accounting policies within an international context. If the accounting practices of multi-listed companies can be demonstrated to converge irrespective of their countries of origin, the argument that internationalisation or globalisation of capital market provides a powerful impetus for international harmonisation, would seem to be further buttressed. Consequently, it can then be deduced that an increase in the trend towards globalisation of capital markets is likely to lead to an increase in the level of international accounting harmonisation.

CHAPTER 4

EMPIRICAL RESEARCH RELEVANT TO INTERNATIONAL ACCOUNTING HARMONISATION

SECTION 4.0: INTRODUCTION

The literature on international accounting and financial reporting has expanded tremendously during the last 30 years. Some of these writings describe the general state of accounting in one or more countries [for example Kollaritsch (1965), Arlene G. Wenig and Puckler (1982), Barfuss, Musson and Bennett (1982), Bailey (1982), Berry (1982 and 1984), Choi and Hiramatsu (1987), Enthoven (1985), Lebow and Tondkar (1986), McKinnon (1986), Zhou (1988)]. Some others deal with some particular accounting issues that are deemed to be international in nature or of relevance to international accounting (for example Mueller (1965)). These kinds of descriptive writings and commentaries on the international aspects of accounting are by no means new. However, what is novel is the increasing use of empirical data and objective statistical tools of analysis for international accounting research of all types.

In this chapter, the review is biased towards empirical research studies in international accounting that have relevance to the issue of international harmonisation. In some exceptional cases papers which are not necessarily empirical in nature have been reviewed (eg Mueller 1968) because their inclusion is considered vital in order to give a more complete picture of significant works undertaken to date on various aspects of the topics treated in this chapter.

This review has been subdivided into five broad categories: International surveys, classification studies, harmonisation measurement studies, quantitative impact studies and behavioural effect studies. International surveys refer to those studies whose main purpose was to compile the financial reporting practices of more than one country at some specific point in time [eg Price Waterhouse (1973, 1975 and 1979)]. Classification studies refer to those studies that attempt to group countries based on observed or expected differences or similarities in their accounting principles and practices [eg Nair and Frank (1980)]. Harmonisation measurement studies refers to studies that attempt to measure the actual level of harmony existing in the reporting practices of different companies and countries based on the reported measurement

policies of selected companies from various countries [eg Van der Tas (1988 and 1992), and Emenyonu and Gray (1992)]. Quantitative impact studies, denotes studies that seek to ascertain in money terms the impact on the reported figures of companies of the use of different accounting policies from one country to another [eg Weetman and Gray (1990 and 1991)]. Finally, behavioural effect studies refers to research devoted to ascertaining whether and to what extent international accounting differences influence the actions of key players in the international business arena (for example Choi and Levich (1991)).

The categorisation adopted in this chapter is not intended to connote any hierarchical relationships. Rather, it is used solely as a means of getting a handle on an otherwise complex mass of data in a fast growing field. At times some of the papers might exhibit traits that belong to more than one class, in such cases, the main thrust of the paper is used to allocate it to the most appropriate category.

SECTION 4.1: INTERNATIONAL SURVEYS

This section is devoted to surveys involving at least two or more countries. Consequently, surveys of accounting practices limited to only one country, for instance, the Survey of Published Accounts published annually by the Institute of Chartered Accountants in England and Wales or the Rapports Annuels des Societes Francaises published by the Ordre des Experts Comptables et des Comptables Agree of France, and other similar uni-national surveys, are excluded from this review. Also excluded are international compilations of GAAP in various countries of the world, usually prepared by leading international accounting firms, such as: Financial Statements Worldwide (BDO, 1991). Other books and articles that merely describe accounting differences between two or more countries based on regulatory requirements are also deemed to be outside the scope of this section.

One of the most widely quoted sources of survey data is the Price Waterhouse series of International Survey of Accounting Principles and Reporting Practices. This review will concentrate on the 1979 survey which until now is the last in the series (Note that though Price Waterhouse published another survey in 1991, but it deviated so much from the earlier surveys that it cannot be regarded as part of the series). The objective of the survey was "To foster a better understanding of national accounting principles and reporting practices and to help the move towards a greater degree of harmonisation" (p.3).

Price Waterhouse [(1979) hereafter PW (1979)] follows the pattern of the first two PW surveys, namely PW (1973) and PW (1975). The most outstanding difference is in the scope and number of countries covered. While the 1973 survey included 38 countries, that of 1975 extended to 46 countries and the 1979 survey to 64 countries.

The survey data was gathered with the help of PW staff in the countries surveyed. Their responses was in the main based on the relevant legislations and the pronouncements of accounting bodies, stock exchanges and other responsible authoritative bodies within the countries as at January 1, 1979. The responses were broken down into seven categories to enable the location of the status of a particular principle or practice. The categories are as follows: Required, Insisted Upon, Predominant Practice, Minority Practice, Rarely or not Found, Not Accepted and Not Permitted.

In most ventures involving a large number of persons from different cultural and social backgrounds it is difficult to maintain consistency. PW (1979) was no exception to this statement. Nobes (1984, p. 62,), has highlighted some of the inconsistencies of the survey. These range from outright factual errors to differences in the type of corporations surveyed from one country to another.

Another shortcoming of the survey worthy of note is the absence of precise definitions of some of the categories used in identifying the current reporting practice in each country. For instance, for the categories "Predominant Practice" and "Minority Practice", no explicit attempt was made to indicate the proportion of companies in a country that should be applying a method before that method can be said to be "Predominant" or "Minority" practice.

In spite of its shortcomings, the Price Waterhouse survey data has remained a fertile fishing ground for many researchers interested in various aspect of international accounting. The most common though controversial use to which it has been put is in the classification of accounting systems (for example Nair and Frank (1980). The whole project has been very worthwhile in this regard. This point has been admitted even by Nobes (1984, p. 58), one of the most outstanding critics of the survey, who described the survey as a "rich source of data" . It is therefore disappointing that this periodic survey was not continued at least on the same scale as PW (1979).

Gray, Campbell and Shaw [(1984) hereafter GCS] is one of the most extensive surveys of its kind carried out to date. The survey covered 30 countries from most

regions of the world. According to its authors, the purpose of the survey: "is to help meet the need for an improved appreciation of differences and similarities in international financial reporting"(p.2). In order to accomplish the study objectives, information was gathered on about 400 questions relating to a wide range of financial reporting topics including: income and asset measurement, social reporting, profit forecasts, group accounts, inflation accounting, foreign currency translation and segmental reporting.

The survey presents information based on both regulatory requirements and the actual practices of companies as shown by their financial statements. For regulatory requirements, answers were based on the interpretations of the relevant legislations in each country as at 1 January, 1982 by the local officials of Deloitte Haskins and Sells. However, survey responses to questions pertaining to the actual practice of companies was based on a survey of company reports by each national office of Deloitte Haskins and Sells on the "most recent" annual financial reports of large companies (50 each for major industrialised nations and 20 each for less developed nations or small industrialised nations).

Though the surveys can rightly be described as a noble attempt to provide both practitioners and researchers with a rich source of data in a precise, logical and coherent form, it is not without its shortcomings. Firstly, by concentrating on large companies in the countries surveyed, it is pertinent to question the extent to which the survey can claim to represent actual accounting practices in each of those countries. Large companies by their multinational character and orientation might tend to report with the international market place in mind. A more balanced approach, it appears should have been to include a random sample of both large, medium-sized, and small companies from each of the countries surveyed.

On the whole, the survey data was neatly and concisely presented with sectional summary of findings that greatly increases the utility of the survey report. The attempt was a laudable one. However, it is regrettable that subsequent editions have not been forthcoming.

Another noteworthy international survey by Cairns, Lafferty and Mantle (1984), was based on the 1983 annual reports published by 250 of the world's largest companies from 33 countries including France, Germany, Japan, United Kingdom and the United States of America among others. The objectives of the project are as follows: "to report upon worldwide trends in financial reporting in key areas (such as

consolidation, inflation accounting, segment reporting); to assess the quality of annual reports; to review the state of play in international standard-setting and reach conclusions about its effectiveness and success; and to report upon trends in the development of accounting firms (and their international associations) by country and by region."

The survey employed relevant pronouncements of the International Accounting Standards Committee (IASC) as a yardstick to evaluate the measurement and disclosure practices of the selected companies. Based on this evaluation, the survey concludes among other things, that "standards of reporting among large companies have improved significantly - and in some cases dramatically - over the last five years".

Like Gray, Campbell and Shaw (1984), the survey concentrates on large companies. Hence, the point made in this regard about GCS applies equally to this survey. Furthermore, some conclusions of the survey are rather too sweeping. For example as part of its conclusion, the survey asserted that: "There can be no doubt that standards of financial reporting are highest overall in the United States, but its lead over Canada, the Netherlands, Sweden and the United Kingdom is small" (p.1). In our opinion, this statement ought to have been qualified in view of the limitation of time and scope confronting the survey. Also, most of the survey data was presented in a highly aggregated form without a breakdown of country-by-country practices. This tended to negate a major importance of such surveys of facilitating inter-country comparison by other researchers who need data for such comparisons.

Stilling, Norton and Hopkins (1984) survey was based on the annual reports of 175 companies from 20 different countries for the year ending December 1982. The objective of the survey was: "to review the current state of financial reporting..., to identify particular problem areas and provide examples of current good and also unusual practices" (p.3). The study ranked companies according to some preselected criteria, namely: compliance with IAS's 1-23 (40%), speed of reporting (20%), provision of voluntary information (20%), and finally, for clarity and presentation (20%). The rankings yielded the following results exhibited in table 4.1 below.

However the interpretation of these results must be made against the background of the caution by the investigators that their results, "are inevitably biased in that the assessments we have made are against a background of immersion in the UK approach which in most instances if not actually coinciding, is at least not at odds with that

recommended by the International Accounting Standards Committee" (p.3).

The investigators conclude from their findings that not only do few companies comply with all international standards, that the prospects of increased compliance with all international standards in the near future is remote (p.4).

Accounting performance

 Countries in order of average rating per company

Ranking	Country	Average Rating	Number of Companies in Sample
1	South Africa	84	10
2	Sweden	82	7
2	Hong Kong	82	3
2	Singapore/Malaysia	82	4
5	Netherlands	80	12
5	Australia	80	14
5	Canada	80	13
5	USA	80	28
9	UK	79	16
10	West Germany	67	14
11	Belgium	66	5
12	Japan	64	14
13	Denmark	59	3
13	France	59	12
15	Switzerland	58	10
16	Brazil	57	2
17	Italy	55	4
18	Luxembourg	42	1
19	Spain	21	3
	Total		175

Table 4.1

Source : Stilling, Norton and Hopkins (1984, p. 111).

The first criticism of this survey pertains to the distribution of the number of companies selected from each country for the survey. For instance, Luxembourg and Brazil had one and two companies respectively, while the USA accounted for twenty eight of the companies in the sample. Given that only five or less number of companies were sampled from nine of the countries, it is deserving to question the rationale behind drawing inferences about reporting practices in a country based on a survey of five or less companies from the country irrespective of how big these companies might be.

Generally speaking, the survey report was well written, rich in breadth and depth of quantitative analysis. The limitations of the survey were explicitly admitted (p.4), thereby making it easier for readers to put the survey conclusions in the right perspective.

IASC (1988) was an international survey conducted by the International Accounting Standards Committee to ascertain the extent of use and application of International Accounting Standards in the different countries that belong to the IASC. The survey was conducted by means of a questionnaire sent to IASC member bodies in 1987 addressing the topics covered at that time by various IASC pronouncements.

The survey found that very few companies, with the possible exception of listed companies in Canada, disclosed the fact of their compliance with International Accounting Standards in their financial statements. It is, therefore, surprising to see the survey report concluding that "the actual level of conformity is substantially higher than the level of disclosure of the fact of conformity" (p.8).

The high level of conformity with IAS's claimed by the survey report apart from being unfounded can also be questioned on other grounds. IASs as they were constituted during the time the survey was prepared tended to be very loose and flexible. Hence companies who are complying with their domestic accounting requirements which happen to coincide with one of the many alternatives recommended by IASs cannot realistically be regarded as conforming with IASs. That the report writers chose to ignore this fact implies that the survey in reality was intended to have more of a propaganda value than anything else.

Another noteworthy survey is Tonkin (1989), a global survey of published accounts. Primarily, the survey assesses the quality of financial reporting by 200 of the world's largest multinational corporations from 28 countries of the world.

Based on the survey findings, the author proceeds to rank the countries according to the standard of reporting of companies from each country. The author concludes that the best financial reporting practice can be observed in connection with companies from the UK, Australia, Sweden, Canada, the Netherlands, and the United States in that order. The best nonfinancial information it was claimed, is provided by companies from Germany, South Africa, the UK, Sweden and the Netherlands respectively. One other interesting finding of the survey was the author's overall conclusion that reporting practices show very little improvement over the 1980's and that differences

in reporting practices remains high and, in some cases, have even increased.

Tonkin (1989) has some limitations which deserve to be mentioned. Firstly, the survey embraced only the largest companies from each of the countries covered. Hence, it does not capture the reporting practices of small and medium-sized companies from each country. It is therefore reasonable to question the extent to which the reported findings are representative of the reporting practices of companies from the different countries. Secondly, it is difficult to establish the degree to which the rankings were biased by the author's exposure and familiarity with the UK accounting traditions. The rankings of what constitute good and bad reporting practices must have been influenced by the accepted norms of the environment familiar to the author. Hence, the rankings given by the survey should be interpreted with some care. These limitations notwithstanding, Tonkin (1989), contributes immensely to our understanding of trends and patterns of financial reporting globally especially during the 1980s.

In 1989 the Fédération des Experts Comptables Européen (FEE), published their first survey of European financial statements (hereafter FEE (1989)). The objective of the exercise "is to throw light on whether or not the implementation of the Fourth EC Company Law Directive, which was adopted in 1978, has resulted in increased harmonisation of accounting practices and comparability of financial reporting within the Member States". The survey was based on the 1987 published financial statements of 191 companies from the nine member states which had implemented the Fourth Directive in 1987, namely: Belgium, Denmark, France, Germany, Greece, Ireland, Luxembourg, the Netherlands and the United Kingdom.

The companies in the sample included large non-quoted companies, large quoted companies, multinational companies, subsidiaries of foreign multinational companies with parent companies based outside the EC, but excluded small companies as defined by Article 11 of the Fourth Directive. The national composition of the companies are as follows: 25 companies each from Belgium, France, Germany, Ireland, Netherlands and the United Kingdom; Denmark 21 Companies, Greece 15 companies and Luxembourg 7 companies. There were 193 companies in all including two companies which did not make their published financial statements available to the research team.

Basically, the survey was conducted using a questionnaire adapted from that used by the Dutch Institute of Registered Accountants (NIVRA) for its periodic national surveys of financial reporting practices. The questionnaire only permitted positive or negative responses. No provision was made for the likelihood that a reporting practice

might not be applicable to a particular entity. Such that in effect a negative response can either mean that the company failed to adopt a reporting practice or that the practice in question did not apply to that particular company. This was a major flaw in the research design. FEE (1989, p.7), concedes the magnitude of this flaw by acknowledging that "For this reason, the survey cannot provide unambiguous evidence of non-compliance with the Fourth Directive".

The survey was divided into two main sections. Section one deals with issues addressed in some detail by the Fourth Directive like: layout of accounts, intangible assets, investments, affiliated undertakings, inventories, tangible fixed assets, debtors, equity, provisions and notes to the accounts. Section two was devoted to topics treated in less detail by the Fourth Directive such as: deferred taxation, accounting for pensions, long term contracts, leasing and foreign currency translation. For section one topics the survey concluded that "a high level of harmonisation has been achieved through the implementation of the Fourth Directive". However, for section two topics, the survey observed an "apparent lack of harmonisation".

FEE (1989) has some shortcomings which deserve to be highlighted. Some of these relate to sampling, others to consistency and others to the questionnaire design. With respect to the sampling procedure, FEE (1989, p.7) intimates that "the sample of companies was not selected on a statistical basis". Hence, FEE representatives in each country relied on their subjective judgments in the selection of the companies. Consequently, any attempt to generalise the findings of this survey is severely constrained.

Secondly, the survey research team comprised a "large number of people" (p.7), from the various countries included in the survey. Given the different levels of skill and expertise of the people involved it becomes extremely difficult to guarantee consistency. Little wonder that the compilers of the survey caution that "inconsistencies within individual countries' replies were identified"(p. 7). It is logical to expect the magnitude of inconsistencies to be even greater between countries. One thing is clear, however, that is , that the full extent of these contradictions is not known, much more their impact on the end results of the survey.

As indicated earlier, the questionnaire employed for the study was borrowed in part from the NIVRA. It is proper to query the reasonableness of using a questionnaire originally designed for the Dutch environment as a basis for developing a tool for a survey of the scale undertaken by FEE (1989).

Besides the above, there are other factors that limit the usefulness of the survey findings. For instance, the survey was based on only one financial year - 1987. Therefore, no sense of direction or trend in harmonisation was provided by the survey to serve as a meaningful yardstick for comparative purposes. Also, as noted by Emenyonu and Gray (1992), the survey made no attempts to use objective statistical tools of analysis in arriving at its conclusions, thereby depriving those conclusions of the objectivity which the use of such techniques confer.

Despite its shortcomings FEE (1989) was very timely especially in view of the lack of continuity of earlier international surveys published by other bodies. The contents of the survey report are also very relevant to the needs of researchers and practitioners within and outside the European Community who are interested in assessing the state of financial reporting within the EC with the adoption of the Fourth Directive. The scope of topics and countries covered by the survey was also wide enough.

FEE (1991) is a follow-up to FEE (1989). In view of the problems encountered by the compilers of FEE (1989) with fulfilling its stated objectives, the objectives for FEE (1991) were greatly adjusted. Hence FEE (1991) has the more attainable objectives stated thus: "to highlight the problems connected with improving the harmonisation of accounting practices in Europe and to show how practices have developed in the various accounting areas" (p.2).

The sample comprised 441 companies from 11 EC countries and 4 non EC European countries. A new questionnaire different from that used for FEE (1989) was used to collect information on the reporting practices of the companies surveyed. The 15 countries covered by the survey were divided into 3 classes. The first class, called EC group 1 consists of the nine EC countries in which it is compulsory to comply with legislation based on the Fourth Directive, namely: Belgium, Denmark, France, Germany, Greece, Ireland, Luxembourg, the Netherlands and the United Kingdom. Group two is made up of two EC countries in which it was not mandatory for companies to comply with legislation based on the Fourth Directive: Italy and Spain. Finally, group 3 is composed of four non EC European countries: Finland, Norway, Sweden and Switzerland.

The topics covered by FEE (1991) include: valuation of fixed assets, inventories and marketable securities; pensions provisions; deferred taxation; foreign currencies; off balance sheet commitments; leasing; complex financial instruments and government

grants.

The main conclusion of FEE (1991) is that "The results differ between the three groups of countries, especially when the questions address specific requirements of the Fourth Directive such as disclosure in the notes, for example of valuation methods and details of participating interests" (p.5). One finding of the survey which is interesting is the observation that in the non EC European countries and in the EC countries, where the provisions of the Fourth Directive is yet to be fully implemented, far stricter treatment is often required because of more stringent national laws than is obtainable in those EC countries that have implemented the provisions of the Fourth Directive. The many options contained in the Fourth Directive was proffered as a likely explanation for this state of affairs (p.5).

On the impact of listing on disclosure and measurement practices within the countries in the sample, FEE (1991) concludes that listed companies tend to disclose more detailed information than unlisted ones. However, with respect to measurement policies, the impact of listing is said to be inconclusive.

On the overall effect of the Fourth Directive, the survey suggests that: "... the Fourth Directive is not the only powerful force having a significant influence on accounting. In Italy and Spain and the non EC countries accounting treatments do not vary significantly from the first group of EC countries. On the contrary, within the first group of nine EC countries the accounting treatments other than those related to publication and disclosure differ substantially, which might indicate that the impact of the Fourth Directive is less strong than expected." (p.5)

FEE (1991) though a much improved survey when compared to the previous survey, retains some of the shortcomings of FEE (1989). For instance, the problem of inconsistencies arising from differences in languages, cultural backgrounds and skills existing between the "large number of people involved" was such that FEE (1991, p. 5) admits that "some inconsistencies still remain". The extent of these inconsistencies we might never know and so also is the extent to which these inconsistencies have distorted the findings of the survey. The sample selection process had lots of room for individual judgments and so caution should be exercised in extrapolating or generalising the results of the survey as was the case with FEE (1989).

It is commendable, however, to observe that FEE (1991) departed from the practice of using a modified version of the Dutch Institutes' (NIVRA) survey questionnaire. This

departure meant that the survey was conducted with a questionnaire designed specifically for that purpose. This development, on the other hand, made it unrealistic for the results of the 1989 survey and that of this latest survey to be meaningfully compared in detail in order to highlight the direction of international harmonisation between the countries covered by the survey.

Overall, FEE (1991) is an improvement on FEE (1989) in many respects, including the number of companies and countries covered, the articulation of the survey objectives and the general layout of the materials. It is also encouraging to note FEE's affirmation that this useful periodic survey will be a "going concern", quite unlike some other previous surveys of international financial reporting.

Price Waterhouse (1991) was very different from the earlier international surveys published by Price Waterhouse, that is, PW (1973, 1975 and 1979). The aim of the survey was to collate information on the status as of February 1991 on the accounting treatment of topics covered in IASs 2, 5, 8, 9, 11, 16, 17, 18, 19, 21, 22, 23, and 25, by various national and international accounting regulatory bodies. Two international accounting regulatory bodies - the International Accounting Standards Committee and the European Community were included in the survey. Twenty two countries were covered in the survey including: Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States of America.

The survey was based entirely on the official pronouncements of the relevant accounting regulatory authorities. Hence, it is not very helpful as a data source if one is interested in knowing what companies from these countries do in practice. However, it provides a good guide for those attempting to have an overall picture of the regulatory provisions on the topics covered in each of the countries and by the two international institutions during the period covered by the survey.

SECTION 4.2: CLASSIFICATORY STUDIES

Several attempts have been made over the past thirty years to classify and group the accounting systems in various countries of the world. Some of these attempts have relied mainly on subjective judgment (for example Mueller (1968), while others have used the statistical analysis of large masses of data such as the Price Waterhouse surveys to derive their classifications (for example Frank (1979), and Nair and Frank (1980). In this section a review of all significant works done in this area to date is presented, this is preceded by a discussion of the likely benefits of this sort of research.

In 1977 the committee constituted by the American Accounting Association (AAA), to examine international accounting issues relating to the classification of accounting published its findings. The committee articulated that research aimed at classifying accounting systems is valuable in two main aspects. According to the committee, "First it sharpens description and analysis. second it has predictive power" (AAA, 1977, p. 97). Furthermore Nobes (1984, p. 28) is of the view that the classification of accounting systems may also be helpful in shaping accounting development rather than merely describing the status quo.

One of the earliest attempts to classify accounting systems internationally was undertaken by Mueller (1968). Firstly, Professor Mueller argued that the environment of business differs between the various countries of the world. Starting from this premise, he sets out four factors which in his opinion were primarily responsible for these differences, namely: states of economic development; stages of business complexity; shades of political persuasion and the systems of law. He then employed these four factors to derive ten distinct sets of business environments. They are as follows:

1. United States/Canada/The Netherlands
2. British Commonwealth (Excluding Canada)
3. Germany/Japan
4. Continental Europe (Excluding the Netherlands, Germany and Scandinavia)
5. Scandinavia
6. Israel/Mexico
7. South America
8. The Developing Nations of the Near and Far East
9. Africa (Excluding South Africa)
10. Communist Nations.

While maintaining that "a close interrelationship exists between economic and business environments and accounting". Mueller (1968) proffers this ten nation classification of business environments as a suitable basis for the classification of accounting and financial reporting practices. According to Mueller (1968, p. 103), these "ten different areas in which comparable environmental conditions exist ... would gain from a particular approach to generally accepted accounting principles".

Mueller (1968) represented a significant landmark in accounting systems classifications. By strongly linking accounting systems to the underlying environmental structure of business, this classification lays a solid foundation for an accounting orientation that supports the designing of accounting systems that are both relevant and useful. The classification also provides ten broad categories that can accommodate virtually every country in the world.

The basic drawback of the classification proposed by Professor Mueller is its heavy reliance on subjective judgment. No serious attempt was made to relate this proposed categorisation with the actual accounting practices of the countries of the world. While it is true that the environment of business differs, factors like colonial ties might propel the accounting practices of some African countries, for instance, to be closer to that of the United Kingdom than those of other African countries that were colonised by France. However, Mueller's classification, though lacking in sophistication, is important considering its pioneering position.

Seidler (1967, p. 775), introduced the concept of "spheres of influence" in his judgmental classification of accounting systems. He opined that: "There are certain 'mother' countries in accounting and a strong tendency for the accounting practices of other countries to reflect their associations - colonial, traditional or political - with the leader countries. An obvious example is the British model and its influence on Australian and Indian accounting" (p. 775). Consequently, Seidler identified three main categories of accounting practices as:

1. British model
2. US model
3. Continental European model.

Seidler observes that the parent country's model is rarely reproduced perfectly and that in some cases, for example, Canada, more than one sphere overlaps (p.776).

Similar to Professor Mueller's classification, Seidler (1967) was based mainly on the

author's judgment. However, by taking into consideration the capacity for some countries to influence accounting in some other countries with whom they might not necessarily have the same underlying business environment, this present classification overcomes one of the major drawbacks of the Mueller classification. However, Seidler (1967), by limiting the models to three excludes countries such as the communist nations, thereby making his classification insufficient to cover the accounting practices of all the world's nations.

AAA (1977) endorsed Seidler's "Spheres of Influence" concept. AAA (1977, p. 105): "The accounting patterns in the world may also be classified according to 'zones of influence', based on historical-cultural-socioeconomic sources which have influenced accounting principles underlying financial measurement and reporting in different countries and regions". The following five groups were considered as the historical sources of accounting influence:

1. British
2. Franco-Spanish-Portuguese
3. Germanic/Dutch
4. U. S. A.
5. Communistic.

AAA (1977) extended Seidler (1967) to accommodate countries of the then communist bloc. However, it is regrettable that the AAA committee that undertook this task could not substantiate this classification empirically due to resource constraints.

Frank (1979) set out to examine the extent to which different patterns of accounting principles and practices exist in thirty eight non communist countries and to relate these differences to the economic and social environment prevalent in those countries. Prior to this study attempts to identify patterns of accounting practice internationally had been mainly judgmental (eg Mueller 1968 and Seidler (1967)). In contrast to these earlier attempts, Frank (1979) used the Price Waterhouse (1973) survey data for his classification.

Using the statistical tool of factor analysis Frank identified four distinct groups of countries which share similar accounting concepts and practices based on the extent of usage of 233 different accounting principles and disclosure practices. The four groups are as follows:

1. British Commonwealth Model comprising - Australia, Bahamas, Ethiopia, Eire,

Fiji, Jamaica, Kenya, New Zealand, Rhodesia (now Zimbabwe), Singapore, South Africa, Trinidad and Tobago and United Kingdom.

2. Latin America Model - Argentina, Bolivia, Brazil, Chile, India, Pakistan, Paraguay, Peru and Uruguay.

3. Continental European Model - Belgium, Colombia, France, Italy, Spain, Sweden, Switzerland, and Venezuela.

4. United States Model - Canada, Germany, Japan, Mexico, Netherlands, Panama, Philippines and the United States of America.

Frank (1979) relied heavily on the Price Waterhouse surveys. This in turn means that it also retains all the shortcomings of the Price Waterhouse surveys some of which have been outlined in this chapter during the review of the Price Waterhouse surveys. Another related but equally important point is that the Price Waterhouse surveys were not made with the view of putting them to the kind of use which Frank did (Nobes, 1981, p.270). The Frank (1979) effort is one of the first noteworthy attempts at empirical classification of accounting systems and so should be commended for advancing research on accounting classification from the subjective judgment domain to a more objective and verifiable method.

Nair and Frank (1980) is another noteworthy work on the classification of accounting systems. The study was based on the Price Waterhouse surveys of 1973 and 1975. One of the commendable features of this attempt was the separation of the variables into measurement and disclosure practices. Consequently, of the 233 practices covered by Price Waterhouse (1973), 147 were identified as measurement practices and 86 as disclosure practices. With regard to Price Waterhouse (1975) which dealt with 264 practices, 162 were identified as measurement practices while 102 were classed as disclosure practices. This gave rise to four different classifications.

Like Frank (1979), the technique of factor analysis was employed in isolating the relevant factors used in identifying the groupings. The first classification based on the 1973 data using only measurement practices yielded four groups (see table 4.2).

Group 1	Group 11	Group 111	Group 1V
Australia	Argentina	Belgium	Canada
Bahamas	Bolivia	France	Japan
Fiji	Brazil	Germany	Mexico
Jamaica	Chile	Italy	Panama
Kenya	Colombia	Spain	Philippines
Netherlands	Ethiopia	Sweden	United States
New Zealand	India	Switzerland	
Pakistan	Paraguay	Venezuela	
Rhodesia	Uruguay		
Singapore			
South Africa			
Trinidad & Tobago			
United Kingdom			

Table 4.2

Source: Nair and Frank (1980, p.429)

Nair and Frank (1980, p.429), argue that based on the composition of the groups the following four characterisations can be made:

Group I - British Commonwealth model

Group II - Latin American model

Group III - Continental European model

Group IV - United States model

These lends some support to the four-fold classification done by Frank (1979) using all the 233 practices, even though five countries, namely: Ethiopia, Pakistan, Colombia, Netherlands and Germany change group membership.

Analysis of the 1973 data using disclosure practices yielded the following seven groups:

Group 1	Group 11	Group 111	Group 1V	Group V	Group VI	Group VII
Australia	Bolivia	Belgium	Canada	Argentina	Sweden	Switzerland
Bahamas	Germany	Brazil	Mexico	Chile		
Fiji	India	Colombia	Netherlands	Ethiopia		
Jamaica	Japan	France	Panama	Uruguay		
Kenya	Pakistan	Italy	Philippines			
New Zealand	Peru	Paraguay	United States			
Rep. of Ireland		Spain				
Rhodesia		Venezuela				
Singapore						
South Africa						
Trinidad & Tobago						
United Kingdom						

Table 4.3.

Source: Nair and Frank (1980, p. 431)

Nair and Frank (1980, p.432) comparing this grouping with that based on measurement practices noted that "it is difficult to characterize these groups" and conclude that "clusterings of countries can change depending upon the subset of accounting practices used."

The classification based on the 1975 data for measurement practices gave rise to 5 different groups (see table 4.4)

Group I	Group II	Group III	Group IV	Group V
Australia	Argentina	Belgium	Bermuda*	Chile
Bahamas	Bolivia	Denmark*	Canada	
Fiji	Brazil	France	Japan	
Iran*	Colombia	Germany	Mexico	
Jamaica	Ethiopia	Norway*	Philippines	
Malaysia*	Greece*	Sweden	United States	
Netherlands	India	Switzerland	Venezuela	
New Zealand	Italy	Zaire*		
Nigeria*	Pakistan			
Rep. of Ireland	Panama			
Rhodesia	Paraguay			
Singapore	Peru			
South Africa	Spain			
Trinidad and Tobago	Uruguay			
United Kingdom				

* Countries not included in the 1973 survey.

Table 4.4. Source: Nair and Frank (1980, p.433)

Using measurement practices, the groupings derived from the 1975 data are similar to that derived from the 1973 data. The major difference is the identification of a fifth group with Chile as the only member of this group. The grouping of the eight countries not included in the 1973 survey followed expected colonial patterns, with for example Nigeria and Malaysia falling into the British Commonwealth model.

The classification of the 1975 data using disclosure practices grouped the 46 countries into seven groups.

Group I	Group II	Group III	Group IV	Group V	Group VI	Group VII
Belgium	Australia	Bahamas	Bermuda*	Argentina	Denmark*	Italy
Bolivia	Ethiopia	Germany	Canada	India	Norway*	Switzerland
Brazil	Fiji	Japan	Jamaica	Iran*	Sweden	
Chile	Kenya	Mexico	Netherlands	Pakistan		
Colombia	Malaysia*	Panama	Rep. of Ireland	Peru		
France	New Zealand	Philippines	Rhodesia			
Greece*	Nigeria*	United States	United Kingdom			
Paraguay	Singapore	Venezuela				
Spain	South Africa					
Uruguay	Trinidad & Tobago					
Zaire*						

* Countries not included in 1973 survey.

Table 4.5 Source: Nair and Frank (1980, p. 436)

The disclosure based classification of the 1975 survey supports the notion that it does make a difference whether disclosure or measurement practices is used for classifying accounting systems. The lack of characterisation of the disclosure based groupings observed with the 1973 data is repeated in the analysis of the 1975 data.

By splitting the practices into measurement and disclosure, Nair and Frank (1980) is clearly a refined and improved piece of research relative to Frank (1979). For investors and others who are mainly interested in knowing about the extent to which profit and asset values vary internationally due to the use of different measurement practices across nations, the measurement based classification might be more helpful than a classification that combines both measurement and disclosure practices into one.

In Da Costa, Bourgeois and Lawson (1978), the main objective of this research was "to verify empirically the existence of three accounting models - the American, the British and the Continental systems, often alluded to in international accounting literature". Earlier efforts at international accounting classification relied mainly on subjective judgment (eg Mueller 1968). The task facing these researchers was made lighter by the availability of the Price Waterhouse survey of 1973 upon which the research was heavily based.

Though the PW surveys covered 233 practices, Da Costa, Bourgeois and Lawson (1978), eliminated all the practices which were uniform across the countries in the sample. They were then left with 100 relevant accounting practices on which they concentrated for their classification. Principal components factor analytic technique was employed to identify 7 factors which were used, namely:

1. A measure of financial disclosure
2. Company Law as an influence on accounting practices.
3. Stress of reporting practices on income measurement.
4. "Conservatism" as a guiding principle
5. Tax law as an influence on accounting practices.
6. Inflation as an environmental consideration; and
7. Orientation of reported information towards capital market users.

All the 38 countries in the sample were clustered on the basis of their similarity on the above listed factors.

The clustering procedure yielded two discernible groups. Group 1 included 26 countries, with the United States described as "definitely the group leader"(p.80). Group 2 countries number 10 with the United Kingdom identified as the group leader. Two countries - Netherlands and Canada were said to be "unclassifiable". Da Costa, Bourgeois and Lawson (1978), conclude from their findings that there are only two predominant models of accounting, namely the American Model and the British Model. They go further to suggest that "contrary to common assertions, the dominant role ascribed to a continental model of accounting appears to be invalid. We uncovered no group of countries following a distinctly continental set of practices" (p.83).

This survey also relied on the Price Waterhouse survey of 1973. The weaknesses of using this data source has already been highlighted. Furthermore, the Netherlands and Canada were described as "unclassifiable", this violates one of the canons of good classification articulated by AAA (1977). The greatest strength of this study perhaps lies in its pioneering nature.

Another noteworthy work in the classification of accounting systems is Goodrich (1986). Goodrich aimed to link the accounting and political practices of fifty-four countries as a foundation for research and understanding in the area of international accounting classification. Using the Price Waterhouse (1979), Goodrich identified five accounting groups: the USA group, Swiss group, UK group, Brazilian group and the Jersey group. He goes further to assess the linkages between these accounting groupings on one hand and the political orientations of these countries. He concluded that strong linkages exist between political systems and accounting types such that "similar political systems types and organisational memberships tend to have similar financial accounting systems" (p. 55).

Goodrich's classification is novel in some sense. His identification of Brazil, Switzerland and Jersey as accounting 'mother' countries give these countries a leading role contrary to most other classifications of accounting systems. Overall, the study represents a noble and ingenious attempt to link accounting systems and political orientations. However, the exclusion of the then communist bloc countries from the study and the heavy reliance on the faulted Price Waterhouse (1979) are some of the major criticisms of this attempt.

AlNajjar (1986) aimed to classify a sample of countries based on the extent of standardisation in their accounting practices. The eight countries studied include: Belgium, Egypt, France, Iraq, Poland, UK, USSR (as it then was constituted), and West Germany (as it then was). The extent of standardisation was determined using some sixteen factors, namely: the level of governmental control over the economy (for instance whether the economy is centrally planned or a free market economy); main providers of finance for business; influence of the tax system on accounting system; importance of the accountancy profession; the existence of a national chart or code of accounts; the precise definition of accounting terms and the body responsible for issuing such definitions; content and format of financial statements (whether required comprehensively by law or the accounting profession or prescribed minimum content only stipulated).

The countries were then scored on a scale of 1 to 5 based on these factors. High governmental involvement on any factor is scored 5. For instance, on the extent of governmental control over the economy, a country like the then USSR with a central command economic system will get a score of 5 while the UK with a free market economy gets a score of 1.

<u>Country</u>	<u>Total Scores</u>
USSR	235
Poland	233
Iraq	223
Egypt	217
France	192
Belgium	174
West Germany	143
United Kingdom	85

Table 4.6 AlNajjar (1986, p.169)

AlNajjar (1986) used the above scores to support his hypothetical classification of the accounting practices of the eight countries based on standardisation. In his classification, he identified three groups: Macroplanned, Macrostandardised and Microstandardised countries. The Macroplanned countries were defined as economies characterised by state ownership of all/most means of production, with the government as the only/main user of accounting information, coupled with complete and compulsory accounting plan/system. Macrostandardised is construed to mean a mixture of state and private ownership of means of production; with governments, shareholders and other agencies as the main users of accounting information; coupled with the existence of a standard accounting plan. Micro standardisation is subdivided into two categories. Category 1 is characterised by mainly private ownership of the means of production, with banks as the main users of accounting information and legal rules as the basis for financial reporting. In category 2, the means of production is mainly owned privately; shareholders and financial institutions are the main users of accounting information; while legal rules and professional standards are used for financial reporting.

AlNajjar (1986, p. 163), hypothesised that the USSR, Poland, Iraq and Egypt belong to the Macroplanned country groupings; France and Belgium to the Macrostandardised group; West Germany in category 1 of Microstandardised and UK in Microstandardised category 2. The general trend of the test scores with USSR, Poland, Iraq and Egypt "Macroplanned countries" scoring the highest; followed by France and Belgium "Macrostandardised countries"; and then West Germany and the UK "Microstandardised countries" scoring the lowest, appears to support the hypothesised classification system.

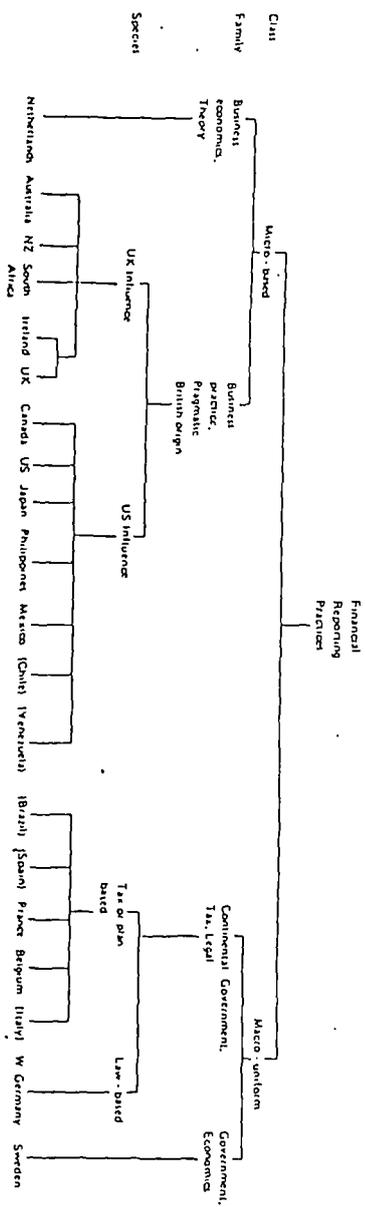
The first drawback of this study is connected with its articulated objective, that is, using the extent of standardisation to classify accounting practices of the selected countries. That the accounting practices of one country is determined by the

government while that of another country is determined by a private body does not help an international user of accounting information much in knowing the degree to which the disclosure and measurement practices of companies from various countries vary. Secondly, the sixteen elements used for calculating the test scores can hardly be said to be comprehensive. Hence unqualified pronouncements on the extent of accounting standardisation in these countries based only on these elements is questionable. Thirdly, the weights applied to the elements were subjectively determined. Given that the use of different weights could easily have led to different scores, the interpretation of the test score values should have been done with utmost caution. On the whole, given the exploratory nature of this type of international accounting research, these shortcomings are not too fundamental as to invalidate the contributions of this research.

Nobes (1984) suggested a hypothetical classification derived judgmentally as shown in figure 4.1 below. Nobes divided the accounting systems of the countries in his sample into two broad categories: Micro-based and Macro-uniform. The Micro-based group is further dichotomised into those where business economics and theory influences financial reporting heavily (Netherlands is the only country belonging to this group) and those countries where business practice and pragmatism dictate the pattern of the financial reporting system. In this class, Nobes identified four countries under the UK zone of influence: Australia, New Zealand, South Africa, and Ireland. Six countries, namely: Canada, Japan, Philippines, Mexico, Chile and Venezuela are said to be within the sphere of influence of the United States.

Figure 4. 1. Nobes Hypothetical Classification

Source: Nobes (1984, p.67)



- Notes:
1. Adjacency is not necessarily supposed to imply similarity. For example, it is not intended to imply that Australia is nearer to the Netherlands than the UK is.
 2. The size of differences within a family varies from family to family.
 3. Brackets indicate that a system may exhibit differences from others of its family because of lack of development.
 4. See Fig. 8.1 for a final version of this chart.

The Macro-uniform group is further subdivided into two groups, the group termed 'continental' is characterised by a high level of governmental involvement in the regulation of financial reporting, coupled with tax and law based financial reporting tendencies. In this group, two further categories of countries are identified - the Tax or Plan based system countries, namely: Brazil, Spain, France, Belgium and Italy and the Law based system with Germany as the only member of this subgroup.

Macro-uniform group 2 refers to those countries where the government plays vital roles in the regulation of financial reporting while economics determines the rules for financial reporting. Sweden is said to be the only country belonging to this group.

In order to test his classification, Nobes selected nine factors. Factor one deals with the users of financial reports. The second factor relates to the degree to which law or standards prescribe accounting rules rather than professional judgement. The third factor has to do with the importance of tax rules in accounting measurement. Factor four, pertains to the extent of prudence or conservatism in valuation practices. The fifth factor is concerned with the strictness of application of the historic cost convention. Factor six covers the susceptibility to replacement cost adjustments in main or supplementary accounts. The seventh factor relates to the extent of practising of consolidations. Factor eight pertains to the extent of making provisions and scope for income smoothing. Finally, factor nine deals with the extent of uniformity between companies in applying accounting rules.

Nobes then scored the countries using these factors on a scale of 0 to 3. He proceeded to analyse the scores using five different though related methods - simple totalling of the scores, totalling of the sum of differences on the factors, squaring the differences, clustering the roots of the squared differences by nearest neighbours and then by furthest neighbours.

Total score values

Country	Practices	Explanatory
Netherlands	20	8
United Kingdom	18	7
Ireland	18	7
Australia	17	9
New Zealand	17	9
Canada	16	8
United States	16	6

France	4	2
Italy	4	3
Belgium	4	2
Sweden	4	1
West Germany	4	0
Spain	3	3
Japan	2	1

Table 4.7 Source: Nobes (1984, p. 84).

Totalling the scores gives total score values ranging from 20 for the Netherlands to 2 for Japan. A discernible difference can be observed between the first seven countries and the rest (see table 4. 7).

Clustering by nearest neighbour yields a two-fold classification which Nobes interpreted to mean "micro" and "macro" systems (see table 4.8). However, clustering by "furthest neighbours" gave rise to four groups instead of two.

"Micro"	Netherlands
	UK, Ireland, Australia, New Zealand, Canada
	USA, Canada

"Macro"	France, Belgium, Spain
	Italy
	Germany, Japan, Sweden

Table 4.8 Source: Nobes (1984, p.89)

Four-group Clustering by "Furthest Neighbour"

1	2	3	4
Australia	Netherlands	Belgium	Germany
Canada	Ireland	France	Japan
New Zealand	UK	Italy	Sweden
USA		Spain	

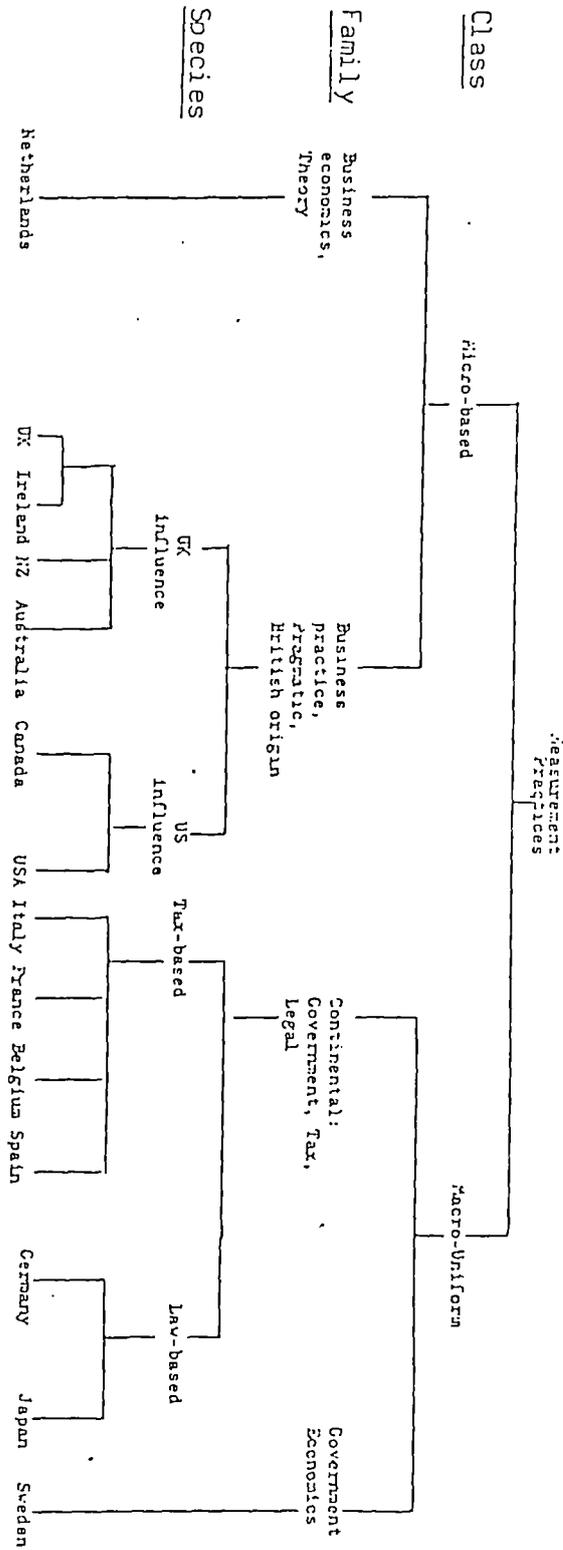
Table 4.9 Source: Nobes (1984, p.89)

Following these analyses, Nobes revised his initial hypothetical classification. This revised classification can be seen in figure 4.2 below.

Figure 4.2. Nobes (1984) is in some respects an improvement on the earlier classificatory studies. More broadly speaking this improvement can be observed in the way the Nobes effort tries to balance the use of subjective judgement and the use of objective statistical tools of analysis. More specifically, the superiority of the Nobes classification over some earlier attempts is made manifest by the fact that he focused and gave purpose to his classification by prior formulation of an hypothetical model to serve as a ready benchmark for measuring the practicability of his classification. Also, the refined selection of factors on which the classification exercise was based ensured that the classification was based solely on factors deemed relevant and vital.

However, Nobes (1984) can be criticised for the narrowness of the scope of his classification in terms of the number of countries covered. Another criticism relates to the extensive use of judgement. Though Nobes (1984, p.92), presented the use of "more judgement" as a strength of his classification it is doubtful whether more judgement is better than less subjective judgement in a classificatory work of this kind. Judgement gives a lot of room for subjectivity and bias. For instance, the factors one scholar might deem relevant might be considered unimportant by another. Hence allowing a lot of scope for judgement in choice of countries, factors, scores, weightings and mode of analyses can lead to varying end results. This might not be healthy if it is considered desirable to arrive at some consensus on the issue of international accounting classification.

Figure 4.2: Nobes Tested Hypothetical Classification
 Source: Nobes (1984)



Evaluation of Classificatory Studies

The AAA (1977) suggests that "many attempts at classification in the accounting literature and elsewhere are impotent because they violate the canons of good classification". Their report then proceeded to outline some qualities which a good classification should aspire to have. In this section we will set out those qualities and then use them as a benchmark for broadly assessing the different classification attempts reviewed in the preceding pages.

According to AAA (1977, p. 77), firstly, in a good classification, the characteristics of a chosen classification should be adhered to consistently. This is elaborated to mean that a good classification should have a given purpose which should be made explicit.

Secondly, the subgroups should jointly cover the whole field. Apart from Mueller (1968), and AAA (1977), it does not appear that any of the other studies fulfilled this canon. Most of the classifications based on the Price Waterhouse surveys were forced to exclude the countries of the then communist bloc due to the fact that the surveys did not extend to communist nations.

Thirdly, the subgroups should be mutually exclusive. In other words, no country should be assigned simultaneously to more than one group. An example of one of the studies that violated this canon is Frank (1979, p.596) which states "... while Ethiopia is included in the group identified with factor I, it might also be included with the Factor II countries. India and Pakistan listed with group II, show strong similarities to group I, and Canada and the Netherlands (in Group IV) are also similar to group I"

Finally, there should be preservation of hierarchical integrity. For many of the studies, for example Mueller (1968), AAA (1977), Nair and Frank (1980), this was not an issue since no hierarchy was involved. Nobes (1984) is hierarchical and this canon of hierarchical integrity appears to have been observed.

In this section we have examined in some depth significant research done in the area of international classification of accounting systems. All the works covered in this section have their strengths and weaknesses. Meek and Saudagaran (1990, p. 159) have rightly observed that: "The accounting world is dynamic, and new clusterings reflecting recent trends and event may have emerged." Consequently, there is need for this type of accounting research on a continuous basis.

SECTION 4.3: HARMONISATION MEASUREMENT STUDIES

This section is subdivided into two parts. The first part is devoted to research aimed at assessing compliance with some international accounting pronouncements notably the International Accounting Standards published by the IASC. The second part deals with studies that actually attempt to measure and determine levels of harmony in the accounting practices of various countries.

(1) Compliance with IAS's

Doupnik and Taylor (1985), set out to ascertain the extent to which Western European countries are "conforming to a basic core of accounting practice", as well as examining the "change in the level of conformity over time" (p.27). This was accomplished by measuring and comparing the level of compliance with a number of IASC standards at two dates - January 1, 1979 and January 1, 1983.

The Price Waterhouse survey of 1979 was updated to January 1, 1983. The researchers updated the data by mailing a questionnaire to Price Waterhouse representatives in the 64 countries reflected in the PW (1979). However, they got responses from only 50 countries and so their sample was restricted to those 50 countries. Given the research objective, the reason for including 34 non-European countries is strictly for purposes of control and comparability. The 50 countries were grouped into various geographical regions, viz: Africa, Asia and Australia, Europe, Latin America and North America.

Mean weighted average scores was calculated for each country using a weighting scheme whereby each practice was rated 4 for "Required" and 0 for "Not Allowed". Mean weighted average scores was subsequently computed for each geographic region for 1979 and 1983, The Kruskal-Wallis one-way analysis of variance was used to test the hypothesis that there is no difference in mean scores between the different regions. The results support the hypothesis that there are statistically significant differences in mean weighted-average scores between the regions.

For Europe, the 16 countries were further divided into EC and non-EC countries. The Mann-Whitney U test was used to test the null hypothesis that these two groups come from the same population. The results showed that there was some marked difference between EC and Non EC European countries in compliance with IASC standards, with the EC countries having a higher compliance rate. Further analysis indicated that even

among EC countries widely varying rates of compliance existed with France, Ireland, the Netherlands and the United Kingdom as the countries with the highest compliance rate. Douppnik and Taylor (1985), concluded based on their findings that "much diversity continues to exist among the countries of Western Europe regarding conformity to a basic core of accounting practice" (p.33).

It is pertinent at this juncture to highlight some points which dictate that the conclusions of Douppnik and Taylor (1985) be treated with some caution. Douppnik and Taylor (1985), relied heavily on the PW survey of 1979 and on responses from their own questionnaire which in turn was modelled after that normally used for the PW surveys for their 1983 data. Nobes (1981 and 1984) have highlighted some inconsistencies of the PW survey. The failure of Douppnik and Taylor to acknowledge these shortcomings is a cause for concern.

Secondly, the study fails to define what it means by "Compliance with IASC Standards". Does compliance mean the adoption of IASs by a professional accounting body, or their promulgation into law or the actual observance of those standards by companies in the countries surveyed. Tay and Parker (1990, p.74), highlight the difference between de jure standardisation (the issuing of an accounting pronouncement either as law or accounting standard) and de facto standardisation (the actual compliance with that law or standard by the companies for whom the law or standard was fashioned). To buttress this point, Nobes (1987, p.78), observes that whereas Douppnik and Taylor asserted that France complied with the IASC standards in 1979 on all the 53 propositions they studied, data from the Commission des Opérations de Bourse (1980) show that only about half of listed French companies prepared consolidated accounts (as required by IAS 3) in 1979. Therefore, this inability of Douppnik and Taylor (1987) to precisely define which concept of compliance they were examining casts some doubt on both their findings and the interpretation thereof.

Evans and Taylor (1982) wanted to determine the impact of five IASC standards on the financial reporting practices of some member countries of the IASC. The countries selected for the study were France, Germany, Japan, United Kingdom and the United States of America. The IASC standards used for the study were: IAS 2 "Valuation and Presentation of Inventories", IAS 3 "Consolidated Financial Statements", IAS 4 "Depreciation Accounting", IAS 6 "Accounting Responses to Changing Prices, and IAS 7 "Statement of Changes in Financial Position" (note that some of these standards have undergone some modifications and IAS 6 was withdrawn altogether).

A sample of the published financial statements of large corporations in each of the five countries were examined to determine whether the key provisions of the five International Accounting Standards have been complied with. An average of between nine and ten financial reports was examined for each country. The financial statements were examined for the period 1975-1980. The study concluded that "the IASC has had very little impact on the accounting practices of the countries surveyed" (p. 126).

(2) **Impact of Accounting Harmonisation**

Much has been written on the subject of accounting harmonisation and standardisation. Though only a few researchers have attempted to tackle the problem of measuring the degree of harmony existing between corporate reporting practices of countries. It is vital to quantitatively assess degrees of harmony so that accounting policy makers will have a more objective basis for taking actions geared towards promoting the comparability of financial statements. The next paragraphs will review some significant work done in this area to date.

Nair and Frank (1981) examined 131 accounting practices common to the Price Waterhouse surveys of 1973, 1975, and 1979. The geographic scope of the study was also limited to thirty seven countries that were common to the three surveys. For comparability purposes, the different categorisation of the status of practices, were harmonised and collapsed into five categories, namely: Required, Predominant practice, Minority practice, No Application, Not permitted.

Harmonisation on any practice is deemed to have taken place if more than half of the thirty seven countries were to be found on the two extreme positions, that is, "Required" or "Not permitted" categories. Using this gauge, 49 such practices were identified for 1979. Of the 49, 39 practices were in the "Required" category while 10 were in the "Not permitted" category. Nair and Frank then proceeded to ascertain whether any statistically significant shifts occurred in these 49 practices by employing Friedman's Analysis of Variance.

Further tests showed that 29 out of the 49 practices experienced significant shifts between the period covered by the study. It was also observed that for 25 of the 29 practices the shifts occurred between 1975 and 1979 and that in every case, the direction of change was in line with the position adopted by the IASC. Nair and Frank conclude by asserting that while it is not easy to prove any "inference of causation", it does appear "that the period of the IASC's existence has coincided with a growing

harmonization of accounting standards" (p. 77).

Nair and Frank (1981) has been criticised on several grounds by some other writers. Tay and Parker (1990), have raised doubts regarding: data sources (p.77,78), the operational definition of harmonisation (p.80), the appropriateness of the statistical tools of analysis (Friedman' ANOVA) used (p.81), and the defensibility of the conclusions reached (p. 84). Van der Tas (1992, p.214) has also argued that the "Nair and Frank method is, however, not appropriate to measure either de jure measurement harmony/harmonization or de jure disclosure harmony/harmonization".

These criticisms, however, do not detract from the fact that the Nair and Frank effort like some other papers in this area is commendable, especially in view of the dearth of empirical research dealing with the extent of agreement or diversity in international accounting practice.

Van der Tas (1988) in an exploratory article set out to quantify harmony, to determine when and to what extent harmonisation has taken place and then to measure the impact of the organisations involved in international harmonisation. In order to accomplish the set goals, three indices of concentration measurement were developed and adapted. The basic tool was the Herfindahl index, or H-index, one of many concentration measures. (See chapter 5 for more detail) Variants of the H-index were developed. These were the C-index to handle a multiple reporting scenario and the I-index to handle international harmonisation measurement.

Using these indices, Van der Tas measured levels of harmonisation on the subject of Deferred Tax in the UK; accounting for the Investment Tax Credit in the Netherlands and the US; the Investment Tax Credit Equalisation account in the Netherlands; and the Valuation of Lands and Buildings in the Netherlands. Finally he attempted to compute a harmonisation index for the Investment Tax Credit in the US and the Netherlands. From these indices which were computed over a period ranging from 1965-85, it would be possible at a glance to recognise periods of high and low harmonisation. The causal factors could then be sought for in mandatory provisions that came into force around that time or in respect of any other voluntary factors likely to be responsible.

Van der Tas [1988] maintains that it is possible to quantify the degree of harmony and harmonisation of financial reporting. He goes on to assert that it is also possible to measure the influences of mandatory and non-mandatory provisions pertaining to

financial reporting and the extent of spontaneous harmonisation. However, as hinted earlier this was an exploratory article and so much work is still needed before the work of Van der Tas can be operationalised.

Van der Tas (1992), set out to measure the degree of harmony of the deferred taxation accounting policies of 154 listed European companies between 1978 and 1988 and to ascertain the extent to which harmonisation had taken place during that time span and the impact of the EC harmonisation efforts.

He used the C index derived in an earlier paper (van der Tas 1988) to measure the degree of harmony in accounting for deferred taxes in the financial reports of the selected companies all of which were from the nine EC countries that had implemented the provisions of the Fourth Directive before January 1, 1989. In order to determine the impact of the Fourth and Seventh Directives, he developed a regression analysis based on the C index values. Van der Tas (1992, p.77) defends his application of regression analysis to C index values on the grounds that: "The C index is a simple ratio with a 'natural' zero point where no pair of financial reports is comparable. It satisfies the criteria of a ratio scale. This makes it possible to apply regression analysis as a test of significance of movements in the degree of harmony".

The resulting C index values with and without reconciliation based on multiple reporting are as indicated in table 4.10 below.

Year	C Index	
	Excluding Reconciliation	Including Reconciliation
1978	0.333	0.476
1979	0.327	0.483
1980	0.329	0.463
1981	0.332	0.468
1982	0.336	0.464
1983	0.339	0.502
1984	0.344	0.742
1985	0.338	0.764
1986	0.331	0.817
1987	0.326	0.890
1988	0.327	0.869

Table 4.10 Source: Van der Tas (1992, p.87)

Based on the C index values and the regression analysis results, Van der Tas (1992, p.92) concludes that during the period covered by his study, the degree of harmony of the primary accounts , excluding reconciliation data in the notes on the accounts is low and shows no significant movement. However, when reconciliation data in the notes is taken into account , the degree of harmony increases appreciably. Hence, when reconciliation data is taken into consideration, the impact of the Fourth Directive on accounting harmony is said to be very significantly positive.

Consolidated Financial Statements

Year	C Index Values	
	Excluding Reconciliation	Including Reconciliation
1978	0.268	0.456
1979	0.293	0.498
1980	0.291	0.486
1981	0.293	0.502
1982	0.283	0.478
1983	0.288	0.499
1984	0.287	0.501
1985	0.294	0.531
1986	0.305	0.577
1987	0.366	0.714
1988	0.390	0.749

Table 4.11 Source: Van der Tas (1992, p.90)

When the consolidated financial reports of the companies are used, the degree of harmony in the accounts excluding reconciliation data is low but increases over time. The trend is the same when reconciliation data is taken into consideration, the

differences being with the higher absolute values obtainable including reconciliation data. Based on the regression analysis results, the impact of the Fourth Directive on harmony was found not to be significant.

Van der Tas (1992, p.62) stated the purpose of his study as being "to measure the degree of harmony in each year, to determine the extent to which harmonization took place during that period and the impact of EC harmonization efforts". While the first and second objectives seem accomplishable, the same cannot be said of his third objective. Apart from the EC Directives, Van der Tas (1992,p.85) concedes that: "The degree of material harmony could also have been influenced by a multitude of other factors, such as the verdict of a court of justice, the introduction of a standard in another country, the introduction of an international standard, an authoritative pronouncement by an academic, etc". Given this fact, we argue that it is not very feasible to establish any causation between the degree of harmony in the financial reports of European companies and the EC accounting Directives.

The C index can indeed give levels of harmony while the regression analysis can give results that are either significant or not, but to go further and conclude from the results that "the impact of the Fourth EEC Company Law Directive on harmony is very significantly positive" (p.92), suggests a causal relationship which by his own admission Van der Tas earlier in the paper described as "not provable" (p.85).

Another criticism relates to the claim that the C index is able to determine the appropriate degree of harmony when reconciliation data is furnished. It is possible for accounts to be restated to a comparable basis given the disclosure of more information in the notes. However, the process of restatement in view of the lumpy nature of financial statements is by no means a straight forward task. Weetman and Gray (1991,p.377) and Van der Tas (1992, p.79) indicate that the process of reconciling accounting methods based on multiple reporting is dependent on such factors as the expertise of the person involved, differing levels of sophistication among the companies involved, and so on. This then suggests that when reconciliation data is provided in a multiple reporting scenario, the C index can yield varying values depending for instance, on who was conducting the survey. Consequently, the C index values in a multiple reporting scenario needs to be treated with some caution.

However, by linking the C index with a strong test of significance such as regression analysis, the Van der Tas study has advanced considerably the search for good quantitative measures of international harmonisation.

Emenyonu and Gray (1992) set out to assess the extent to which the treatment of some selected measurement practices in France, Germany, and the UK are harmonised in the context of the major effort that has been made to promote harmonisation of accounting practices in the European Community. The data for this study was collected from the financial statements of twenty six large industrial companies from each of the three countries covered for the financial year 1989. Six items were selected for the study, namely: stock valuation, depreciation, goodwill, research and development, fixed assets valuation, extra-ordinary and exceptional items.

Two statistical tools of analysis are employed in analysing the data. The Chi-square (X^2) is used to assess whether the pattern of usage of measurement practices by companies in France, Germany and the UK is significantly different. On the other hand, the I index (a variant of Herfindahl's concentration measure) is used to compute the degree of international harmony that exists across the three countries.

The chi-square results indicated that there are significant differences between France, Germany and the UK in respect of all the practices evaluated. The I index values ranged from a low of 0.0076 for depreciation to a high of 0.6079 for valuation bases for fixed assets (see table 4.12 below). Emenyonu and Gray (1992), conclude that: "... there are significant differences in the measurement treatment of a number of key items in major EC countries such as France, Germany and the UK. These differences tend to confirm the view that the measurement provisions of the EC Fourth Directive are inherently flexible. Thus much is still to be achieved in terms of harmonising asset and profit measurement practices in the EC" (p.56).

One of the major drawbacks of Emenyonu and Gray (1992) is the fact that the study covered only one year. Consequently, it is not possible to provide any sense of direction in the trend of harmonisation. Also by restricting the study to only three EC countries, and to only large industrial companies from these three countries, it is not very safe to extrapolate the findings of this study to all types of companies in all the EC countries.

On the other hand, this study provides some vital empirical evidence with respect to the harmonisation in the measurement practices of large companies in some key EC countries. It also furthers the application of quantitative measures of the extent of harmonisation.

Summary of I index values

<u>Measurement Practices</u>	<u>Index Values</u>	<u>%</u>
Depreciation	0.0076	0.8
Goodwill	0.2636	26.4
Stock Valuation	0.5481	54.8
Extraordinary/Exceptional items	0.5959	59.6
Valuation Bases for Fixed Assets	0.6079	60.8

Source: Emenyonu and Gray 1992 (p.58)

SECTION 4.4: QUANTITATIVE IMPACT STUDIES

This section deals with research aimed at assessing the impact of international accounting differences in monetary terms on asset values and profit figures of selected companies from different countries. The usefulness of this kind of research cannot be over-emphasised. If it can be established that accounting differences have very trivial effects on asset values and profit figure, the worthwhileness of the harmonisation efforts becomes very doubtful. Hence there is a great need for more research in this area before more resources are used up in the attempt to remove accounting differences whose impact might be minimal. However, this section does not deal with those studies which, though aimed at determining the quantitative impact of international accounting differences relied on artificial or simulated data or scenarios [for example Abel (1969), Davidson and Kohlmeier (1966), Walton (1992)].

In Weetman and Gray (1990) the main purpose of the research was "to explore the extent to which there are systematic differences between UK and US accounting principles likely to give rise to significant quantitative differences in earnings and assessments of comparative corporate performance" (p.111). To this end, the study analysed the contents of the 'Form 20-F' relating to those UK companies obliged to file the form by the American Securities and Exchange Commission. Form 20-F which has a provision for the reconciliation of the earnings prepared other than according to US GAAP, was used to reconcile the earnings of the UK companies covered in the study to what it should have been if prepared in accordance with US GAAP. 37 UK companies that reported a reconciliation of US and UK profits were used for the study which embraced three years: 1985, 1986 and 1987.

With US GAAP as the yardstick Weetman and Gray (1990), developed an index of 'conservatism', patterned after Gray (1980). An index value greater than 1 means that UK earnings are less 'conservative' than the US measure would have been. While an index value of exactly 1 indicates neutrality between UK and US GAAPs with respect

to the effect of accounting standards.

The analysis yielded a total index of conservatism of 1.1165 for 1985; 1.0913 for 1986 and 1.2523 for 1987. These results were found to be significant at the 1% level for 1985 and 1987, while the 1986 result was significant at the 10% level.

Further analysis based on individual accounting practices was done. The topics covered included: deferred taxation, amortisation of goodwill, foreign currency translation adjustments, depreciation. Amortisation of goodwill and deferred taxation were found to be the two most frequently occurring adjustments with the amortisation of goodwill having the dominant effect when measured as a percentage of US reported earnings.

Weetman and Gray (1991), extended the scope of Weetman and Gray (1990) to include the US versus the UK, Sweden and the Netherlands. The time covered was also varied to 1986, 1987 and 1988.

The UK component of the study was based on a sample of 41 UK companies whose shares are traded in the US stock exchanges. The same index of conservatism as was employed for the 1990 study was also used for the 1991 study. They found that for the UK companies covered by their study, the reported profit was 12.3% higher than the US GAAP result in 1986; for 1987 the UK profit was 19.9% higher; and in 1988 the UK profit was 16.9% higher than US GAAP based profit. Using the t-statistic and the Wilcoxon test the mean index values for 1987 and 1988 were found to be significant at the 1% level, while the 1986 mean index value was significant at the 10% level but not at the 5% level.

The Swedish sample consisted of 8 companies. Hence a case study approach was adopted. The mean index values for the Swedish companies compared with US GAAP are 1.03, 1.41, and 0.97 for 1986, 1987 and 1988 respectively. This is interpreted to mean that the net profit after tax of the Swedish companies in the sample was 3% higher than that reported under US GAAP for 1986; 41% higher in 1987; but for 1988 it was lower than that reported under US GAAP by 3%.

For the Netherlands, 6 companies were studied. As was the case with Sweden, the sample size was so small that tests of statistical significance were not conducted. The average index values were 1.024, 1.048 and 1.078 for 1986, 1987 and 1988 respectively. In other words, for 1986 the Dutch GAAP based profit was 2.4% higher

than that reported under US GAAP. This increased slightly to 4.8% for 1987 and 7.8% for 1988.

Weetman and Gray (1991, p.377) conclude from their findings that "the overall quantitative impact of differences in accounting principles on profits in the US, UK, Sweden and the Netherlands is often significant and, in individual company cases, may be dramatic". They go on to caution that "While some general tendencies have been identified, the complexity of the analysis is evident. It is clearly not easy for analysts to develop quantitative 'rules of thumb' for adjustment of accounts from the generally accepted accounting principle of one country to those of another". (p.377).

The precise index of conservatism values given by the study results tends to give the misleading impression that the extent of accounting differences between US, UK, Swedish and Dutch GAAPs can be determined with mathematical precision. As Weetman and Gray (1991, p.377) admit, "Some differences in accounting principles are indeterminate in terms of their bias towards increasing or reducing measures of profits". Cognisant of this fact, there is need for some caution in both the interpretation, extension and application of the study findings. However the study represents a very bold step in the determination of the actual impact on profits and asset values of differences in accounting principles between nations.

SECTION 4.5: BEHAVIOURAL EFFECTS STUDIES

Studies in this category assume that differences in international accounting practice exist and proceeds from that premise to try to ascertain whether international accounting diversity affects the lending and investment decisions of international investors and other important participants in the global market place. The relevance of this kind of research to accounting harmonisation efforts cannot be over-emphasised. If it can be clearly demonstrated that accounting diversity affects in no way the actions of participants or potential participants in the international market place, then it would appear that the arguments for harmonisation are hollow and merely academic. However, the converse will dictate the need for more urgent and determined action to minimise and if possible eliminate accounting differences. Unfortunately, very few noteworthy works have been undertaken in this field so far.

Choi and Levich (1991), surveyed a cross-section of users and providers of international accounting statements "to ascertain which groups experience problems when dealing with international accounting diversity and to have them describe the

nature of these problems." And also to "assess how users and preparers cope with accounting diversity and whether their coping mechanisms are successful. If coping is not successful, we attempt to ascertain whether or not there is an associated perceived capital market effect" (p.36,37).

Consequently, Choi and Levich interviewed investors, issuers, underwriters, regulators, rating agencies from five countries, namely: Germany, Japan, Switzerland, UK, and the USA. The sample design yielded 52 international institutions. When the subjects were asked "Does accounting diversity affect your capital market decisions?", their responses which (have been summarised in table 4.12 below) differs considerably between the various groups.

Summary of Subjects' responses to the question "Does accounting diversity affect your capital market decisions?"

	Yes	No	N.A.	Total
Investors	9	7	1	17
Issuers	6	9		15
Underwriters	7	1		8
Regulators	0	8		8
Raters and Others	<u>2</u>	<u>1</u>		<u>3</u>
Total	24	26		51

The IASC was interviewed but their answers are not included here.

Table 4.12 Source: Choi and Levich (1991, p.127).

Their findings indicate that about 48 percent of all interviewees said that accounting diversity affected their capital market decisions, 52 percent had a contrary opinion. However when the "Regulators" group (who in any case are usually uni-national in orientation) is excluded from the scene, the percentages change to 57 percent indicating that international accounting diversity affected their capital market decisions while 43 percent thought otherwise. For those participants responding that accounting diversity is not a problem that affects their capital market decisions, it was found that some coped by developing a Multiple Principles Capability (MPC), that is, undertaking to familiarise themselves with foreign accounting principles (p. 46).

Choi and Levich (1991, p.81) conclude from their findings that: "... accounting differences are important and affect the capital market decisions of a significant number of market participants, regardless of nationality, size, experience, scope of international activity, and organizational structure". This conclusion, however, should be interpreted with the understanding that this survey though very skillfully executed

covered only a small number of countries that are not representative of the rest of the countries of the world even if the sample of institutions studied are representative of market participants in their various countries.

SECTION 4.6: CONCLUSIONS

This chapter has been concerned the review of mainly empirical literature dealing with the identification of the extent of international accounting differences and the assessment of the monetary impact of these differences on profit and asset values of companies. The review shows that there are substantial differences in the accounting practices of different countries of the world such that it is possible to classify countries into different categories based on certain distinguishing features and attributes of the accounting and financial reporting systems of each country [eg Nair and Frank (1980)]. These differences, which have been shown to have a significant quantitative impact on the reported profit and asset values of companies [Weetman and Gray (1990 and 1991)], have also been demonstrated to affect the actions of key players in the international capital market arena [Choi and Levich (1991)].

However, on the overall level of international harmonisation attained so far, the evidence is mixed. While some studies, suggest some improvement in the level of harmonisation in items such as deferred tax accounting practices among European countries (van der Tas (1992)), a more global study (Tonkin (1989)), embracing more topics, concludes that in some instances the international differences in accounting and financial reporting practices have even widened. Given these conflicting conclusions, there is need for some more empirical evidence regarding the extent and trend of harmony of the accounting practices internationally. The present study it is believed, will contribute to the meeting of this need.

CHAPTER FIVE

RESEARCH METHODOLOGY

SECTION 5.0: INTRODUCTION

In this chapter a detailed discussion of the research methodology is presented. The understanding and interpretation of the results of any piece of research is enhanced if readers are acquainted not just with the findings but also with the process that generated the research outcome. Issues covered in this chapter include the data collection approach, sampling procedures, discussion of the tools of analysis, statement of the hypotheses and a listing of all the relevant accounting practices upon which the tests were based. Though some of these topics might have been touched upon briefly in chapter one their detailed discussion has been reserved for this chapter.

The accounting measurement practices covered in this study are:

1. Inventory valuation
2. Measurement of property, plant and equipment.
3. Exchange rate used in translating the income statement of foreign entities.
4. Treatment of differences on income statement items translated at other than the closing rate.
5. Treatment of exchange differences arising from parent companies' foreign operations.
6. Accounting for business combinations.
7. Treatment of goodwill
8. Recognition of borrowing costs.
9. Measurement of long-term investments.
10. Measurement of current investments.
11. Treatment of Taxes on income
12. Treatment of Extraordinary / Exceptional items.
13. Treatment of R & D expenditures
14. Treatment of pensions and retirement benefit costs
15. Depreciation
16. Long-term contracts.
17. Government grants

These items have been chosen because they have all been addressed by various IASC standards and most of them were also covered in the comparability project of the IASC. Furthermore, a preliminary survey of financial statements of companies from the five countries indicated that many of the topics listed above affect most companies as evidenced by the fact that a sizable number of the companies usually disclose the policies for dealing with the topics. Finally, taken together, these topics account for a high proportion of the cosmetic accounting differences in the profits and asset values of companies from different countries.

SECTION 5.1: HYPOTHESES

For each of the above listed topics four broad hypotheses are formulated in the null form, viz:

1. There are no significant differences between the accounting measurement practices of companies from France, Germany, Japan, UK and the USA, for the 1990/91 financial year.

2. There are no significant differences between the accounting measurement practices of domestic listed and multi-listed companies from France, Germany, Japan, UK and the USA.

3. There are no significant differences between the accounting measurement practices of companies from France, Germany, Japan, UK and the USA, for the 1970/71 financial year.

4. There are no significant differences between the accounting measurement practices adopted by the companies in 1970/71 and those adopted in 1990/91.

Hypotheses 3 and 4 above will be tested in two steps. The first step will combine all the companies irrespective of country of origin, while step two will isolate the countries and conduct tests on a country by country basis.

SECTION 5.2: SAMPLING PROCEDURES

5.2.1 SELECTION OF COUNTRIES FOR THE STUDY

Following the problem identification it was initially intended that the scope of this research should embrace at least ten countries. However, as a result of presentations made within and outside the University of Glasgow, it was suggested that ten countries were too many given the time and other resource constraints involved. Consequently, based on feedback from colleagues and experts in the field the number of countries was reduced to five.

It was decided to limit the study to a selection of five countries which meet certain criteria. Firstly, the country must have demonstrated a long term and continuing commitment to the goals and objectives of the International Accounting Standards Committee. Secondly, the country must have a thriving stock market. Thirdly, the size of the economy must be significant.

Long-term and continuing commitment to the goals and objectives of the IASC was predicated on two conditions. The country should be a founding member of the IASC and also a current member of its board. These criteria were deemed important as it was judged more reasonable to focus the study on those countries that have demonstrated some measure of commitment to the goal of international accounting comparability for which the IASC was set up. Going by the above criteria all other countries were eliminated except eight, namely, Australia, Canada, France, Germany, Japan, the Netherlands, the United Kingdom and the United States of America. Though the IASC was founded by accounting bodies from nine countries, Mexico subsequently withdrew from the IASC board.

The second main criteria was the possession of a thriving stock market. For this study, this was predicated on the level of development of the country's stock market and the value of the total market capitalisation of stocks traded on the stock exchanges in each country.

To assess the level of development of the stock markets in various countries the classification by the International Finance Corporation (IFC, 1990) was used. The IFC classifies countries into 'Developed' and 'Emerging' stock market countries. According to the IFC there are 23 countries in the world whose stock markets can be

described as developed. The countries are: Australia, Austria, Canada, Belgium, Denmark, Finland, France, Germany, Hong Kong, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Singapore, South Africa, Spain, Sweden, Switzerland, United Kingdom and the United States of America. Going by this all of the eight countries that meet our criteria of commitment to the goals and objectives of the IASC continue to qualify.

Going by the criterion of market capitalisation, as can be seen from table 5. 1 the five countries with the highest market capitalisation among the developed stock market countries are Japan (U.S.\$ 4,392,597m), USA (U.S.\$ 3,505,686m), UK (U.S. \$ 826,598m), Germany (U.S. \$ 365,176m) and France (U.S. \$ 364,841m) in that order. Hence Australia, Canada and the Netherlands with market capitalisations of [(U.S.\$ 136,626m), (U.S.\$ 291,328m), (U.S.\$ 157,789m)] respectively are eliminated.

Market Capitalisation in Millions of U.S. \$

Developed Markets Countries	1988	1989
Australia	183,483	136,626
Austria	8,862	22,261
Belgium	58,920	74,596
Canada	241,880	291,328
Denmark	30,178	40,152
Finland	30,179	30,652
France	244,833	364,841
Germany	251,777	365,176
Honk Kong	74,377	77,496
Israel	5,458	8,227
Italy	135,428	157,789
Japan	3,906,681	4,392,597
Luxembourg	44,808	79,979
Netherlands	113,565	157,789
New Zealand	13,163	13,487
Norway	14,332	25,285
South Africa	126,094	131,059
Singapore	24,049	35,925
Spain	174,869	122,652
Sweden	100,083	119,285
Switzerland	140,527	104,239
United Kingdom	771,206	826,598
United States	2,793,816	3,505,686

Table 5.1

Source: Emerging Stock Markets Factbook, 1990, International Finance Corporation, Washington D. C.

The third criterion is the significance of the size of each country's economy. In this study, this is measured by the Gross National Product (GNP) of each country at the end of 1989. From table 5.2, it can be observed that the United States, Japan, Germany, France and the United Kingdom in that order are the five countries with the highest GNP.

<u>Country</u>	<u>GNP in millions of U.S. \$, 1989</u>
United States	5,237,707
Japan	2,920,310
Germany	1,430,000
France	1,000,866
United Kingdom	834,166
Canada	500,337
Australia	242,131
Netherlands	237,415

Table 5.2

Source: 1991 Britannica Book of the Year.

These various criteria for country selection have been used to ensure that the study covers the most significant countries. In 1975, the IASC projected that within five and ten years "Accounts issued in every important nation will comply with the standards promulgated by the IASC or will disclose the extent to which there has been non-compliance". It is, therefore, relevant that this study focuses on those countries which can be considered important both by the degree of their involvement with the IASC and by the size of their economies.

5.2.2 COMPANY SELECTION

The sample size for this study was originally set at a total of ninety companies from each of the five countries. That is, forty five multi-listed and forty five domestic-listed companies from each country. However, for France and Germany this was later slightly modified due to the fact that France and Germany each do not have up to forty five multi-listed companies. Hence for these two countries the sample consisted of forty five domestic listed companies for each country but twenty five multi-listed companies for France and twenty eight multi-listed companies for Germany. In other words, the universe of all the multi-listed companies from these two countries. For this study, a multi-listed company is a company which, in addition to having a listing in a stock exchange in its home country, is listed in at least one Stock Exchange outside its country of origin.

For a company to be included in the sample, it must have a turnover figure of at least US\$ 250 million for the 1990/91 financial year. In stipulating the minimum turnover threshold care was taken to ensure that in each of the five countries only significantly large companies were selected for the study. Furthermore, the companies were selected from all industrial sectors except financial institutions. It is not expected that industrial factors should introduce any distortions since the sample is representative of a number of different industrial segments.

A random sample of forty five multi-listed and forty five domestic-listed companies was drawn from the largest industrial companies (based on sales or turnover) originating from each of the countries apart from France and Germany. Computer generated random numbers were used for the sampling. In the cases of France and Germany there was no sampling for the multi-listed group of companies as the entire population of multi-listed companies from these two countries were selected for the study.

Distribution of companies studied

	France	Germany	Japan	UK	USA	Total
Multi listed	25	28	4	45	45	188
Domestic listed	45	4	4	4	45	225
Total	70	73	9	90	90	413

Table 5.3

Sales, or turnover, was used as a measure of company size. Indeed, there are other alternative measures of company size, for example, total assets, net assets, total profits, number of employees, value added, and so on. It is not yet clear which is the best measure of company size. However, Blair (1972), has shown that there is a close correlation between the various alternative measures of company size. That notwithstanding, the criteria of sales or turnover was adopted for this study for three main reasons. Firstly, the major publications that provide rankings of companies, like Fortune and the Financial Times use turnover as the prime measure of company size. Secondly, turnover is one of the figures in the accounts least amenable to the exercise of arbitrary accounting judgment. Thirdly, it is also one of the most commonly disclosed items unlike value added, for instance, which is not usually disclosed by many companies especially those outside Europe.

SECTION 5.3: DATA COLLECTION

Though the principal sources of data for this research are the annual reports of selected companies, which ordinarily one should be able to obtain without much ado, three factors conspired to make it extremely difficult to get the annual reports of many of the companies used for this study. The factors were: the diversity of countries involved, the number of companies surveyed, and the fact that the survey goes as far back as 1970/71. Though it was always anticipated that the data collection will not be an easy exercise, the actual problems encountered far exceeded normal expectations. The greatest difficulty was encountered with respect to companies from France, Germany and Japan, and particularly in connection with their financial statements for the 1970/71 financial year.

Two major strategies were earmarked for collecting the annual reports of the companies. The first strategy was to write the companies directly for copies of their annual reports for 1970/71 and 1990/91. The second strategy was to consult public libraries and Universities both within the UK and abroad, known to hold collections of company annual reports. The first batch of letters dispatched to the companies did not produce a very satisfactory result.

Research visits made to the following Universities known to hold collections of annual reports of companies: University of Washington, Seattle; Columbia University, New York; University of Colorado, Denver; Washington State University, Pullman; Manchester University, did not yield much fruit. In addition, public libraries in Seattle, Glasgow, Denver, London were consulted without much success. Telephone enquiries made to many other institutions ranging from universities (eg Warwick Business School, London Business School, Manchester Business School); commercial information providing entities (Extel Financial Ltd (UK), Financial Times (UK), First Contact (UK), Capital International Perspectives (Switzerland), Disclosure Inc. (UK), Jordans (UK), Department of Trade and Industry, Companies House (UK) were also not very helpful. Furthermore, the Business and Economic Affairs sections of the French and German embassies in the UK were contacted yet without much success. Following enquiries made at the German embassy in the UK, it was not possible to establish a source in Germany where the annual reports of the German companies could be centrally collected. Hence, the idea of making a research visit to Germany was ruled out, and likewise France.

After all these sources were exhausted without much success, the only option left was to persist in writing the companies directly until they responded. This meant that several batches of letters were dispatched to the companies. Each successive batch always managed to attract some additional response. This strategy was, therefore, pursued until it became obvious that its continued usage was unlikely to yield any further positive results. By this time, about 42 and 25 usable financial statements had been received from German and French companies respectively for the 1970/71 financial year. However, the usable financial reports from Japan was so low that an appeal was made to Professor Kazuo Hiramatsu of the Kwansei Gakuin University in Japan, who kindly undertook to help out in gathering the data on Japanese companies for the 1970/71 financial year. This boosted the responses from the Japanese companies for the 1970/71 to 54 annual reports. This strategy could not be adopted for Germany and France due to resource constraints.

The next major obstacle encountered relates to the translation and extraction of information from the financial statements of those French, German and Japanese companies that did not translate their financial statements into the English language. As for the Japanese language annual reports, once again, Professor Hiramatsu kindly offered to be of assistance. Regarding the annual reports in French and German, the services of persons fluent in both French and English and German and English, as well as knowledgeable in accounting were employed to facilitate the extraction of data from the financial statements. Two methods were adopted to verify the quality of the job done by these persons. Firstly, a random sample of some of the financial statements were taken to some other expert for his opinion on the accuracy of the translations. Secondly, comparisons were made between the translation and extractions produced by the bilingual research assistants and that produced from the financial statements of some companies that sent copies of their annual reports in both their national language as well as in English. Based on these two methods of verification it was established that the translations and data extraction produced by the bilingual assistants were reliable and reflected an accurate translation of the accounting policies adopted by the companies concerned.

In addition to the annual reports, interviews were held with key and informed experts from Japan, UK, and the US, including the Secretary General of the IASC, Mr. David Cairns, the then Chairman of the IASC, Professor Arthur Wyatt, Professor Gerhard Mueller of the University of Washington and Professor Kazuo Hiramatsu of the Kwansei Gakuin University, Japan. However, the main aim of these interviews was to sharpen the researcher's understanding of the latest trends of thought on various

harmonisation issues within each of the selected countries and the IASC itself.

The resources spent in collecting the data for this study were quite enormous, so also were the difficulties encountered. This should not discourage other researchers who might be interested in cross-national studies such as this. What is needed is the co-operation of other researchers with similar interests in the countries of interest, preferably working as a team. Attendance at international conferences is one way of building such a network of persons with similar research interests. It is, however, desirable that persons interested in cross-national surveys of accounting practices should ensure that from the outset, they have at their disposal the enormous human and financial resources required for such a task, as this will make the work a lot more bearable.

SECTION 5.4: DESIGN OF SURVEY INSTRUMENT

The extraction of data from the annual reports of the companies was facilitated by the use of a questionnaire specially designed for the purposes of this study. The initial draft of the survey instrument was pilot tested, using a sample of annual reports of companies from the five countries. Based on feedback from the pilot test, the questionnaire was further modified to ensure that it captured the necessary and desired information for which it was designed. This modified version was subjected to further revisions until the final version which was deemed both adequate and satisfactory was produced (see Appendix 1).

SECTION 5.5: TOOLS OF ANALYSIS

Two major statistical tools of analysis were employed in analysing the data. The chi-square (X^2) test was used to ascertain whether significant differences can be said to exist in the pattern of using various profit measurement methods by large firms originating from each of these countries. However, whenever the sample size fell below sixteen the Fisher Exact Test was used in place of the non-parametric chi-square test for 2 x 2 contingency tables (Siegel (1988, p.102). On the other hand, the I-index a variant of the Herfindahl-Hirschmann concentration measure was used to compute the degree of harmony that exists in the financial reporting practices between the countries included in the survey. More detailed discussion of each of these tools is presented next.

5.5.1 THE CHI-SQUARE TEST

The hypotheses were tested using the nonparametric Chi-square (χ^2) test for K independent samples formula

$$\chi^2 = \sum_{i=1}^r \sum_{j=1}^k \frac{(n_{ij} - E_{ij})^2}{E_{ij}}$$

where:

n_{ij} = observed number of cases categories in the i th row of the j th column

E_{ij} = number of cases expected in the i th row of the j th column when the null hypothesis is true.

The tests were conducted at the 5 percent level of significance. Results obtained at that level are considered to be significant.

The nonparametric chi-square test was chosen for this study since the data is nominal. According to Conover (1971 ,p. 67) : "Most of the usual parametric statistical methods require an interval (or stronger) scale of measurement. Most nonparametric methods assume either the nominal scale or the ordinal scale to be appropriate". On the power of the nonparametric chi-square test, Siegel and Castellan (1988, p.200) maintain that: "there is usually no clear alternative to the chi-square test when it is used for categorical data". Given the nature of the data and the suitability of the chi-square technique for the type of analysis to be undertaken, there does not appear to be any alternative technique which can be preferred to the chi-square.

Limitations of the Chi-square test

The chi-square (χ^2) is known to have proper applicability when the expected frequencies (the E_{ij} 's) in each cell are not too small. Opinions are sharply divided on what the minimum expected frequency should be for the chi-square test result to be valid. Delucchi (1983, p.167.) indicates that: "Recommendations with respect to minimum expected cell frequencies have included recommended minimum values of 1 (Jeffreys, 1961; Kempthorne, 1966; Slakter, 1965), 5 (Fisher, 1938), 10 (Cramer, 1946), and 20 (Kendall, 1952)". This is indeed a wide array of values ranging from 1 to 20.

Cochran [1954] recommends that when either r or k is larger than 2, no more that 20 percent of the cells should have an expected frequency of less than 5, and no cell

should have an expected frequency of less than 1. If a set of data violates the above criterion, the recommended solution is to combine categories of data so as to get higher expected frequencies. Camilli and Hopkins (1978), however, report that for 2 X 2 contingency tables expected values as low as one or two are acceptable when the total sample size is greater than 20. Lewontin and Felsenstein (1965), based on their own study conclude that occurrences of expected values of less than one generally do not invalidate the chi-square test result.

From the foregoing, it can be reasonably inferred that when the expected frequencies are very small in a majority of the cells, the usefulness of the result of the chi-square test is disputed. Therefore, whenever such was the case in this study, categories of data that are related were combined. However, at times it was not possible to apply the recommended solution. Whenever that was the case then the interpretation made from the tests ought to be applied with some care.

5.5.2 CONCENTRATION INDICES

The use of various indices for measuring industrial concentration is not a new concept to industrial economists. For many years researchers and students of industrial structure have employed concentration indices to measure the extent to which the market share of an industry is concentrated in the 'hands' of companies within that industry. Curry and George (1983), in their extensive review of the literature on industrial concentration measures, highlighted the following five principal measures:

1. K-firm Concentration Ratio
2. H index i.e. Herfindahl-Hirschmann index
3. Hannah and Kay
4. Entropy/Relative Entropy
5. Variance of logarithm.

Each of these measures will now be discussed.

1. Concentration Ratio

This is one of the oldest and most popular indexes. The mathematical formula for its derivation is :

$$CRK = \sum_{i=1}^k s_i$$

where:
 s_i = market share of the i th firm
 K = number of firms

The concentration ratio is derived by summing up the market share of the K th company. K is an arbitrarily predetermined number of companies arranged usually in a descending order using either sales, number of workers employed, value added, or any other variable selected as a measure of size. For instance, it might be desired to calculate the concentration ratio for the eight largest companies in an industry. This can then easily be computed by summing up their market shares depending on the proxy for size which has been previously selected.

The concentration ratio has been criticised for failing to take into account all the companies in an industry [Hall and Tideman (1967, p.165), and George and Curry 1983, p.207)]. Another obvious drawback of the concentration ratio which follows from the one mentioned above is the arbitrariness of the selection of K (the number of companies to include in calculating the index).

However, there are instances when the concentration ratio is the most appropriate measure to use. Hart (1975, p. 430), identifies one such instance as when it is desired to make a preliminary assessment of an industry for possible monopolistic practices. On such occasions a regulatory authority might just be interested in examining say the biggest two or three companies within an industry. Under such a scenario, it is unnecessary to use more complex and elaborate measures when the concentration ratio can do the job equally well. However, outside this framework, the concentration ratio is of limited usefulness.

2. Herfindahl-Hirschmann H-index

The H -index is another popular index employed in computing the market concentration of various industries. In recent years it has been growing in importance. There is some controversy surrounding the 'invention' of this technique. Hirschmann (1945), used a variant of the H index for his paper on National Power and the Structure of Foreign Trade. However, the person who is more often associated with devising the technique is Herfindahl who employed the technique in his unpublished Phd thesis at Columbia University, New York in 1950.

The formula for the H index is as follows:

$$H = \sum_{i=1}^N (P_i)^2$$

where:

n = number of companies in the industry

p = market shares of all the companies in the industry.

In other words, the index is the sums of squares of the market shares of all the companies in the industry. It has a maximum value of 1 which depicts a situation when all the market shares is held by one company only. The minimum value of H is $1/n$ which obtains when all the companies in the industry have equal shares of the market, and in that case, the greater the value of n, the lower the index.

The H index overcomes the major weakness of the concentration ratio in that it makes use of the market shares of all the companies within an industry and so does not rely on an arbitrary determination of the number of companies to include in the index. When used for measuring accounting harmonisation, for instance, the H index makes provision for all methods in existence. However, the index values will be affected by only the methods that are actually being used by companies in the sample.

Although the H index has been variously described as "the ideal measure of concentration" (Schmalensee 1977, p.186), and as satisfying all the properties of a good concentration index [Hall and Tideman (1967, p. 165), and George and Curry (1983, p.207)], it is not altogether flawless. While the H index relies on the market shares of all the companies in an industry, Adelman (1959) has observed that the total number of companies in any industry is "usually unknowable with any precision". This casts some doubt on whatever value of H is obtained as it is very possible that some companies might have been omitted from the computations inadvertently.

However, it must also be mentioned that this problem did not arise in this study since the total number of companies in the sample is known beforehand.

3. Hannah and Kay index

Based on their seven desirable properties of acceptable concentration indices, Hannah and Kay (1977), devised the index that bears their names. The mathematical formulation of the index is as follows:

$$HK(\acute{U}) = \frac{N}{(E s_i^{\acute{U}})^{1/(1-\acute{U})}}$$

where:

N = number of firms

s_i = market share of the *i*th firm

\acute{U} = a constant

Curry and George (1983, p.208), referred to the Hannah and Kay index as a natural generalisation of the H index. However, its major setback is that there are no objective criteria on which to base the choice of \acute{U} . Prais (1981, p.325), noted that: " The measure proposed by Hannah and Kay has admittedly a certain theoretical interest, but in practice it unfortunately suffers from a serious deficiency in requiring the user somehow to decide on the value of a constant called \acute{U} , before the measure can be used. They also admit that in particular comparisons their measure may go up or go down according to which value of \acute{U} is chosen, it is thus not obvious that their proposal will be found of practical advantage to analysts of market structure".

4. Entropy

Statisticians use the concept of entropy to measure the information implied by the shape of a probability distribution. For instance, assume there are three horses: horse 1, horse 2, and horse 3 in a race with probabilities of (.990, .005, .005), respectively, and we are only interested in which horse wins the race. Barring any upsets there is little doubt about what will happen and hence little information to be expected from the message which states what actually happened. But if instead the probabilities are 1/3, 1/3, 1/3, there is a great deal of doubt and hence much information to be expected. When we have twenty horses rather than three, each of which has probability .05 of winning the race, there is even more uncertainty and hence more information to be expected from the news which gives the actual results of the race.

Theil (1972, p.40) notes that proposals to use the entropy concept for measuring industrial concentration, have been made independently by Hildenbrand and Paschen (1964), Finkelstein and Friedberg (1967), Theil (1967), and Horowitz and Horowitz (1968). The mathematical formulation of the entropy concept for concentration measurement is as follows:

$$E = - \sum_{i=1}^N s_i \log s_i$$

where:

N = number of firms

s_i = market share of ith firm

That is, the summation of the logarithms of the market shares of N companies. From basic mathematics we know that N achieves its highest value of log N when all the companies have an equal share of the market, in otherwords, when concentration is lowest. On the other hand E will equal zero when there is only one company which has 100 percent of the market share, that is, a pure monopoly situation. Hence the value of E is inversely related to the level of concentration.

Like all the other measures of concentration, the entropy measure also has its strengths and weaknesses. Curry and George (1983, p. 209) point out that: "a weakness of this index is that it might not register an increase in concentration when mergers take place, because although mergers reduce the value of E, implying that concentration has increased, there may be a proportionately greater fall in log N so that relative entropy increases, thus implying a fall in concentration." The main strength of the entropy index is that it can be decomposed into within and between group entropies.

5. Variance of Logarithms O^2

The variance of logarithm first proposed by Hart and Prais (1956) is perhaps the most controversial of all the different indices advanced to date. In fact many writers, for example Atkinson (1970), Hannah and Kay (1981), insist that the variance of logarithms is a measure of inequality and not of concentration. The main drawback of this technique is that it will approximate zero if all the companies used for its derivation have equal market share irrespective of the number of companies involved. Such that, given two industries, one with a total of 4 companies and the other with a total of 20 companies, if the market shares of all the companies in both industries are the same, the variance of logarithms will yield the same value for each industry. However, from intuition, it must be that the industry with 4 companies only should be

more concentrated than the other one with 20 companies. This failure to take into account the number of companies in an industry is indeed a major flaw of the variance of logarithms.

Hart and Prais (1956, p.153) attempt to present some of the advantages of the variance of logarithms as a measure of concentration. According to them, the index is approximately log normal and so classical tests of statistical significance can be applied to measuring business concentration. Also they claim that the measure is based on all the information in the size distribution and finally that it can be decomposed to give concentration between and within industries from a given decomposable entity.

In a discussion on Hart and Prais (1953), Champernowne (1953) while acknowledging the decompositional properties of the variance of logarithms expressed some doubts about the log normal approximation claim made for it. When this is put alongside the contention that the variance of logarithm is but a measure of inequality and not necessarily that of business concentration it was deemed prudent to avoid using this index as the tool upon which to base an accounting harmonisation measurement study.

Axioms of Concentration Measures

Hall and Tideman (1967), and Hannah and Kay (1977) have suggested a set of six and seven desirable qualities respectively which an acceptable concentration measure must possess. The Hall and Tideman (1967) axioms are as follows:

1. A concentration measure should be one dimensional.
2. Concentration in an industry should be independent of the size of that industry.
3. Increase in concentration should be reflected if there is a transfer of market share from a smaller company to a larger one and vice versa.
4. If an industry A had K times the number of companies in industry B and the market shares of companies in A are distributed in the same way as that for B, then the measure of concentration for A should be 1/K times the measure for B.
5. When an industry is divided into N equal sized companies, a measure of concentration should be a decreasing function of N.
6. A concentration measure should have a range of 0 and 1.

Hall and Tideman (1967, p.164), acknowledges that :

'The properties set forth above cannot uniquely determine the best measure of

concentration but they do serve to delineate measures that are undesirable for theoretical reasons'. However, they went on to appraise the two most popular measures of concentration, that is, the Concentration Ratio and the H index, based on these six properties. While noting that the Concentration ratio violates properties 2, 3 and 4 they point out that in contrast the H index satisfies all the above stated properties. They went on to assert that : "The HH index by our criteria emerges as superior to the CR".(p.165).

Curry and George (1983), summarise the Hannah and Kay (1977) axioms as follows:

1. An increase in the cumulative share of the i th firm, for all i , ranking companies 1, 2,... i ... N in descending order of size, implies an increase in concentration.
2. concentration should increase if the share of any company is increased at the expense of a smaller company.
3. The entry of new companies below some arbitrary significant size should reduce concentration.
4. Mergers should increase concentration
5. Random brand-switching by customers should reduce concentration.
6. If s_j is the share of a new company, then as s_j becomes progressively smaller so should its effect on a concentration index.
7. Random factors in the growth of companies should increase concentration.

Writing about the concentration ratio with respect to the above axioms, Curry and George (1983, p. 207), arrive at the same conclusions with Hall and Tideman (1967), when they observe that " an inappropriate choice of K means that the above sets of axioms may not be satisfied". In contrast, they maintain that the H index "satisfies all of the Hall-Tideman and Hannah-Kay axioms"(p.207).

However, this is not to suggest that the H index is the best measure of business concentration under all circumstances irrespective of the intended use to which the index value will be put. Apart from the five measures discussed here, there are many other measures. As Hart (1975, p.430) rightly noted, many others can easily be created with various transformations and modifications.

Opinions are sharply divided as to whether the choice of a measure makes any difference since many studies have found a high degree of correlation between values generated using different measures [for example Hall and Tideman (1967), Bailey and Boyle (1971), and Kilpatrick (1967)]. While some writers like Rosenbluth (1955) and Scherer (1970), are of the view that the choice of a concentration measure is

immaterial (In other words, there is no best measure), others such as Miller (1967) and Kwoka (1981), insist that the choice of a measure matters a great deal. Given the inconclusive nature of research in this area, it is probably best to adopt the stance taken by Curry and George (1983, p. 215) when they said that: "The literature which considers the mathematical properties of concentration measures has not resolved the question of which is the best measure to use. Consideration of the economic issues, however, suggests that this is hardly surprising. Mention has been made of the theoretical claims made for the Herfindahl index. However the complexity of business life is such that in practice it is unlikely that there is one concentration measure which will clearly be superior in all circumstances".

SECTION 5.6: CONCENTRATION INDICES AND ACCOUNTING HARMONISATION MEASUREMENT

The first serious attempt made to quantify the level of accounting policy harmonisation by the use of concentration indices can be credited to Van der Tas (1988). In his path-breaking paper, he used the H-index (Hirschmann-Herfindahl), concentration measure employed by industrial economists for determining the extent of concentration within an industry, as a basis for deriving two other indices - the C-index and the I-index.

In Industrial economics, concentration indices are used to measure market structure which varies from one extreme of pure monopoly to another extreme of perfect competition. In accounting harmonisation, the counterpart of pure monopoly will be a situation where there is only one accounting treatment and every company is expected to adhere strictly to the use of that one method. On the other hand, perfect competition can be likened to a situation where there are an infinite variety of accounting methods and every company is entitled to choose which of the methods it prefers without incurring any additional costs or regulatory sanctions. However, just as imperfect competition is more common in real life, in accounting one is likely to encounter neither the rigidity of one method for all nor limitless options but rather a blending of both extremes.

It is also pertinent to point out here that in industrial economics the companies and the level of their market power are the variables of interest. In contrast, the key variable of interest in accounting harmonisation measurement is the available accounting methods. In operationalising this concept, Tay and Parker (1990, p. 83), have raised the point that we might not even know all the various accounting methods that exist in

just the same way the industrial economists might not know of every company in existence. However, they were quick to observe that given a sample of companies this problem does not arise.

The general formula for the I index [van der Tas (1988, p. 168)], which includes a correction factor in the case of two or more countries, is:

$$I = \left(\sum_{i=1}^n (f^1_i \times f^2_i \times \dots \times f^m_i) \right)^{1/(m-1)}$$

where:

f_i = relative frequency of method i in country m

m = number of countries

n = number of alternative accounting methods

By way of explanation, the I index is computed by multiplying the relative frequency of use of a particular accounting method across countries and subsequently adding up the results for all alternative methods. Consequently, the index rises when more companies across countries use the same methods from the available accounting options. An example of a 3 country / 2 method case is as follows:

	Country 1	2	3
Method 1	0.7	0.5	0.6
Method 2	0.3	0.5	0.4

$$I = (0.7 \times 0.5 \times 0.6 + 0.3 \times 0.5 \times 0.4)^{1/(3-1)}$$

$$= 0.27^{1/2} = 0.52.$$

In most cases, the I index score gives a reasonable impression of the extent of and level of accounting harmonisation between two or more countries. However, there are some instances when the I index computation using the formula given above can lead to very misleading results. The following hypothetical case of a 4 country / 2 method case vividly illustrates this point.

	Country 1	2	3	4
Method 1	1.0	1.0	0.0	1.0
Method 2	0.0	0.0	1.0	0.0

$$I = (1.0 \times 1.0 \times 0.0 \times 1.0 + 0.0 \times 0.0 \times 1.0 \times 0.0)^{1/(4-1)}$$

$$= 0.0^{1/3} = 0.0.$$

The I index score value of zero derived in the above illustration erroneously suggests

that there is no degree of harmony whatsoever with respect to the four countries on this particular topic. This misleading result arises due to the fact that all the companies from country 3 adopted method 2 which was not used at all by any of the companies from the other three countries. From this it can be deduced that when the number of countries exceed two, in extreme cases, the practices of one or more of the countries can render the I index score value totally meaningless. Therefore, for this study, whenever a situation similar to the one described in the illustration above occurs, no attempt will be made to compute the I index score for that particular topic.

SECTION 5.7: THE CHI-SQUARE TEST AND THE I INDEX MEASURE CONTRASTED

Finally, it has to be mentioned that the results derived from the chi-square tests should not be expected to accord with the rankings given by the I index computations. For instance it is quite possible that on a particular item the chi-square test might indicate that there are no significant differences between the practices of the companies, whereas the I index calculation might lead to a relatively low score. The reason for this likelihood is that both tools are supposed to measure different concepts of harmonisation.

The chi-square test measures the extent to which the preferences of some independent groups are matched that is, whether companies from the different countries use the different alternative accounting methods proportionately. On the other hand, the I index measures the extent to which the accounting practices of the companies are concentrated around one or more alternatives.

In order to illustrate the point above, assume that on a given accounting topic there are three alternative methods. If an equal proportion of companies from the different countries used the alternative methods equally, then the chi-square test will invariably indicate that there are no significant differences in the accounting practices of the five countries. On the other hand the I index will give a score of 33.3 percent which might relatively speaking be lower (less harmonised) than the score on another topic whose chi-square test result might have indicated that there are significant differences between the different countries.

Both concepts of harmonisation are important hence the decision to employ the two techniques of analysis for this study.

SECTION 5.8: LIMITATIONS OF THE STUDY

The first major limitation was that of differences in language. For some of the companies from France, Germany and Japan the English language versions of their annual reports were used for the study, while for some others the French, German and Japanese language annual reports were used. It was, however, observed from the annual reports of some of the companies that sent both the original versions and the English language versions of their annual reports, that there were no big variations between the extent of disclosure and accounting policies adopted for both sets of accounts. In fact, for some companies such as the German company IWKA and others the English language annual reports were the exact translations of the domestic language financial statements.

The next major limitation was the small sample size in the case of some of the issues such as accounting for long-term contracts and government grants. This was especially so for the 1970/71 financial year and was more acute in the case of France, Germany and Japan. However, to lessen the extent of this problem the Fisher exact test was used in place of the non-parametric chi-square test whenever the sample size fell below fifteen for 2x2 contingency tables.

Another limitation that is noteworthy relates to the difficulty of ascertaining whether non-disclosure on any particular issue was due to non-applicability or failure to disclose. For instance, for those companies failing to disclose their policy for treating government grants, even after carefully reading through the annual report and financial statements, some times it was difficult to establish whether they actually received grants but failed to disclose how the grants were accounted for or just that no grants were received at all for the financial year. In such cases, a judgement was made to treat this as failure to disclose the relevant accounting policy, although it might be the case that indeed the topic in question might not be applicable to that particular company.

Finally, the study was limited to just two time periods, did not cover all possible accounting measurement items and was based on a sample of companies from the five countries. It is, therefore, important to note that any attempts to apply the findings of this study outside these boundaries should be done with care.

CHAPTER SIX

EMPIRICAL TESTS AND DISCUSSIONS: BUSINESS COMBINATIONS, GOODWILL AND FOREIGN CURRENCY TRANSLATIONS

SECTION 6.0 INTRODUCTION

This chapter and the next two chapters deal with empirical aspects of this study. Hence, these three chapters have some common features which need to be outlined and explained at this juncture in order to ensure that the empirical findings are understood in their proper contexts.

Firstly, it is vital to reiterate that this study primarily focuses on the following questions:

1. are there significant differences in the accounting measurement practices of large companies from the five countries covered in this survey (France, Germany, Japan, United Kingdom and the United States of America) as of 1990/91?
2. do multi-listed and domestic listed companies differ in their usage and disclosure of accounting policies relating to measurement practices as of 1990/91?
- 3a. to what extent did the accounting measurement practices of companies from the five countries differ in 1970/71?
- 3b. are there significant differences in the accounting measurement practices of the sample companies as between 1970/71 and 1990/91?

The only discriminating variables of interest to this study are - countries of origin, listing status and year of accounts as they relate to the various topics treated. The companies used for the study (see Appendix 6) are large listed companies from France, Germany, Japan, the UK, and the United States. Furthermore, accounting practices for the purposes of the empirical chapters mean both the disclosure of accounting policy and the method or basis for treating each of the measurement topics studied.

Each of the three empirical chapters is broadly divided into two parts. Part A addresses questions 1 and 2 above, while part B tackles question 3 above. Part A which is solely

based on the 1990/91 data is in turn broken into three sections. Section one tests for differences and extent of harmonisation in the accounting practices of the countries. Section two dichotomises all the companies irrespective of country of origin, into multi-listed and domestic listed categories and assesses the extent of differences if any between these two groups. Section three examines multi-listed and domestic listed companies from each of the countries to ascertain whether there are significant variations in their practices.

Part B is also subdivided into three sections. Section one tests for differences and extent of harmonisation in the accounting practices of the five countries in 1970/71. Section two examines the accounting practices of all the companies in 1970/71 and 1990/91 to determine whether there are significant differences between the accounting practices of the companies in these two years. Finally, section three tests for differences between 1970/71 and 1990/91 separately for each of the five countries. The 1970/71 and 1990/91 comparisons are restricted to only those companies that supplied copies of their financial statements for the two time periods. Also, tests based on listing status were not conducted in part B since the information collected on the listing status of the companies pertains to the position during the 1990/91 financial year only.

It is also pertinent to point out that for all the empirical chapters, the I index (measure of extent of harmonisation), will only be computed for the inter-country comparisons and only for the measurement aspects of the various topics covered. This is because the index as designed, is intended for international comparisons of the extent of usage of alternative accounting methods. Additionally, it has to be cautioned too that the results derived from the I index computations are not necessarily supposed to tally with the findings based on the chi-square tests. The reasons for this have been elaborated upon in chapter 5.

Furthermore, in view of the number of countries included in this survey, the layers of analyses and the number of topics studied, it will not be possible to undertake a very in-depth review and explanation of the findings on all the tests without being unnecessarily lengthy. Hence, the discussions of the empirical findings will in many cases be limited to only the interpretation of the test results and some brief comments. More detailed comments regarding the implications and explanations of the major findings are reserved for the concluding chapter of the thesis.

Also in the interests of brevity and relevance the study does not attempt to present

conceptual discussions of all the possible methods of treating each of the topics studied. The study therefore concentrates on only those methods actually used by companies. Where companies have employed a combination of methods, such companies are either eliminated from the analyses on that particular topic if the number of such cases are immaterial or they are categorised as "Others" if their exclusion will mean the loss of much information. The determination of materiality involved the use of some judgement, depending on the number of companies that disclosed their policies on each of the topics and the requirements of the tools of statistical analysis employed for the analysis. As a result of this, on some topics (for example tables 6.5 and 6.6), while for instance 59 German companies disclosed their policies on goodwill, the test of method of treating goodwill was restricted to only the 55 German companies that disclosed usable information. The other 4 German companies were eliminated from the analysis of methods used.

On all the topics tested using the chi-square tests, the hypotheses are stated in the null form. However, in order to avoid unnecessary repetition the hypotheses will not be stated afresh for every item on which the test is conducted. Also, for the purposes of this study, the 5 percent level of significance is adopted as the yardstick for ascertaining whether the test results for any item are significant or not.

SECTION 6A

This section begins by presenting the current status (1991) of accounting regulations in the five countries studied as it relates to the topic of business combinations and foreign currency translations. This will be followed by the survey results derived from the financial statements of the companies studied for the 1990/91 financial year and a discussion of comparative practices. After this, the results of aggregate tests of the impact of listing status on the accounting practices of the companies will be presented and interpreted. This section ends by comparing the accounting practices of multi-listed and domestic listed companies from each of the countries.

SECTION 6A.1: COMPARATIVE ANALYSIS OF ACCOUNTING PRACTICES OF FRANCE, GERMANY, JAPAN, UNITED KINGDOM AND THE UNITED STATES OF AMERICA IN 1990/91

Consolidations

In all the five countries covered by this survey, the preparation of consolidated

financial statements for companies with subsidiaries is generally speaking mandatory. Control in most cases is determined by the ownership of more than half of the ordinary shares of a company. Control can also be said to exist if a company has the power to dominate the constitution of another company's board of directors or supervisory board, or if a company has the authority to exercise dominant influence over another via a control contract. In Japan, however, the existence of management control is not a sufficient basis for establishing control as the emphasis is more on ownership interests in a subsidiary. This contrasts with the practice in the United Kingdom where control rather than legal ownership receives more weighting in the determination of parent/subsidiary relationships. Generally speaking the position of the International Accounting Standards Committee (IASC) is similar to that adopted by all the countries on this topic of consolidations.

Also, in all the countries there are provisions for the exclusion of some subsidiaries from consolidation under certain restrictive conditions. The most common reasons for excluding some subsidiaries from consolidation include, when:

1. the subsidiary is not material
2. control is intended to be temporary
3. unreasonable expense is likely to be incurred in a bid to consolidate a subsidiary
4. substantial dissimilarity in the activities of a particular subsidiary such that consolidation will in that situation yield misleading information
5. long-term restrictions hinder the parent company's ability to exercise control over a subsidiary
- 6 a subsidiary is not considered a going concern due to bankruptcy or liquidation.

Table 6.1 Consolidation accounting practices

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	RowTotal
non-consolidated	3 (4.3)	4 (5.5)	14 (15.6)	0 (0.0)	3 (3.3)	24 (5.8)
consolidated	67 (95.7)	69 (94.5)	76 (84.4)	90 (100.0)	87 (96.7)	389 (94.2)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)

Chi-Square = 22.48774; D.F. = 4; Sig. = .0002; I index = 0.9269

The results indicate that there are significant differences between the countries on the issue of consolidations. Furthermore, from table 6.1, it can be seen that the country with the lowest proportion of companies practising full consolidation is Japan with 84.4 percent, while the United Kingdom attained a 100 percent compliance with the requirement to prepare consolidated financial statements. The I index value of 0.9269

is relatively speaking very high and signifies the achievement of above normal level of de facto harmonisation on this topic.

Business Combinations

The regulatory requirements in all the countries except France, allow for the use of both the purchase method and the pooling of interests method as accepted methods of accounting for business combinations. In France, only the purchase method is permitted. However, in Germany, Japan and the United States, the pooling of interests method is allowed only when at least 90 percent of the outstanding voting common shares of one company must be exchanged for voting common shares of the other company, in a single transaction. For Japan and the United States there is the additional requirement that the two companies must have been autonomous for at least two years before the initiation of the combination move. There are also restrictions on the amount of cash consideration to be paid. All forms of business combinations that do not meet this criteria, must be accounted for by the purchase method. The IASC (IAS 22) requires that the purchase method be used except in "the rare circumstances when" a business combination is deemed as a "uniting of interests".

Table 6.2 **Disclosure of policy on business combinations**

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	4 (5.7)	3 (4.1)	11 (12.2)	0 (0.0)	4 (4.4)	22 (5.3)
Yes	66 (94.3)	70 (95.9)	79 (87.8)	90 (100.0)	86 (95.6)	391 (94.7)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)
Chi-Square = 13.92329; D.F. = 4; Sig. = .0075						

Results based on tables 6.2 and 6.3 suggest that there significant differences in the accounting practices of companies from the five countries with respect to accounting for business combinations. The I index value of 0.9052 based on table 6.3 is above average and thus suggests the attainment of a high level of harmonisation on the topic of accounting for business combination.

Table 6.3 Method of accounting for business combinations

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Purchase	65 (100.0)	50 (71.4)	73 (97.3)	86 (96.6)	82 (100.0)	356 (93.4)
Pooling	0 (0.0)	20 (28.6)	2 (2.7)	3 (3.4)	0 (0.0)	25 (6.6)
Column Total	65 (17.1)	70 (18.4)	75 (19.7)	89 (23.4)	82 (21.5)	381 (100.0)

Chi-Square = 68.96489; D.F. = 4; Sig. = .0000; I index = 0.9052

Furthermore, table 6.3 above reflects well the regulatory stipulations as it shows that an overwhelming 93.4 percent of the companies adopted the purchase method for accounting for acquired businesses - a method strongly favoured by the regulatory requirements of all the countries and also of the IASC.

Accounting for investments in Associates

In all the five countries both accounting regulations (as is the case with France, Germany, UK, the USA and the IASC), and accounting conventions (as is the case with Japan), ordinarily encourage the use of the equity method of accounting for investments in associated companies. Associated companies are unanimously defined as companies over which another company exercises significant influence but not control. Significant influence is usually denoted by the holding of between 20 to 50 percent of the voting shares of a company.

Table 6.4 Accounting for Investments in Associates

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Equity method	65 (100.0)	60 (95.2)	67 (87.0)	80 (95.2)	49 (98.0)	321 (94.7)
Cost method	0 (0.0)	3 (4.8)	10 (13.0)	4 (4.8)	1 (2.0)	18 (5.3)
Column Total	65 (19.2)	63 (18.6)	77 (22.7)	84 (24.8)	50 (14.7)	339 (100.0)

Chi-Square = 13.84864; D.F. = 4; Sig. = .0078; I index = 0.9376

Findings based on the chi square tests (table 6.4), suggest that there are significant differences in the patterns of usage of methods between the five countries on the issue of accounting for investments in associates. On the other hand, the I index score yields a value of 0.9376, which like the scores of the other topics considered so far can be described as being high. Table 6.4 also reflects highly the regulatory preference for the adoption of the equity method of accounting for investments in associates.

Accounting for goodwill

The regulatory provisions for dealing with goodwill (references to goodwill in this section means positive goodwill) across the five countries vary from the UK that prefers immediate write off of goodwill (though SSAP 22 allows companies the option of amortisation over a period not exceeding the useful life of goodwill), to the USA where the write off of goodwill is required over a period not exceeding forty years. In France, goodwill is generally amortised over a period reflecting the assumptions and objectives prevailing at time of acquisition. No maximum period of amortisation is stipulated. Internally generated goodwill (fonds de commerce) is generally accounted for separately, it is not mandatory to amortise internally generated goodwill but any decline in value should be reflected. While in Germany, goodwill may be capitalised as an intangible fixed asset and amortised either over four years or systematically over the period the company is likely to derive benefits from it. However, for tax purposes, the amortisation period is fixed at 15 years. Goodwill may also be written off against reserves in the consolidated balance sheet. In Japan, goodwill should either be amortised on a straight-line basis over a reasonable period (usually five years) or charged immediately to income if it is not significant. The IASC following its comparability project has recommended that goodwill be recognised as an asset and amortised on a systematic basis over 5 years and in exceptional circumstances up to 20 years maximum. The writing off of goodwill against reserves or shareholders' interests is specifically prohibited as an allowable alternative under the new IASC stipulations.

Table 6.5 Disclosure of policy on goodwill

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	10 (14.3)	14 (19.2)	38 (42.2)	1 (1.1)	36 (40.0)	99 (24.0)
Yes	60 (85.7)	59 (80.8)	52 (57.8)	89 (98.9)	54 (60.0)	314 (76.0)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)
Chi-Square = 59.46718; D.F. = 4; Sig. = .0000						

The chi-square test results supports the argument that there are significant differences in the pattern of disclosing goodwill accounting policy among the five countries studied. While the outcome of the chi-square test might not constitute a surprise, it is difficult to explain the comparatively low disclosure rate by the United States in the light of literature that suggests that US accounting practices are more open and transparent than those of Continental European countries.

Table 6.6

Method of accounting for goodwill

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
Capitalised	61 (100.0)	29 (52.7)	45 (83.3)	2 (2.4)	49 (100.0)	186 (61.4)
Written off	0 (0.0)	26 (47.3)	9 (16.7)	82 (97.6)	0 (0.0)	117 (38.6)
Column Total	61 (20.1)	55 (18.2)	54 (17.8)	84 (27.7)	49 (16.2)	303 (100.0)

Chi-Square = 205.28695; D.F. = 4; Sig. = .0000; I index = 0.5441

The chi-square test result suggests that there are significant differences in the manner of treating goodwill between the five countries covered by this study. The I index value of 0.5441 (see table 6.6) is low relative to the other topics discussed so far. The likely explanation of the significant chi-square test result and the relatively low I index value is the substantial percentage of both UK and German companies that adopted the immediate write off approach.

Amortisation Period for Goodwill

Next in importance to the decision to capitalise and amortise goodwill is the question of the period over which goodwill should be amortised. The link between the goodwill amortisation period and the profit or loss figure is direct. A longer amortisation period will, all things being constant, lead to a higher or more optimistic profit figure and vice versa. From table 6.7, it can be seen that US companies adopt the longest period of amortisation with 89.8 percent of the US companies that disclosed this item electing to amortise goodwill over a period of between 21-40 years. This is followed by France where 53.7 percent of the companies chose to amortise goodwill over the same time span. In contrast, a significant proportion of German companies (47.4 percent) and Japanese companies (55.8 percent) amortised goodwill over a time span of 1-5 years.

Table 6.7

Amortisation period for goodwill

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
1-5 years	1 (1.9)	9 (47.4)	24 (55.8)	0 (0.0)	0 (0.0)	34 (20.5)
6-10 years	6 (11.1)	2 (10.5)	5 (11.6)	0 (0.0)	0 (0.0)	13 (7.8)
11-15 years	5 (9.3)	6 (31.6)	0 (0.0)	0 (0.0)	2 (4.1)	13 (7.8)
16-20 years	13 (24.1)	1 (5.3)	8 (18.6)	1 (100.0)	3 (6.1)	26 (15.7)
21-40 years	29 (53.7)	1 (5.3)	6 (14.0)	0 (0.0)	44 (89.8)	80 (48.2)
Column Total	54 (32.5)	19 (11.4)	43 (25.9)	1 (.6)	49 (29.5)	166 (100.0)

Chi-Square = 123.60272; D.F. = 16; Sig. = .0000

The chi-square test indicates that there are significant differences on the issue of the amortisation period for goodwill in the financial statements of the companies from the five countries covered by this survey. This result mirrors the wide scope for discretion allowed companies on this issue in the various national regulatory requirements.

Accounting for Foreign Currency Translations and Transactions

The discussions in this section are broadly divided into two parts. The first part is concerned with the treatment of the financial statements of foreign subsidiaries, while the second part deals with the translation of the parent company's transactions involving foreign currency into the reporting currency of the parent.

Translation of Foreign Subsidiaries' Financial Statements

In France, the issue of the most appropriate rate to be used in translating the financial statements of foreign subsidiaries is dependent to a large extent on whether the operations of that subsidiary are integral to those of the parent or not. For foreign operations which are not integrated with the parent, their assets and liabilities are translated at the year-end exchange rate, and income and expense items at either the year-end or the average rates for the year, according to the discretion of the responsible accounting officers of the company. However, if a foreign operation forms an integral part of the reporting company, the monetary items in its balance sheet are translated at the year end exchange rate and non-monetary items are translated at the historical rate. Income and expense items are translated at the average exchange rate. As for Germany, there is no particular requirement in German law or accounting principles covering this issue except the requirement that companies adhere to the principle of consistency in the usage of which ever method they prefer.

Japanese companies are required to translate foreign subsidiaries' financial statements, income and expense items at either the effective rate when the transactions were entered into or at the average rate for the period. For UK companies they have the options of either using the average rate or the closing rate for the income and expense items of foreign subsidiaries that are not integral to the parent's operations, while balance sheet items are to be translated using the closing rate. The US requirement is that the financial statements of foreign affiliates whose reporting currency is not the dollar be restated to dollar equivalents using the closing rate for balance sheet and the average exchange rate for the income statements. On the other hand, the International

Accounting Standards Committee initially endorsed the use of either the historic, average or closing exchange rate for the translation of the income statements of foreign subsidiaries. However, the use of the closing rate was eliminated as part of the IASC's comparability project.

Table 6.8 Disclosure of Translation Policy for Foreign Subsidiaries

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
No	12 (17.1)	12 (16.4)	30 (33.3)	2 (2.2)	68 (75.6)	124 (30.0)
Yes	58 (82.9)	61 (83.6)	60 (66.7)	88 (97.8)	22 (24.4)	289 (70.0)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)

Chi Square = 134.32830; D.F. = 4; Sig. = .0000

The chi-square test based on table 6.8 indicates that there are significant differences between the five countries on the issue of disclosing policy on the translation of foreign subsidiaries' financial statements.

Table 6.9 Rate for Translating Income Statement of Foreign Subsidiaries

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
Average rates	50 (87.7)	33 (61.1)	33 (67.3)	73 (83.9)	17 (81.0)	206 (76.9)
Closing rates	7 (12.3)	21 (38.9)	16 (32.7)	14 (16.1)	4 (19.0)	62 (23.1)
Column Total	57 (21.3)	54 (20.1)	49 (18.3)	87 (32.5)	21 (7.8)	268 (100.0)

Chi-Square = 16.43371; D.F. = 4; Sig. = .0025; I index = 0.7039

By far the most common rate for translating the income and expense items of foreign subsidiaries is the average rate which was used by 76.9 percent of all the companies tested, while 23.1 percent adopted the closing rate. The chi-square test is significant at the 5 percent level so we reject the null hypothesis and conclude that there are significant differences in the rates employed by companies from the five countries in translating income and expense items in the financial statements of foreign subsidiaries. Furthermore, the I index value of 0.7039 (see table 6.9) is slightly below the average for all the topics covered in this chapter which stands at 0.7177.

Treatment of Translation Differences

The two main choices confronting companies is whether to reflect translation differences in the income of the period when they arise or to take them to shareholders' interest. In Germany, companies have the liberty to choose which ever method they deem fit. In France, foreign operations that are not an integral part of the parent, the translation differences should be taken to a separate component of shareholders' equity. For those that are integral to the parent it should be taken to income. The requirement under Japanese financial reporting rules is that differences in translation should be taken to a translation adjustment account in the balance sheet as either an asset or a liability. The translation adjustment account can also be shown on the face of the income statement and statement of retained earnings.

For UK companies, the translation differences from translating the financial statements of foreign subsidiaries that are not an extension of the parent company should be taken to movement in reserves. In the United States, gains or losses on the translation of the financial statements of foreign subsidiaries which have cash flow implications should be taken to the income of the period in which they arise. Those that do not have cash flow implications should be accumulated under a separate component of equity until the foreign subsidiary is liquidated or sold. In the international regulatory scene, the IASC, consistent with its comparability project, eliminated the option of recognising translation differences in current income, and instead recommended that translation differences be recognised in shareholders' interests or reserves.

Table 6.10 Disclosure of the Treatment of Translation Differences

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
No	18 (27.1)	20 (27.4)	28 (31.1)	3 (3.3)	54 (60.0)	123 (30.0)
Yes	52 (72.9)	53 (72.6)	62 (68.9)	87 (96.7)	36 (40.0)	290 (70.0)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)
Chi-Square = 69.57594; D.F. = 4; Sig. = .0000						

The chi-square test supports the position that there are significant differences on disclosure of the treatment of translation differences between companies from the five countries.

Table 6.11 Treatment of Translation Differences

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
Taken to reserves	46 (88.5)	12 (24.0)	28 (52.8)	75 (88.2)	22 (64.7)	183 (66.8)
Taken to income	6 (11.5)	38 (76.0)	25 (47.2)	10 (11.8)	12 (35.3)	91 (33.2)
Column Total	52 (19.0)	50 (18.2)	53 (19.3)	85 (31.0)	34 (12.4)	274 (100.0)

Chi-Square = 74.62922; D.F. = 4; Sig. = .0000; I index = 0.5063

66.8 percent of the responding companies (see table 6.11) took translation differences to reserves while 33.2 percent reflected them in the current income. The two countries with the greatest extremes of practice are France where 88.5 percent of the companies treated translation differences in reserves, and Germany where 76 percent of the companies credited or debited translation differences to the profit and loss account. The chi-square test suggests the existence of significant differences between the five countries on the treatment of translation gains and losses. The I index of 0.5063 is relatively low as it ranks the second lowest of the topics treated in this section.

Translation of Parent Company's Transactions Denominated in Foreign Currencies

France requires that foreign currency denominated transactions be translated at the transaction date exchange rate (historic rate). German policy which is similar to that of the Japanese allows the use of either the historic exchange rate or the year-end exchange rate. The United Kingdom policy recommends the use of the historic rate for income and expense items, while the closing rate is used for foreign currency denominated monetary assets and liabilities. US policy favours the use of the closing rate for balance sheet items but actual exchange rate at the date of the transaction (the average rate is an acceptable alternative) for income statement items. The position of the IASC is similar to that of the US.

Table 6.12 Disclosure of Policy for Treating Exchange Differences

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
No	38 (54.3)	29 (39.7)	19 (21.1)	26 (28.9)	57 (63.3)	169 (40.9)
Yes	32 (45.7)	44 (60.3)	71 (78.9)	64 (71.1)	33 (36.7)	244 (59.1)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)

Chi-Square = 43.91369; D.F. = 4; Sig. = .0000

Tests based on tables 6.12 and 6.13 suggest that there are significant differences in the practices of companies from the five countries in relation to the issue of disclosing policy for dealing with foreign currency transactions and the rate for translating foreign currency transactions.

Table 6.13 Rate for Translating Foreign Currency Transactions

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	RowTotal (%)
Actual rates	14 (48.3)	22 (50.0)	22 (33.3)	7 (14.0)	2 (28.6)	67 (34.2)
Average rates	1 (3.4)	1 (2.3)	8 (12.1)	3 (6.0)	4 (57.1)	17 (8.7)
Closing rates	14 (48.3)	1 (2.3)	15 (22.7)	32 (64.0)	1 (14.3)	63 (32.1)
Others	0 (0.0)	20 (45.5)	21 (31.8)	8 (16.0)	0 (0.0)	49 (25.0)
Column Total	29 (14.8)	44 (22.4)	66 (33.7)	50 (25.5)	7 (3.6)	196 (100.0)

Chi-Square = 86.28420; D.F. = 12; Sig. = .0000; I index = 0.4039

Furthermore, the Index of 0.4039 (see table 6.13), is the lowest of all the topics covered in this section. This low index value is perhaps a fair reflection of the flexibility in regulations pertaining to this topic.

Treatment of Exchange Differences

In Japan, United Kingdom and the United States of America, companies are required to reflect gains or losses on foreign currency transactions of the parent company in the income of the period when the gains or losses arise. However, in France and Germany, companies have a choice of either reflecting gains or losses on their foreign currency transactions in income or taking them to reserves.

Table 6.14 Treatment of exchange differences

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
In current income	25 (78.1)	39 (95.1)	52 (86.7)	48 (77.4)	19 (63.3)	183 (81.3)
In current & future income	6 (18.8)	1 (2.4)	1 (1.7)	1 (1.6)	6 (20.0)	15 (6.7)
Others	1 (3.1)	1 (2.4)	7 (11.7)	13 (21.0)	5 (16.7)	27 (12.0)
Column Total	32 (14.2)	41 (18.2)	60 (26.7)	62 (27.6)	30 (13.3)	225 (100.0)

Chi-Square = 33.18213; D.F. = 8; Sig. = .0001; I index = 0.8136

Though the chi-square tests (table 6.14) strongly suggests that there are significant differences in the practices of the five countries on the treatment of exchange differences, the I index value of 0.8136 is well above the sectional average and thus

implies that a fairly high level of de facto harmonisation has been attained on this item.

Sectional Summary

All the chi-square test results derived from the topics covered in this section strongly indicate that there still exist significant differences in the accounting practices of the five countries studied (table 6.15). This is surprising to some extent in view of the major international efforts that have been made by the IASC, the EC and other organisations to enhance the comparability of financial reporting practices world-wide.

Summary Table of Chi-Square Values: 1990/91

Topics	Chi-Square Values	Significance
1. Consolidations accounting practices	22.48774	.0002*
2. Business Combinations (disclosure of policy)	13.92329	.0075*
3. Business Combinations (policy)	68.96489	.0000*
4. Accounting for Associates (policy)	13.84864	.0078*
5. Goodwill (disclosure of policy)	59.46718	.0000*
6. Goodwill (policy)	205.28695	.0000*
7. Goodwill (amortisation period)	123.60272	.0000*
8. Foreign Income Statements (FIS) (disclosure)	134.32830	.0000*
9. FIS: Translation Rate (policy)	16.43371	.0025*
10. Translation Differences (disclosure)	69.57594	.0000*
11. Translation Differences (policy)	74.62922	.0000*
12. Foreign Currency Transactions (disclosure)	43.91369	.0000*
13. Foreign Currency Transactions: Rates (policy)	86.28420	.0000*
14. Exchange Differences (policy)	33.18213	.0001*

Table 6.15

* Denotes significant results

The I index values ranged from 0.4039 for the rate for recording foreign currency transactions to 0.9376 for accounting for investments in associates. This implies that there are substantial differences between the level of harmony achieved on the different topics covered in this section. As was noted in chapter 5, tests of statistical significance are yet to be devised for the I index scores and so it is difficult to interpret the numbers by themselves. One way to employ the I values meaningfully might be for standard setting and regulatory authorities to stipulate a desired I index value to serve as a benchmark. Consequently, topics with index values below the benchmark figure could be given greater attention.

Table 6.16

Table of I Index Values

Topics	I Index Scores
1. Consolidations	0.9269
2. Business Combinations	0.9052
3. Investments in Associates	0.9376
4. Goodwill	0.5441
5. Rate for translating Income Statement of Subsidiaries	0.7039
6. Treatment of Translation Differences	0.5063
7. Rate for Recording Foreign Currency Transactions	0.4039
8. Treatment of Exchange Differences	0.8136
 Average I index value	 0.7177

SECTION 6A.2**AGGREGATE ANALYSIS OF THE IMPACT OF LISTING STATUS ON BUSINESS COMBINATIONS AND FOREIGN CURRENCY TRANSLATION PRACTICES**

This section presents the test results aimed at determining the association between listing status and accounting measurement and associated disclosure practices of all the companies taken together irrespective of their countries of origin. Prior research (eg Biddle and Saudagaran (1989), Gray and Meek (1989), FEE (1991), and Cooke (1992) suggests that there is some association between listing status and the disclosure practices of companies, with the multi-listed companies usually expected to achieve higher proportionate rates of disclosures than the domestic listed companies. However, not much research has been done to establish the sort of association that exists between listing status and the accounting policies or measurement methods adopted by companies.

The summary of chi-square test results presented in table 6.17 below shows that of the fourteen tests conducted in this section eight yielded significant results. Of the eight, four relate to disclosure of policy while the other four relate to accounting measurement methods. Table 6.17 also reveals that on all the five disclosure based items, the multi-listed companies (in line with prior expectations) achieved higher rates of disclosures than the domestic listed companies.

Topics	Domestic (%)	Multi (%)	Chi-Square	Significance
1. Consolidations	91.6	97.3	6.26205	.0123*
2. Business Combinations (disclosure of policy)	92.0	97.9	7.00347	.0081*
3. Business Combinations (policy)			4.99214	.0255*
4. Accounting for Associates (policy)			3.23006	.0723
5. Goodwill (disclosure of policy)	72.0	80.9	4.40267	.0359*
6. Goodwill (policy)			0.22098	.6383
7. Goodwill (amortisation period)			5.41558	.2473
8. Foreign Income Statements (FIS) (disclosure)	66.2	74.5	3.31469	.0687
9. FIS: Translation Rate (policy)			6.11893	.0134*
10. Translation Differences (disclosure)	61.3	80.3	17.57233	.0000*
11. Translation Differences (policy)			0.04749	.8275
12. Foreign Currency Transactions (disclosure)	52.0	67.6	10.24832	.0014*
13. Foreign Currency Transactions: Rates (policy)			6.45055	.0916
14. Exchange Differences (policy)			8.29918	.0158*

Table 6.17

* Denotes significant results

Taken together, the findings based on this section appears to suggest that there are some variations between the accounting preferences of multi-listed and domestic listed companies within an international context. However, the evidence is not very conclusive. Furthermore, the findings strongly suggest that multi-listed companies are more likely to disclose their accounting policies than their domestic listed counterparts. This is in accordance with expectations based on the extant literature [eg. FEE (1991) and Cooke (1992)].

SECTION 6A.3

ANALYSIS OF THE IMPACT OF LISTING STATUS ON ACCOUNTING PRACTICES ON AN INDIVIDUAL COUNTRY BASIS

This section presents tests and discussions aimed at determining the extent to which the accounting measurement practices of domestic listed and multi-listed companies from each of the five countries differ. In any given country the degree of variation in the financial reporting practices of different categories of companies (eg domestic listed and multi-listed) is mainly dependent on the flexibility and room for choice proffered by the relevant rules or standards and also by the strictness of enforcement of those rules or standards. Hence, with respect to the tests conducted under this section it is more likely to encounter significant differences between the practices of domestic listed and multi-listed companies if the regulatory requirements in a country on any particular topic allow for the use of alternative methods, and secondly, if the rules are not rigidly enforced.

Another factor which might lead to differences between the practices of domestic listed and multi-listed companies is external pressures and the financial reporting requirements of the international financial market. Consequently, if there are wide variations between the financial reporting practices at the level of international financial markets and those of any country, it should be expected that the reporting practices of the multi-listed companies from that country (due to their wider international exposure), should deviate more from the reporting practices of domestic listed companies from that country. However, for another country whose practices are similar to internationally acceptable methods, the scope for such variations between multi-listed and domestic listed companies ought to be considerably reduced.

6A.3.1: FRANCE

With respect to France, it was only possible to conduct eleven tests. Of the eleven tests, only two yielded significant results. These are tests pertaining to the disclosure of policy for treating foreign currency transactions and the rate for recording transactions in foreign currency (see table 6.18). With regard to three topics, tests could not be carried out due to the reason that all the multi-listed and domestic listed companies adopted one single method in each case: on the topic of "method of accounting for business combinations" the purchase method; the equity method for the "method of accounting for investments in associates" and; capitalisation of goodwill costs in the case of the "method of accounting for goodwill". It is therefore fairly reasonable to conclude from the above findings that the weight of evidence is in favour of the position that domestic and multi-listed companies from France do not differ much in their accounting practices especially as it relates to the topics covered in this chapter.

These findings which suggest that little or no differences exist in the accounting measurement practices of domestic and multi-listed French companies are not completely unexpected given that the two categories of companies are listed on stock exchanges in France and so subject to the same national regulatory requirements applicable to companies listed in France. This is more the case when it is observed from Section 6A.1 that French regulation on a good number of the issues covered in this chapter for instance method of accounting for business combinations; investments in associates, do not give any room to companies as to the choice of method. Furthermore, there is some support for the viewpoint that French accounting and financial reporting practices have come under increased international influence in

recent times (Parker and Nobes, 1991, p.300). If this is correct, it should therefore be expected that the gap between the accounting measurement practices of multi-listed companies, and those of domestic listed companies, all things being equal, ought to have been reduced considerably in line with the above findings.

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Consolidations	97.8	92.0	.27861	.5976
2. Business Combinations (disclosure of policy)	95.6	92.0	.00589	.9388
3. Goodwill (disclosure of policy)	84.4	88.0	.00259	.9594
4. Goodwill (amortisation period)			4.84287	.3038
5. Foreign Income Statements (FIS) (disclosure)	82.2	84.0	.00000	1.0000
6. FIS: Translation Rate (policy)			.81477	.3667
7. Translation Differences (disclosure)	68.9	80.0	1.00333	.3165
8. Translation Differences (policy)			.00000	1.0000
9. Foreign Currency Transactions (disclosure)	35.6	64.0	5.23977	.0221*
10. Foreign Currency Transactions: Rates (policy)			6.11565	.0470*
11. Exchange Differences (policy)			4.02667	.1335

Table 6.18

* Denotes significant results

Considering the disclosure ratings in absolute terms, the multi-listed companies achieved a higher proportionate level of disclosure on four out of the five disclosure oriented issues (see table 6.18). Broadly speaking, this is in line with expectations based on the extant literature (eg FEE 1991). However, it is both interesting and unexpected to observe that a higher proportion of domestic-listed French companies (97.8 percent) prepared consolidated financial statements, in contrast to 92 percent for multi-listed companies. One should have expected the opposite given that multi-listed companies are supposed to be more international in their scope of operations and sourcing of funds and are therefore more likely to appreciate the usefulness of preparing consolidated financial statements. Apart from this minor deviation, most of the other findings in this section do not deviate much from normal expectations.

SECTION 6A.3.2: GERMANY

In all, fourteen tests were carried out in this section in a bid to ascertain whether or not there are significant differences between the accounting measurement practices of domestic listed and multi-listed German companies especially as regards the topics treated in this chapter. Five of the tests yielded significant result, namely: method of accounting for business combinations, disclosure of policy for goodwill accounting, rate for translating foreign financial statements, disclosure of policy on the treatment of translation differences and the disclosure of policy for treating exchange differences

(see table 6.19). In respect of the other nine items the test results indicate that there are no significant differences between the practices of domestic listed and multi-listed companies from Germany. Based on the above findings, it can be argued that while there appears to be some link between listing status and accounting practices among the German companies studied, the relationship is not strong and the pattern is also not consistent.

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Consolidations	93.3	96.4	.00131	.9711
2. Business Combinations (disclosure)	93.3	100.0	.62247	.4301
3. Business Combinations (policy)			7.29167	.0151*
4. Accounting for Associates (policy)			.00000	1.0000
5. Goodwill (disclosure of policy)	73.3	92.9	4.24466	.0394*
6. Goodwill (policy)			.41092	.5215
7. Goodwill (amortisation period)			6.74383	.1501
8. Foreign Income Statements (FIS) (disclosure)	77.8	92.9	1.86491	.1721
9. FIS: Translation Rate (policy)			10.26218	.0014*
10. Translation Differences (disclosure)	62.2	89.3	6.35558	.0117*
11. Translation Differences (policy)			1.01986	.3126
12. Foreign Currency Transactions (disclosure)	40.0	92.9	20.13956	.0000*
13. Foreign Currency Transactions: Rates (policy)			2.46325	.4820
14. Exchange Differences (policy)			2.20769	.3316

Table 6 19

* Denotes significant results

Though the above findings do not conclusively support the view that there is a strong association between listing status and the accounting measurement policies of German companies, they suggest that the accounting measurement practices of domestic listed and multi-listed German companies on the topics covered in this chapter differ more than is the case with French companies. The likely explanation for this may be found in the fact that German regulation on the topics treated so far tended to allow for more options. For instance, on accounting for business combinations, investment in associates, foreign currency transactions and translations, German regulations give more room for choice than French regulation. Given this condition it is perhaps not very surprising that the findings suggest that the accounting measurement practices of German domestic listed and multi-listed companies are more at variance than those of their French counterparts.

On disclosure aspects, the multi-listed companies achieved by wide margins a higher level of proportionate disclosure than the domestic listed companies. While this should be expected, however, the degree of the differences as can be observed from table 6.19 suggests that there is still some considerable gap between the requirements of German accounting regulations and reporting standards required by the international

community.

SECTION 6A.3.3: JAPAN

In this subsection fourteen tests were conducted. While seven (consolidation practices, disclosure of policy on business combinations, accounting for investments in associates, rate used for translating foreign financial statements, disclosure of policy on translation differences, method of accounting for translation differences and the rate for recording foreign currency transactions) yielded results supporting the position that there is some association between listing status and the accounting measurement and associated disclosure practices of Japanese companies, the results of seven other tests leads to a contrary conclusion. It is, therefore, concluded that in relation to Japan the weight of evidence is equally divided regarding the impact of listing status on accounting measurement practices.

Topics	Domestic (%)	Multi (%)	Chi Square Values	Significance
1. Consolidations	73.3	95.6	8.45865	.0036*
2. Business Combinations (disclosure of policy)	80.0	95.6	5.07480	.0243*
3. Business Combinations (policy)			.00000	1.0000
4. Accounting for Associates (policy)			4.43400	.0352*
5. Goodwill (disclosure of policy)	53.3	62.2	.72874	.3933
6. Goodwill (policy)			.72692	.3939
7. Goodwill (amortisation period)			2.58692	.4598
8. Foreign Income Statements (FIS) (disclosure)	57.8	75.6	3.20000	.0736
9. FIS: Translation Rate (policy)			6.50395	.0108*
10. Translation Differences (disclosure)	57.8	80.0	5.18433	.0228*
11. Translation Differences (policy)			5.50797	.0189*
12. Foreign Currency Transactions (disclosure)	84.4	73.3	1.66790	.1965
13. Foreign Currency Transactions: Rates (policy)			23.76815	.0000*
14. Exchange Differences (policy)			1.57550	.4549

Table 6.20

* Denotes significant results

Of all the countries discussed thus far, Japan has exhibited the highest number of significant differences between the practices of domestic listed and multi-listed companies. Similar to the observation made regarding Germany, a closer look (section 6A.1) at the regulatory requirements pertaining to some of the items treated in this chapter shows that Japanese requirements allow for more options on topics such as accounting for business combinations, investments in associates, foreign currency transactions and translations, than is the case for France. Hence the explanation given in the preceding subsection applies more or less with the same force.

The disclosure data shows that on all but one item (disclosure of policy for treating

foreign currency transactions), the multi-listed companies achieved higher levels of disclosure than their domestic listed counterparts on all the remaining four disclosure items. This is in line with expectations.

SECTION 6A.3.4: UNITED KINGDOM

In all eleven tests were conducted in this section, out of which only two gave significant results (disclosure of policy on foreign currency transactions and the treatment of exchange differences). On three issues it was not possible to conduct any tests. For consolidations and disclosure of policy on business combinations the reason was due to the fact that all the UK companies prepared consolidated financial statements and also all disclosed their policies for the accounting treatment of business combinations. In the case of the amortisation period for goodwill, it was only applicable to two companies out of which only one disclosed its policy.

Taken overall, the weight of evidence based on the findings from this subsection tends to favour the view that with respect to the UK companies studied, there is very little or no association between listing status and accounting measurement practices.

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Consolidations	100.0	100.0		
2. Business Combinations (disclosure of policy)	100.0	100.0		
3. Business Combinations (policy)			1.42693	.2323
4. Accounting for Associates (policy)			.00000	1.0000
5. Goodwill (disclosure of policy)	100.0	97.8	.00000	1.0000
6. Goodwill (policy)			.61580	.4326
7. Foreign Income Statements (FIS) (disclosure)	95.6	100.0	.51136	.4745
8. FIS: Translation Rate (policy)			.28796	.5915
9. Translation Differences (disclosure)	95.6	97.8	.00000	1.0000
10. Translation Differences (policy)			.00000	1.0000
11. Foreign Currency Transactions (disclosure)	86.7	55.6	10.60096	.0011*
12. Foreign Currency Transactions: Rates (policy)			5.30927	.1505
13. Exchange Differences (policy)			6.97662	.0306*

Table 6.21

* Denotes significant results

The conclusion reached in the preceding paragraph regarding the association between listing status and the accounting measurement practices of UK companies is not easily explained by the lack of options in the regulatory requirements concerning the topics treated in this chapter as UK regulations on a number of the topics (eg business combinations, goodwill and translation of foreign financial statements) allow for

alternative methods. A more plausible explanation might be that in view of the fact that internationally accepted practices (eg IASs), are to a large extent similar to those endorsed by UK accounting regulations, it is therefore to be expected that the *accounting practices of both domestic listed and multi-listed companies should not vary much, given that international practice in this case, is almost the same as domestic practice.*

With respect to disclosure aspects, both the domestic listed and multi-listed companies achieved the same level of disclosure on one item (accounting for business combinations). Of the remaining four disclosure items the domestic listed companies disclosed more on two items (goodwill and foreign currency transactions), while multi-listed companies also scored a higher disclosure level on two items (foreign financial statements and translation differences). This even split between the domestic listed and multi-listed UK companies on disclosure aspects deviates slightly from normal expectations, which is, for the multi-listed companies to disclose more than their domestic listed counterparts.

SECTION 6A.3.5: UNITED STATES OF AMERICA

Tests were conducted on only twelve issues. Significant results were only derived from three, namely: disclosure of policy on goodwill, disclosure of policy on accounting for translation differences and disclosure of policy on accounting for foreign currency transactions. None of the tests of accounting policies or methods yielded significant results. No tests were conducted for the method of accounting for business combinations as all the companies used the purchase method and on the method of treating goodwill as all the responding US companies capitalise and amortise goodwill costs. It can therefore be concluded that there is very little or no association between listing status and the accounting practices of the US companies studied especially with respect to policies and methods for treating the different topics discussed in this section.

The explanation for the small degree of differences between the practices of US domestic and multi-listed companies on the topics covered in this section is similar to that given for the UK based findings. That is, given the similarity between *international practice as mirrored by IASs and US domestic requirements, there is not much scope for the practices of multi-listed companies to deviate from those of their domestic listed counterparts.*

Topics	Domestic (%)	Multi (%)	Chi Square Values	Significance
1. Consolidations	93.3	100.0	1.37931	.2402
2. Business Combinations (disclosure of policy)	91.1	100.0	2.35465	.1249
3. Accounting for Associates (policy)			.04252	.8366
4. Goodwill (disclosure of policy)	48.9	71.1	4.62963	.0314*
5. Goodwill (amortisation period)			1.19700	.5496
6. Foreign Income Statements (FIS) (disclosure)	17.8	31.1	2.16578	.1411
7. FIS: Translation Rate (policy)			.96507	.3259
8. Translation Differences (disclosure)	22.2	57.8	11.85185	.0006*
9. Translation Differences (policy)			1.85970	.1727
10. Foreign Currency Transactions (disclosure)	13.3	60.0	21.10048	.0000*
11. Foreign Currency Transactions: Rates (policy)			.87500	.6456
12. Exchange Differences (policy)			2.98246	.2251

Table 6.22

* Denotes significant results

However, the US based disclosure findings which shows that on all the topics, that the multi-listed companies achieved higher proportionate levels of disclosure than the domestic listed companies though not completely unexpected is intriguing on account of the magnitude of the differences. The most outstanding being the disclosure of policy on the treatment of foreign currency transactions where the multi-listed companies achieved a disclosure level of 60 percent as against 13.3 percent by domestic listed companies.

Summary: Section 6A.3

Table 6.23 below shows in an abridged form the summary of the findings for all the five countries. The table gives a breakdown of the number of topics giving rise to significant results, the number of items that yielded non-significant results and the number of items that could not be tested for each of the five countries.

Table 6.23

Summary of Findings Section 6A.3

	France	Germany	Japan	UK	US
1. Significant results	2	5	7	2	3
2. Non Significant results	9	9	7	9	9
3. Tests not conducted	3	0	0	3	2
	-----	-----	-----	-----	-----
Total number of items	14	14	14	14	14
	-----	-----	-----	-----	-----

From the table it can be observed that in respect of this group of items, Japan had the most number with significant results (7), followed by Germany (5), and then the US (3) and finally France and the UK (2 for each). This can be interpreted to mean that the

greatest variation in practice between multi-listed companies and domestic listed companies was observed in the accounting measurement practices of Japan, Germany, US in that order, with France and the UK in a tie for the last position. The factors which might be responsible for these varying degrees of association between listing status and accounting measurement practices of the different have been examined in the discussions following the findings on the individual countries.

SECTION 6B

COMPARISON OF PRACTICES 1970/71 AND 1990/91 FINANCIAL YEARS

The first part of this section presents the requirements stipulated by laws or recommendations of relevant authoritative bodies from France, Germany, Japan, United Kingdom and the United States of America for 1970/71 financial year and empirical comparisons of accounting practices in 1970/71 of all the five countries. Section 6B.2 compares in aggregate form the accounting practices of the five countries in 1970/71 and 1990/91. Finally, Section 6B.3 looks at the accounting practices of the countries in 1970/71 and 1990/91 on country by country basis.

SECTION 6B.1: COMPARATIVE COUNTRY ANALYSIS: 1970/71

Consolidations

In France, newly quoted companies when making issues of shares were required to produce consolidated financial statements for financial years ending after 1 July, 1971. During this period, in Germany, the German Companies Act of 1965 requirement that companies prepare consolidated financial statements did not extend to foreign subsidiaries of such companies. The Japanese Security and Exchange Law (as Amended 1971), required listed companies to prepare and submit consolidated financial statements in addition to their statutory financial statements. However, such consolidated financial statements need not be audited. Contrary to the situation in France, Germany and Japan where consolidation was either not required, or restricted to some companies, the UK Companies Act of 1948, the pronouncements of the American Institute of Certified Public Accountants (AICPA), the Securities and Exchange Commission and the New York Stock Exchange, made consolidation an established accounting practice in both the United Kingdom and the United States long before 1970/71.

Table 6.24 Consolidations

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
non-consolidated	19 (76.0)	12 (28.6)	54 (100.0)	1 (1.2)	3 (3.3)	89 (30.4)
consolidated	6 (24.0)	30 (71.4)	0 (0.0)	81 (98.8)	87 (96.7)	204 (69.6)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)

Chi-Square = 212.52609; D.F. = 4; Sig. = .0000; I index = 0.0963

The chi-square tests based on table 6.24 above strongly suggest that in 1970/71 there were significant differences between the consolidation practices of companies from France, Germany, Japan, the UK and the USA. It can also be seen that the two countries with the highest proportions of non-consolidated financial statements were Japan (100%) and France (76%). This reflects to some extent the regulatory conditions in these countries around this time, when the preparation of consolidated statements was largely voluntary except for some restrictive classes of companies.

Accounting for Business Combinations

The pooling of interests method of business combination was largely unknown in France around this time (AICPA 1975, p.211), hence the predominant method of accounting for business combinations in France was the purchase method. The US regulatory practice has remained largely unchanged as APB Opinion 16 dealing with business combination allowed both the purchase method and the pooling of interests under some restrictive conditions as is currently the case. Similarly, in Germany, UK and Japan during this period, there were no particular regulatory provisions prohibiting the use of either the purchase method or the pooling of interest method of accounting for business combinations.

Table 6.25 Disclosure of policy on business combinations

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
No	18 (72.0)	3 (7.1)	49 (90.7)	6 (7.4)	10 (11.1)	86 (29.5)
Yes	7 (28.0)	39 (92.9)	5 (9.3)	75 (92.6)	80 (88.9)	206 (70.5)
Column Total	25 (8.6)	42 (14.4)	54 (18.5)	81 (27.7)	90 (30.8)	292 (100.0)

Chi-Square = 162.98167; D.F. = 4; Sig. = .0000

Table 6.26 Method of accounting for business combinations

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
Purchase	7 (100.0)	36 (100.0)	0 (0.0)	71 (95.9)	61 (100.0)	175 (95.6)
Pooling	0 (0.0)	0 (0.0)	5 (100.0)	3 (4.1)	0 (0.0)	8 (4.4)
Column Total	7 (3.8)	36 (19.7)	5 (2.7)	74 (40.4)	61 (33.3)	183 (100.0)

Chi-Square = 114.14713; D.F. = 4; Sig. = .0000;

Both the tests of disclosure and method of accounting for business combinations indicate that in 1970/71, there were significant differences between the practices in the five countries studied. Table 6.26 also highlights the fact that the purchase method has always been the preferred method as far back as 1970/71. No I index was computed for the method of accounting for business combinations. The data presented in table 6.26 above is a classic illustration of the case described in section 5.7, when the I index value generated by such data is not very meaningful. Due to the fact that all the responding Japanese companies employed only the pooling of interest method, any attempt to compute the I index score will give rise to a zero score which is not very meaningful.

Accounting for Investments in Associates

In the United States of America the regulations during this period required that associates be accounted for according to the equity method, except that, where less than 20 percent of the outstanding voting stock is owned, it is usually presumed that significant influence does not exist and therefore the cost method should be used. In the UK, SSAP 1 which was issued in January 1971 endorsed the use of the cost method for the investing company's own accounts, but the equity method for the consolidated financial statements. German regulations during this time also favoured the use of the equity method (Price Waterhouse, 1972, p.19). As of then, there did not exist any precise guidelines as to how investments in associates should be accounted for in France and Japan.

Table 6.27 Accounting for investments in associates

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
Equity method	5 (71.4)	12 (80.0)	3 (100.0)	32 (78.0)	42 (82.4)	94 (80.3)
Cost method	2 (28.6)	3 (20.0)	0 (0.0)	9 (22.0)	9 (17.6)	23 (19.7)
Column Total	7 (6.0)	15 (12.8)	3 (2.6)	41 (35.0)	51 (43.6)	117 (100.0)

Chi-Square = 1.35438; D.F. = 4; Sig. = .8521; I index = 0.7784

Chi-square tests based on table 6.27 above suggest that there is no significant difference in the methods adopted by companies from France, Germany, Japan, the UK and the USA, in 1970/71, to account for their investments in associated companies. The equity method which was employed by 80.3 percent of the responding companies was by far the most preferred method. However, this result should be treated with some caution in view of the low disclosure rates of companies from France, Germany and Japan. Relative to the other topics covered in this section the I index of 0.7784 is the highest and therefore connotes that there was a fairly high level of harmonisation in the practices of companies from the five countries with respect to the accounting treatment of associated companies.

Accounting for Goodwill

Japanese and German accounting regulations during this time required goodwill to be amortised over a maximum period of five years. In France and the UK, goodwill could be either be retained in the accounts at cost or written off to the profit and loss account or to reserves. As for the USA, prior to October 31, 1970, companies had the option of carrying goodwill in their books without amortisation where it can reasonably be assumed that such goodwill has unlimited life or by systematic charges to income according to the discretion of the management of the company. As from October 31, 1970, it became mandatory for companies to amortise goodwill to income over a period not exceeding 40 years.

Table 6.28 Disclosure of policy of goodwill

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
No	24 (96.0)	35 (83.3)	27 (50.0)	31 (37.8)	62 (68.9)	179 (61.1)
Yes	1 (4.0)	7 (16.7)	27 (50.0)	51 (62.2)	28 (31.1)	114 (38.9)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)

Chi-Square = 45.36181; D.F. = 4; Sig. = .0000

Table 6.29 Method of accounting for goodwill

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
Capitalised	1 (100.0)	4 (57.1)	26 (96.3)	19 (40.4)	13 (100.0)	63 (66.3)
Written off	0 (0.0)	3 (42.9)	1 (3.7)	28 (59.6)	0 (0.0)	32 (33.7)
Column Total	1 (1.1)	7 (7.4)	27 (28.4)	47 (49.5)	13 (13.7)	95 (100.0)

Chi-Square = 32.34251; D.F. = 4; Sig. = .0000; I index = 0.6865

Table 6.30 Amortisation period for goodwill

	Japan (%)	USA (%)	Row Total (%)
1-5 years	24 (92.3)	0 (0.0)	24 (68.6)
6-10 years	2 (7.7)	2 (22.2)	4 (11.4)
11-15 years	0 (0.0)	1 (11.1)	1 (2.9)
21-40 years	0 (0.0)	6 (66.7)	6 (17.1)
Column Total	26 (74.3)	9 (25.7)	35 (100.0)

Chi-Square = 29.76496; D.F. = 3; Sig. = .0000

Tests of disclosure, method and amortisation period for goodwill all strongly indicate the existence of significant differences between the companies from the countries under study for 1970/71. However, the I index of 0.6865 is fairly high relative to that derived for some of the other topics for the 1970/71 financial year. As with the preceding subsection, low disclosure rates constrain seriously the extent to which these findings can be generalised. As shown by table 6.30, rates of disclosure were as low as 4.0 percent and 16.7 percent for France and Germany respectively. Furthermore, the test of amortisation period was restricted to only Japan and the USA since only companies from these two countries made the relevant disclosures.

Translation of Foreign Subsidiaries' Financial Statements

During 1970/71 there were no authoritative guidelines in France and Germany as to the appropriate rates to be used for translating the income statements of foreign subsidiaries, so companies were free to adopt any justifiable rate. As for translation differences the basic principle is that only realised gains should be reflected in income of the company. On the other hand, the Japanese Business Accounting Council in 1971 issued the most comprehensive guideline regarding the treatment of foreign currency transactions. With respect to the translation of the financial statements of foreign subsidiaries the council recommends that monetary items be translated at

closing rates and all other items at the actual rates existing when the transactions took place (the so called monetary/non-monetary method). However, the alternative of translating all items in the financial statements at the closing rate was also deemed permissible. Translation differences should be recognised immediately either in income or reserves.

In the UK during this period there was no authoritative standard dealing with this issue. However, Opinion No 25 of the Institute of Chartered Accountants in England and Wales endorsed the use of current and historic rates. The US requirement was that foreign financial statements should be translated at the applicable rate at which the transactions were entered into. Translation adjustments were not to be included in determining net income until they were realised, that is, until sale or liquidation of the net investment in the foreign entity takes place. In the interim, such translation adjustments should be accumulated in a separate component of consolidated equity.

Table 6.31 Disclosure of translation policy for foreign subsidiaries

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
No	22 (88.0)	37 (88.1)	52 (96.3)	25 (30.5)	62 (68.9)	198 (67.6)
Yes	3 (12.0)	5 (11.9)	2 (3.7)	57 (69.5)	28 (31.1)	95 (32.4)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)
Chi-Square = 84.70949; D.F. = 4; Sig. = .0000						

As can be seen from tables 6.31, and 6.32, the chi-square tests indicate that there were significant differences between the disclosure levels and methods adopted by companies from the five countries with respect to translating the financial statements of foreign subsidiaries. On the other hand, the I index score of 0.5417, which is well above the average score for 1970/71 suggests an above average level of harmony in the practices of the countries on the issue of rates used for translating the income statements of foreign subsidiaries during this period.

Table 6.32 Rate for translating income statement of foreign subsidiaries

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
Average rates	0 (0.0)	2 (50.0)	0 (0.0)	3 (5.4)	18 (81.8)	23 (26.4)
Closing rates	3 (100.0)	2 (50.0)	2 (100.0)	53 (94.6)	4 (18.2)	64 (73.6)
Column Total	3 (3.4)	4 (4.6)	2 (2.3)	56 (64.4)	22 (25.3)	87 (100.0)
Chi-Square = 50.43015; D.F. = 4; Sig. = .0000; I index = 0.5417						

These findings are, however, tempered by the low disclosure rates achieved by companies from Japan (3.7%), Germany (11.9%) and France (12.0%). Notwithstanding this, table 6.32 shows that the closing rate (used by 73.6% of all the companies) was the more predominant rate used for translating the income statements of foreign subsidiaries in 1970/71.

Accounting for Translation Differences

The tests of disclosure and method of treating translation differences strongly indicate that there were significant differences between companies from the countries studied. The I index computation which excluded France due to non-disclosure of policy yielded a score of 0.5377, which by 1970/71 standards connotes a modest level of harmony. It is also pertinent to state that given the low overall rate of disclosures (18.4%), it is difficult to regard the findings on the method of treating translation differences as representative of the practices of all the companies from these countries for 1970/71.

Table 6.33 Disclosure of the treatment of translation differences

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
No	25 (100.0)	38 (90.5)	51 (94.4)	56 (68.3)	69 (76.7)	239 (81.2)
Yes	0 (0.0)	4 (9.5)	3 (5.6)	26 (31.7)	21 (23.3)	54 (18.4)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)
Chi Square = 35.20387; D.F. = 8; Sig. = .0000						

Table 6.34 Treatment of translation differences

	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
Taken to reserves	1 (25.0)	2 (66.7)	24 (96.0)	5 (25.0)	32 (61.5)
Taken to income	3 (75.0)	1 (33.3)	1 (4.0)	15 (75.0)	20 (38.5)
Column Total	4 (7.7)	3 (5.8)	25 (48.1)	20 (38.5)	52 (100.0)
Chi Square = 26.11484; D.F. = 3; Sig. = .0000; I index = 0.5377					

Accounting for Foreign Currency Transactions

According to the 1971 guideline of the Japanese Business Accounting Council, which in all major respects is similar to US requirements, it is stipulated that long-term assets and liabilities should be translated at historical rates, while current assets and liabilities should be translated at either historic rates or at the closing rate. Income and expense items should be translated using the exchange rates prevailing at the time of the transactions. Exchange differences should be recognised immediately. In the UK, use of both historic and closing rates were allowed. Also transaction gains and losses should be reflected in income. If however, such exchange differences arise due to a major realignment of currencies, then the gain/loss should be treated as exceptional gains/losses. In France and Germany, while there were no stipulations as to rates to be used, realised gains and losses on foreign currency transactions were expected to be taken to income as they arise.

Table 6.35 Disclosure of treatment of exchange differences on transactions

	France (%)	Germany (%)	Japan (%)	UK (%)	USA (%)	Row Total (%)
No	25 (100.0)	37 (88.1)	45 (83.3)	30 (36.6)	72 (80.0)	209 (71.3)
Yes	0 (0.0)	5 (11.9)	9 (16.7)	52 (63.4)	18 (20.0)	84 (28.7)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)

Chi-Square = 71.34004; D.F. = 4; Sig. = .0000

Table 6.36 Rate for recording transactions in foreign currencies

	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Actual rates	0 (0.0)	8 (88.9)	1 (2.1)	3 (18.8)	12 (15.4)
Average rates	2 (40.0)	0 (0.0)	3 (6.3)	8 (50.0)	13 (16.7)
Closing rates	0 (0.0)	1 (11.1)	39 (81.3)	1 (6.3)	41 (52.6)
Others	3 (60.0)	0 (0.0)	5 (10.4)	4 (25.0)	12 (15.4)
Column Total	5 (6.4)	9 (11.5)	48 (61.5)	16 (20.5)	78 (100.0)

Chi-Square = 84.13812; D.F. = 9; Sig. = .0000;

Table 6.37

Treatment of exchange differences on transactions

	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
In current income	4 (100.0)	1 (12.5)	5 (17.2)	7 (58.3)	17 (32.1)
In current & future income	0 (0.0)	7 (87.5)	3 (10.3)	3 (25.0)	13 (24.5)
Others	0 (0.0)	0 (0.0)	21 (72.4)	2 (16.7)	23 (43.4)
Column Total	4 (7.5)	8 (15.1)	29 (54.7)	12 (22.6)	53 (100.0)

Chi-Square = 40.38251; D.F. = 6; Sig. = .0000; I index = 0.2323

The three tests conducted on the topic of accounting for foreign currency transactions, namely disclosure, rate for recording transactions and treatment of transaction gains and losses all indicate strongly that there were significant differences between the countries studied in 1970/71. The I index for the treatment of exchange differences (0.2323), was below the sectional average and thereby suggests the existence of a below average level of harmony on this topic during the 1970/71 financial year. For reasons similar to that given in connection with the method of accounting for business combinations, no I index score was computed for the rate of translating foreign currency transaction. However, the low rates of disclosure [France (0%), Germany (11.9%), Japan (16.7%), and USA (20%)], means that these results should be treated with some caution.

Sectional Summary**Comparison of Chi-Square Results: 1970/71**

Table 6.38 below, shows that all but one (accounting for investments in associates) of the chi-square test results derived from the topics covered in this section strongly indicate that there existed significant differences in the accounting practices of the five countries studied for 1970/71. Therefore, based on these results, it is fair to conclude that there were significant differences in the accounting measurement and associated disclosure practices of companies from France, Germany, Japan, UK, and the USA in 1970/71. This is not surprising given the differences in the regulatory provisions governing the treatment of many of the issues discussed in this section during that period.

Table of Chi-square values - 1970/71 and 1990/91 comparisons

Topics	Chi-Square	Significance
1. Consolidations	212.52609	.0000*
2. Business Combinations (disclosure)	162.98167	.0000*
3. Business Combinations (policy)	114.14713	.0000*
4. Accounting for Associates (policy)	1.35438	.8521
5. Goodwill (disclosure of policy)	45.36181	.0000*
6. Goodwill (policy)	32.34251	.0000*
7. Goodwill (amortisation period)	29.76496	.0000*
8. Foreign Income Statements (disclosure)	84.70949	.0000*
9. FIS: Translation Rate (policy)	50.43015	.0000*
10. Translation Differences (disclosure)	35.20387	.0000*
11. Translation Differences (policy)	26.11484	.0000*
12. Foreign Currency Transactions (disclosure)	71.34004	.0000*
13. Foreign Currency Transactions (policy)	84.13812	.0000*
14. Exchange Differences (policy)	40.38251	.0000*

Table 6.38

* Denotes significant results

Comparison of I index values: 1970/71 and 1990/91

A comparison of the I index scores for 1970/71 and 1990/91 indicates that I index scores for 1990/91 were higher than those for 1970/71 on four out of the six topics for which I index scores were computed for both dates (see table 6.39). This trend is to be expected. It is however, surprising to observe that with respect to two items: goodwill and the treatment of translation differences, the 1970/71 scores were higher than those of 1990/91 by margins of 14.24 percent and 3.14 percent respectively.

Table 6.39 Table of I Index Values

	<u>1970/71</u>	<u>1990/91</u>	<u>Change</u>
1. Consolidations	0.0963	0.9269	+0.8306
2. Investments in Associates	0.7784	0.9376	+0.1592
3. Goodwill	0.6865	0.5441	-0.1424
4. Rate for translating Income Statement of Subsidiaries	0.5417	0.7039	+0.1622
5. Treatment of Translation Differences	0.5377	0.5063	-0.0314
6. Treatment of Exchange Differences	0.2323	0.8136	+0.5813
Average I index values	0.4788	0.7387	+0.2599

The goodwill result is to a large extent explained by the substantial movement by UK companies from capitalising goodwill purchase costs (the predominant method used by companies from most of the other countries) to writing off such costs against

reserves. Table 6.29 reveals that in 1970/71 40.4 percent of the responding UK companies capitalised goodwill costs. On the other hand, table 6.6 shows that by 1990/91 financial year the proportion of UK companies capitalising goodwill costs had shrunk to 2.4 percent. This swing away from the predominant practice employed by companies from the other countries acted to lower considerably the I index score for this topic and therefore partly explains the lower I index score on this topic for 1990/91. As for the result on the treatment of translation differences, the finding is not explained by the preferences of companies from only one country. It appears to have arisen due to swings by companies from Japan and the UK away from reflecting such items in reserves (predominant practice), to recognising them in current income (see tables 6.11 and 6.34).

Overall, the average I index score for 1970/71 of 0.4788, is far below the average score of 0.7378 for the 1990/91 financial year. This therefore suggests that there has been an increase in the level of harmonisation in respect of these accounting practices in these five countries over the 20 year period. This is not very surprising in view of the major efforts by the European Community, International Accounting Standards Committee (IASC), and other bodies undertaken after 1970/71, aimed at harmonising accounting practices both regionally and globally. Another likely factor responsible for the observed increase in the level of harmonisation is pressures from the international capital market.

SECTION 6B.2

COMPARISONS OF 1970/71 AND 1990/91 FINANCIAL YEARS ON AN AGGREGATE BASIS

The objective of the tests presented in this section is to ascertain whether or not there are significant differences in the accounting measurement and associated disclosure practices of all the companies in the sample irrespective of country of origin or listing status, as between 1970/71 and 1990/91. Table 6.40 below shows that of the fourteen tests conducted, only three yielded non-significant results, namely: tests of methods of accounting for business combinations, goodwill and translation differences. Consequently, eleven topics yielded significant results: all the five disclosure based items and six measurement policy based topics. Table 6.40 also shows that in line with normal expectations the disclosure levels for 1990/91 exceeded those for 1970/71 on all the disclosure based topics. The margins ranged from 25.4 percent for the disclosure of policy on accounting for business combinations to 50.9 percent on

account of disclosure of policy for the treatment of translation differences.

Table of Chi- square values - 1970/71 and 1990/91 comparisons

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Significance
1. Consolidations	69.6	96.2	+26.6	74.77388	.0000*
2. Business Combinations (disclosure)	70.5	95.9	+25.4	67.42634	.0000*
3. Business Combinations (policy)				.71272	.3985
4. Accounting for Associates (policy)				28.02634	.0000*
5. Goodwill (disclosure of policy)	38.9	75.1	+36.2	78.22802	.0000*
6. Goodwill (policy)				3.07814	.0794
7. Goodwill (amortisation period)				35.27995	.0000*
8. Foreign Income Statements (disclosure)	32.4	67.2	+34.8	71.01789	.0000*
9. FIS: Translation Rate (policy)				57.77005	.0000*
10. Translation Differences (disclosure)	18.4	69.3	+50.9	154.16570	.0000*
11. Translation Differences (policy)				1.10928	.2922
12. Foreign Currency Transactions (disclosure)	28.7	59.4	+30.7	56.09047	.0000*
13. Foreign Currency Transactions (policy)				10.88032	.0124*
14. Exchange Differences (policy)				39.31664	.0000*

Table 6.40

* Denotes significant results

Taken together, the above findings suggest that there are substantial differences between the accounting measurement and associated disclosure practices of the companies surveyed during 1970/71 as compared to 1990/91. This is not surprising given the widespread absence of regulation on some of the topics in some of the countries during 1970/71. This is a situation which has altered dramatically over the period.

SECTION 6B.3: COMPARISONS OF 1970/71 AND 1990/91; INDIVIDUAL COUNTRY ANALYSIS

SECTION 6B.3.1.: FRANCE

In all, eight tests were conducted in this subsection, out of which only the test of methods used to account for investments in associates yielded a non-significant result. It was not possible to carry out tests on four topics, namely: goodwill amortisation period; treatment of translation differences; treatment of transaction differences and; rates used for recording foreign currency transactions, due to non disclosure of accounting policies for 1970/71. On two other topics (accounting for business combinations and goodwill), all the companies used the same methods for both 1970/71 and 1990/91, hence it was also not possible to carry out tests on these two items.

Table 6.41 highlights the fact that regarding the seven topics whose results support the view that there have been significant changes in practice over the time period, four are disclosure based while three are policy oriented. The table also shows substantial increases in disclosure levels ranging from 48 percent for disclosure of policy for accounting for foreign currency transactions to 76 percent for the disclosure of policy for accounting for goodwill and translation differences. Overall, the findings suggest that there has been a marked improvement in the level of French disclosure of accounting policies and also some substantial differences between the policies used by French companies in 1970/71 and 1990/91.

The significant differences encountered in the accounting measurement and associated disclosure practices of the French companies studied over the period (1970/71 and 1990/91) is not surprising, given that on a sizable number of the topics discussed there were either no specific French rule or standard dealing with the topics as of 1970/71 or the regulations where they were in existence during 1970/71, have been altered prior to the 1990/91 financial year. For instance, the French provision requiring public companies intending to issue shares to prepare consolidated financial statements became effective after July 1, 1971. Furthermore, during the 1970/71 fiscal period there were no authoritative guidelines in France for accounting for investments in associates and translation of foreign currency financial statements.

Table of Chi- square values - 1970/71 and 1990/91 comparisons

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Significance
1. Consolidations	24.0	96.0	+72.0	27.00000	.0000*
2. Business Combinations (disclosure)	28.0	96.0	+68.0	24.53311	.0000*
3. Accounting for Associates (policy)				3.36040	.0668
4. Goodwill (disclosure of policy)	4.0	80.0	+76.0	27.00000	.0000*
5. Foreign Income Statements (disclosure)	12.0	84.0	+72.0	25.96154	.0000*
6. FIS: Translation Rate (policy)				8.12030	.0044*
7. Translation Differences (disclosure)	0.0	76.0	+76.0	30.80000	.0000*
8. Foreign Currency Transactions (disclosure)	0.0	48.0	+48.0	15.78947	.0001*

Table 6.41

* Denotes significant results

It can, therefore, be argued that the findings in this section are a reflection of the changes which have taken place in the French accounting regulatory process between the two dates. There are many factors which might account for these observed changes. The one that readily comes to mind is the efforts of the EC at harmonising the accounting policies of member countries via the Fourth and Seventh Directives. It is also possible that French financial reporting practices might have been influenced

to some extent by the International Accounting Standards issued by the IASC and by pressures from the international financial markets.

SECTION 6B.3.2. GERMANY

With respect to Germany, thirteen tests of significance were conducted. It was not possible to carry out any test on the topic of amortisation period for goodwill as no German company disclosed this information for the 1970/71 financial year. Of the thirteen topic tests, all the five disclosure based items and the following policy based items yielded significant results: consolidations, business combination methods, accounting for investments in associates and the rate for recording foreign currency transactions, nine in all. Only four items gave rise to non-significant results (see table 6.42). Based on these findings, it can be concluded that while the evidence clearly supports that on all the topics covered in this chapter, there has been a marked improvement in the levels of disclosure of accounting policy between the two time periods, evidence relating to choice of accounting policy is mixed. Table 6.42 shows a pattern of increases in disclosure levels ranging from an increase of 2.3 percent on account of business combinations, to the highest increase of 71.4 percent on account of disclosure of policy for the translation of foreign financial statements. Overall, it is fair to conclude that there have been substantial changes in the accounting measurement and associated disclosure practices of German companies as between 1970/71 and 1990/91.

Table of Chi-square values - 1970/71 and 1990/91 comparisons

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Significance
1. Consolidations	71.4	92.9	+21.5	6.57391	.0103*
2. Business Combinations (disclosure)	92.9	95.2	+ 2.3	.00000	1.0000
3. Business Combinations (policy)				12.82500	.0003*
4. Accounting for Associates (policy)				4.74598	.0294*
5. Goodwill (disclosure of policy)	16.7	78.6	+61.9	32.26364	.0000*
6. Goodwill (policy)				.00000	1.0000
7. Foreign Income Statements (disclosure)	11.9	83.3	+71.4	42.95455	.0000*
8. FIS: Translation Rate (policy)				.00000	.0000*
9. Translation Differences (disclosure)	9.5	71.4	+60.9	33.40235	.0000*
10. Translation Differences (policy)				.00000	1.0000
11. Foreign Currency Transactions (disclosure)	11.9	59.5	+47.6	20.74074	.0000*
12. Foreign Currency Transactions (policy)				7.50778	.0234*
13. Exchange Differences (policy)				.00000	1.0000

Table 6.42

* Denotes significant results

As was the case with France, the observed changes in German practices during the

period studied is perhaps best explained by regulatory factors. Section 6B.1 highlights the fact that on some of the topics covered (eg: accounting for business combinations; translation of foreign financial statements and; rates for translating foreign currency transactions), Germany did not have any authoritative guidelines during the 1970/71 financial year. On some of those topics for which it had enabling guidelines, the regulations were altered in the course of the period, for example foreign subsidiaries were not required to be consolidated during the 1970/71 financial year, whereas during the 1990/91 fiscal period subsidiaries of German companies were no longer exempt from consolidation simply because they were located outside Germany.

Just as was observed in the case of France, the findings in this section is a reflection of the changes which have taken place in the German accounting regulatory process over the two time periods. The likely causes of these changes might be: the efforts of the EC at harmonising the accounting policies of member countries via the Fourth and Seventh Directives; the International Accounting Standards issued by the IASC; and pressures from the international financial markets.

SECTION 6B.3.3: JAPAN

In all, fourteen tests were conducted to test the extent to which the accounting measurement and associated disclosure practices of the Japanese companies studied have changed as between the 1970/71 and 1990/91 financial years. Eight of the topics: all the disclosure tests except one (disclosure of policy on goodwill), and four tests of methods (consolidations, business combinations, goodwill amortisation period and treatment of exchange differences), yielded significant results. The remaining six topics gave rise to non-significant results (see table 6.43 below). Table 6.43 also shows a wide gap in the rate of increases in levels of disclosures over the two periods ranging from an increase of 11.1 percent on account of disclosure of goodwill accounting policy to an increase of 81.4 percent regarding the disclosure of policy for business combinations. This therefore suggests that while there are clear differences in the extent of disclosure of accounting policies by the Japanese companies studied, the evidence is not very definitive with regard to the aspect of methods used to account for the various items. Taken together, it appears reasonable to conclude that substantial differences can be noticed in the accounting measurement and associated disclosure practices of the surveyed Japanese companies during the 1970/71 and 1990/91 financial years.

Table of Chi-square values - 1970/71 and 1990/91 comparisons

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-square	Significance
1. Consolidations	0.0	87.0	+87.0	83.21311	.0000*
2. Business Combinations (disclosure)	9.3	90.7	+81.4	71.70370	.0000*
3. Business Combinations (policy)				27.81833	.0000*
4. Accounting for Associates (policy)				.00000	1.0000
5. Goodwill (disclosure of policy)	50.0	61.1	+11.1	1.35000	.2453
6. Goodwill (policy)				1.67111	.1961
7. Goodwill (amortisation period)				11.83158	.0080*
8. Foreign Income Statements (disclosure)	3.7	72.2	+68.5	53.82308	.0000*
9. FIS: Translation Rate (policy)				.92495	.3362
10. Translation Differences (disclosure)	5.6	72.2	+66.6	50.49351	.0000*
11. Translation Differences (policy)				.00000	1.0000
12. Foreign Currency Transactions (disclosure)	16.7	87.0	+60.3	53.55495	.0000*
13. Foreign Currency Transactions (policy)				7.45122	.0588
14. Exchange Differences (policy)				34.69459	.0000*

Table 6.43

* Denotes significant results

The observed differences in the practices of the surveyed Japanese between the two periods is perhaps best explained by the absence of authoritative guidelines or standards on some of the topics prior to 1970 (eg accounting for business combinations; investments in associates and; translation of foreign financial statements).

Just as was observed in the case of France and Germany, the findings in this section in our opinion fairly reflect the changes which have taken place in the Japanese accounting regulatory environment over the period. These changes in regulation and practice in turn might have been influenced or occasioned by: the International Accounting Standards issued by the IASC and; pressures from the international financial markets. Factors such as evolutionary development, growth, and refinement from within Japan itself should also not be ruled out as possible explanatory variables responsible for some of the observed changes.

SECTION 6B.3.4. UNITED KINGDOM

In all, thirteen tests were conducted under this subsection. Only five of the tests yielded non-significant results, namely: tests of consolidations, methods of accounting for business combinations, treatment of differences of translation of income statements of foreign subsidiaries, disclosure of policy on foreign currency transactions and rates for recording foreign currency transactions. No test was conducted regarding the goodwill amortisation period due to non-disclosure. Out of the eight tests that gave

rise to significant results, four are disclosure based tests, while four are policy based (see table 6.44). It can also be seen from table 6.44 that there were increases in disclosure levels on all the topics ranging from the increase of 6.1 percent for disclosure of policy on foreign currency transactions, to the highest increase of 64.6 percent on account of disclosure of policy for treating translation differences. Based on the above findings it is fair to conclude that overall, there have been significant differences between 1970/71 and 1990/91 in the accounting practices of the UK companies studied.

Like the other countries discussed thus far, perhaps an important factor responsible for the changes observed in the accounting measurement and associated disclosure practices of the UK companies studied is the absence of authoritative pronouncements on some of the topics treated. Though there were guidelines on some of the topics such as Opinion No 25 of the Institute of Chartered Accountants in England and Wales, dealing with translation of foreign financial statements, such guidelines were less authoritative than the SSAPs that followed later. It is no coincidence that on the topic of consolidations which was well regulated in the UK by the Companies Act prior to 1970, no significant difference was observed.

Table of Chi-square values - 1970/71 and 1990/91 comparisons

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi Square	Significance
1. Consolidations	98.8	100.0	+ 1.2	.00000	1.0000
2. Business Combinations (disclosure)	92.6	100.0	+ 7.4	4.39000	.0362*
3. Business Combinations (policy)				.00000	1.0000
4. Accounting for Associates (policy)				7.52471	.0061*
5. Goodwill (disclosure of policy)	62.2	98.8	+36.6	32.65246	.0000*
6. Goodwill (policy)				30.07765	.0000*
7. Foreign Income Statements (disclosure)	69.5	97.6	+26.1	23.45391	.0000*
8. FIS: Translation Rate (policy)				77.56376	.0000*
9. Translation Differences (disclosure)	31.7	96.3	+64.6	74.36255	.0000*
10. Translation Differences (policy)				0.54191	.4616
11. Foreign Currency Transactions (disclosure)	63.4	69.5	+ 6.1	.68390	.4082
12. Foreign Currency Transactions (policy)				4.97875	.1734
13. Exchange Differences (policy)				26.06332	.0000*

Table 6.44

* Denotes significant results

These observed changes in UK regulation and practice concerning the topics encountered in this chapter are to a large extent explained by evolutionary changes and developments from within the UK. One such internal factor is the formation of the Accounting Standard Committee (ASC) in 1970. Before it was replaced by the Accounting Standards Board (ASB) in 1990, the ASC made it possible for all the

recognised accounting bodies in the UK to speak with one voice on issues relating to accounting standard setting. This was a clear departure from the pre 1970 period when there was no co-ordination in the pronouncements of the different UK accounting institutes.

SECTION 6B.3.5: UNITED STATES OF AMERICA

Overall, twelve tests were conducted in this subsection (see table 6.45). Six of the tests yielded significant results. Three of the six concerned disclosure aspects (disclosure of policies on goodwill, treatment of translation differences and foreign currency transactions). The other three relate to the accounting policies for the goodwill amortisation period, investment in associates and translation differences. Tests were not conducted on two topics: the method of accounting for business combinations since all the companies used the purchase method for both years and; for the method of treating goodwill because all the companies capitalised and amortised goodwill costs during the two fiscal periods. Table 6.45 also highlights the fact that on one topic (disclosure of policy for translating foreign financial statements), the disclosure level for 1970/71 was higher than that for 1990/91 by a margin of 6.7 percent. It is difficult to account for this unexpected trend. However, on the other four disclosure based items, increases in levels of disclosure between the two years were observed ranging from 6.7 percent on account of disclosure of policy on business combinations to 28.9 percent for the disclosure of goodwill policy.

Table of Chi- square values - 1970/71 and 1990/91 comparisons

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Significance
1. Consolidations	96.7	96.7	+ 0.0	.00000	1.0000
2. Business Combinations (disclosure)	88.9	95.6	+ 6.7	2.78830	.0950
3. Accounting for Associates (policy)				5.28622	.0215*
4. Goodwill (disclosure of policy)	31.1	60.0	+28.9	15.14186	.0001*
5. Goodwill (amortisation period)				12.63813	.0055*
6. Foreign Income Statements (disclosure)	31.1	24.4	- 6.7	.99692	.3181
7. FIS: Translation Rate (policy)				.00000	1.0000
8. Translation Differences (disclosure)	23.3	40.0	+16.7	5.77664	.0162*
9. Translation Differences (policy)				7.94118	.0048*
10. Foreign Currency Transactions (disclosure)	20.0	36.7	+16.7	6.15595	.0131*
11. Foreign Currency Transactions (policy)				2.37530	.4982
12. Exchange Differences (policy)				.13462	.9349

Table 6.45

* Denotes significant results

Taken overall, the tests findings suggest that there have been some significant changes in the accounting measurement and associated disclosure practices of the US

companies studied during the period. However, in comparison with other countries, the magnitude and extent of differences observed with respect to the US based tests is about the least.

The changes observed with respect to the accounting measurement and associated disclosure practices of US companies during 1970/71 and 1990/91 to a large degree can be explained by changes in accounting regulation over the two periods of time. This is substantiated by the fact that the US provisions dealing with the three topics that accounted for most of the significant results (goodwill and foreign currency transactions and translation of foreign financial statements), have at one time or the other been subject to revisions between January 1970 and 1990. This therefore implies that most of the changes observed in relation to the US tests, are mainly accounted for by domestic US regulations and other internal forces. However, external factors such as pressures from the international capital markets may also have influenced some of these internal factors.

Summary: Section 6B.3

The findings based on the tests results presented in this section lend some support to the viewpoint that the accounting measurement and associated disclosure practices of companies from all the five countries have witnessed some significant changes both in terms of disclosure levels and choice of methods for treating the different topics discussed. However, the magnitude of change is not even.

Summary of Findings Section 6B.3

	France	Germany	Japan	UK	US
1. Significant results	7	9	8	8	6
2. Non Significant results	1	4	6	5	6
3. Topics not tested	6	1	0	1	2
	-----	-----	-----	-----	-----
Total number of items	14	14	14	14	14
	-----	-----	-----	-----	-----

Table 6.46

Based on the number of significant results derived (see table 6.46), the US appears to have witnessed the least change. This is not very surprising since the US had authoritative guidelines on most of the topics prior to 1970/71. Next to the US is

France with seven significant results. The French ranking is, however, tempered by the relatively large number of topics for which no tests were conducted. After France, Japan and the UK each had eight significant results. Germany witnessed the most changes with nine significant results each.

CONCLUDING REMARKS - CHAPTER 6

Table 6.47 presents in a condensed format the results derived from the aggregated tests. Four types of tests were carried out combining all the responding companies. Two of the tests pertained to country comparisons (1970/71 and 1990/91); the third group of tests pertain to listing status and; finally inter-year comparisons (1970/71 versus 1990/91).

With respect to the three main variables along which the analyses were undertaken, namely: country of origin, listing status and year of accounts, the one variable that yielded the most significant results on almost all the topics treated in this chapter are those in respect of country differences.

Table 6.47 **Summary of aggregate test results**

	Country Differences		Listing Status	1970/71 and 1990/91 Comparisons
	1970/71	1990/91		
Significant results	13	14	8	11
Non significant results	1	0	6	3
	-----	-----	-----	-----
Total	14	14	14	14
	-----	-----	-----	-----

Regarding the disclosure aspects, data on most of the topics show that in line with normal expectations, that the multi-listed companies achieved higher levels of disclosure than domestic listed companies, and that; there have been substantial increases in the levels of disclosure of accounting policies between the 1970/71 and 1990/91 fiscal years. This was the case in most of the countries in the individual country tests, with the possible exception of the UK data for 1990/91 when the disclosure levels between domestic and multi-listed companies was found to have been even.

Further, analysis based on the I index scores (See Table 6.39), indicate that, on the average, there has been some considerable increase in the levels of harmonisation, though on two specific topics (goodwill and treatment of translation differences) it

was observed that the levels of harmony existing in the practices of companies from the various countries in 1970/71 were higher than those of 1990/91. This is against normal expectations in the light of the major international efforts that has been made over the years to increase the levels of accounting harmonisation world wide. It was also observed from table 6.16 that for 1990/91 some of the topics for example, accounting for investments in associates (0.9376), have attained very high levels of harmony while some others like the rate for recording foreign currency transaction have a harmony level as low as 0.4039. Hence, based on these figures it is reasonable to argue that the gaps in the extent of harmonisation on the different topics are still substantial. The overall conclusion, therefore, is that harmony has increased in most cases, with some notable exceptions, but significant country differences still persist in many aspects of measurement and policy disclosure. The policy implications of these findings will be further explored in chapter 9.

CHAPTER SEVEN

EMPIRICAL TESTS AND DISCUSSION: INVENTORY, FIXED ASSETS, DEPRECIATION AND INVESTMENTS

SECTION 7.0: INTRODUCTION

This chapter deals with tests and discussions relating to the accounting measurement and associated disclosure practices of companies from France, Germany, Japan, UK and the USA, regarding the following topics: accounting for inventories; property, plant and equipment; depreciation; long-term and current investments. These number among some of the most controversial topics which have always confronted accounting theorists, practitioners and regulators. There is hardly any consensus on what is the best or fairest method of valuing inventories, fixed assets and investments. The same thing is also true of depreciation. Little wonder then that in many countries accounting regulations dealing with these issues are usually flexible, allowing for lots of options. It is therefore interesting to see how the presence of these options affect the manner in which countries from the five countries account for each of the topics. The pattern adopted for this chapter is similar in all material particulars to that used for chapter six, the major difference being in the topics addressed. Finally, this chapter should be read in conjunction with the introductory guidelines to the empirical chapters given in chapter 6.

SECTION 7A.1 : COMPARISON OF THE ACCOUNTING PRACTICES OF FRANCE, GERMANY, JAPAN, UNITED KINGDOM AND THE UNITED STATES OF AMERICA - 1990/91

Inventory Valuation

In all the five countries studied and with the IASC requirements, the lower of cost or market (LOCOM) rule for the valuation of inventories prevail. In France and Germany without any conditions, market value is interpreted to mean either net realisable value or replacement cost. In Japan and the USA the preferred interpretation of market value is replacement cost, except for damaged and obsolete goods in the case of Japan (when market value can be taken to mean net realisable value), and for the USA when

replacement cost is higher than net realisable, then should net realisable value be applied. On the other hand, the UK and the IASC interpretation of market value favour the use of net realisable value.

For the purposes of determining the cost of inventory, only two methods are permitted in France - the weighted average method and FIFO, though for consolidated financial statements, LIFO can also be used. In Germany, Japan, UK, the USA and with the IASC, the cost of inventory can be determined using either of the following methods: specific identification, average methods, FIFO and LIFO. However, the use of the LIFO method is not allowed for tax purposes in the UK.

Table 7.1 Disclosure of inventory valuation policy

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	10 (14.3)	3 (4.1)	0 (0.0)	0 (0.0)	2 (2.2)	15 (3.6)
Yes	60 (85.7)	70 (95.9)	90 (100.0)	90 (100.0)	88 (97.8)	398 (100.0)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)

Chi-Square = 30.04270; D.F. = 4; Sig. = .0000

Chi-square tests based on tables 7.1, 7.2, 7.3 and 7.4 strongly indicate that there are significant differences between France, Germany, Japan, United Kingdom and the USA in disclosures of inventory valuation policies, method of assigning costs to inventory, measurement bases for recording inventory and the interpretation of market values.

Table 7.2 Method used to assign cost to inventory

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
FIFO	11 (21.2)	0 (0.0)	7 (7.8)	10 (66.7)	11 (12.6)	39 (13.9)
LIFO	0 (0.0)	8 (21.6)	3 (3.3)	1 (6.7)	8 (9.2)	20 (7.1)
Weighted Average	28 (53.8)	12 (32.4)	45 (50.0)	1 (6.7)	17 (19.5)	103 (36.7)
Others	13 (25.0)	17 (45.9)	35 (38.9)	3 (20.0)	51 (58.6)	119 (42.3)
Column Total	52 (18.5)	37 (13.2)	90 (32.0)	15 (5.3)	87 (31.0)	281 (100.0)

Chi-Square = 87.37320; D.F. = 12; Sig. = .0000; I index = 0.2825

The overall rate of disclosures of inventory valuation policies which stood at 96.4 percent is relatively high. Table 7.2 also shows that apart from the companies using a

combination of method, the most popular bases for the determination of inventory cost is the average cost method used by 36.7 percent of all the responding companies. The popularity of the lower of cost or market rule for the recording of inventory value is demonstrated by table 7.3 which shows that 81.2 percent of the responding companies used this method.

Table 7.3 Measurement basis for recording inventory

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Cost	11 (18.6)	5 (7.0)	41 (45.6)	0 (0.0)	18 (20.5)	75 (18.8)
LOCOM	48 (81.4)	66 (93.0)	49 (54.4)	90 (100.0)	70 (79.5)	323 (81.2)
Column Total	59 (14.8)	71 (17.8)	90 (22.6)	90 (22.6)	88 (22.1)	398 (100.0)
Chi-Square = 69.50415; D.F. = 4; Sig. = .0000; I index = 0.7564						

Of the three inventory related issues for which I indices were calculated, the "method used for assigning costs to inventory" (table 7.2) scored the lowest with an Index value of 0.2825. This was followed by "definition of market value" (table 7.4), which had a score of 0.6690. The highest score of 0.7564 was derived with respect to the issue of the "measurement basis for recording inventories" (table 7.3). The average I index score for the inventory related issues which stands at 0.5656 is well below the average score for all the topics covered in this section of 0.7061. This suggests that of the issues treated in this section, accounting for inventories is one of the least harmonised. This would seem to be due to the allowance of many options in the various regulatory requirements of the countries studied.

Table 7.4 Definition of market value

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Net realisable value (NRV)	24 (85.7)	25 (73.5)	7 (63.6)	90 (100.0)	6 (50.0)	152 (86.9)
Replacement cost (RC)	4 (14.3)	3 (8.8)	2 (18.2)	0 (0.0)	5 (41.7)	14 (8.0)
NRV & RC	0 (0.0)	6 (17.6)	2 (18.2)	0 (0.0)	1 (8.3)	9 (5.1)
Column Total	28 (16.0)	34 (19.4)	11 (6.3)	90 (51.4)	12 (6.9)	175 (100.0)
Chi-Square = 52.36718; D.F. = 8; Sig. = .0000; I index = 0.6690						

Accounting for the Cost of Fixed Assets

French regulatory practice requires that, generally, fixed assets should be stated at

historical cost for assets acquired at some cost. For those acquired at no cost to the company, the fair value of the asset at the date of acquisition should be used. However, In 1945, 1959 and 1976 French companies were allowed to carry out legally sanctioned revaluations of assets. It is customary to see some French companies still carrying assets that have been the subject of such revaluations. Also, as from January 1, 1984, discretionary revaluations have been allowed. However, for a company to avail itself of the benefits of this provision, it has to revalue all classes of property, plant and equipment and investments and any gains from such revaluations may not be credited to the income of the period or of any future period but must be recorded as a separate component of shareholders' equity. On disposal or liquidation of such assets, the surplus should then be transferred to distributable reserves. Gains or losses from the disposal of assets which have not been revalued should be reflected in the income of the period when the disposals occur.

In Germany, Japan and the United States of America, fixed assets are to be carried at cost as revaluations are either not allowed or are permitted under very special circumstances. In Japan and the USA downward revaluation, but never upward revaluation, is allowed in circumstances when the carrying value of an asset is considered to be irrecoverable. Under such condition an adjustment can be made to reduce the values of that particular asset to a reasonable value. Gains or losses from the disposal of fixed assets in all the three countries are normally to be reflected in the income of the period.

In the United Kingdom, fixed assets can be carried at either cost or at revalued amounts. On the revaluation of a fixed asset, any surplus should be taken to the revaluation reserve account. A deficit on the revaluation of an asset should be deducted from the revaluation reserve account to the tune of any previous revaluation surplus credited to the revaluation reserve account in connection with that particular asset, any remaining excess should then be charged to the profit and loss account. It is permissible for the gains or losses from the disposal of a fixed asset to be credited to the income of the current period, any revaluation surplus outstanding on that particular asset may also be credited to income. On the international scene, IAS 16 gives companies the options of carrying long-term assets in their books at either cost or a revalued amount, while gains/losses on disposal of such assets are required to be taken to the income of the period when the disposals are made.

Table 7.5 Disclosure of policy for measuring PPE

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	2 (4.3)	2 (2.7)	6 (6.7)	0 (0.0)	1 (1.1)	11 (2.9)
Yes	68 (95.7)	71 (97.3)	84 (93.3)	90 (100.0)	89 (98.9)	402 (97.1)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)

Chi-Square = 8.71308; D.F. = 4; Sig. = .0687

The test of disclosure of the policy for accounting for fixed assets indicates that there is no significant difference in practice between companies from the five countries for the 1990/91 financial year. However, the tests based on tables 7.6 and 7.7 suggest that there are significant differences between the countries on the basis of recording items of property, plant and equipment as well as the manner of treating gains and losses realised from the disposal of fixed assets.

Table 7.6 Cost basis for recording PPE

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Original cost	63 (92.6)	71 (100.0)	84 (100.0)	38 (42.2)	89 (100.0)	345 (85.8)
Cost or Valuation	5 (7.4)	0 (0.0)	0 (0.0)	52 (57.8)	0 (0.0)	57 (14.2)
Column Total	68 (16.9)	71 (17.7)	84 (20.9)	90 (22.4)	89 (22.1)	402 (100.0)

Chi-Square = 183.50459; D.F. = 4; Sig. = .0000; I index = 0.7906

Table 7.6 also shows that an overwhelming majority of the companies (85.5%) used acquisition or manufacturing cost. It also shows that of the 57 companies that used cost and or valuation bases 52 of them are UK companies while the other five are French companies. This appropriately reflects the regulatory provisions in all the countries in that German, Japanese and American regulation seriously discourage the revaluation of fixed assets while UK regulation actively endorses it and French regulation allows it conditionally.

Table 7.7 Gains or losses on disposal of PPE

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
In current income	65 (100.0)	64 (100.0)	60 (93.8)	80 (98.8)	73 (98.6)	342 (98.3)
Taken to reserves	0 (0.0)	0 (0.0)	4 (6.3)	1 (1.2)	1 (1.4)	6 (1.7)
Column Total	65 (18.7)	64 (18.4)	64 (18.4)	81 (23.3)	74 (21.3)	348 (100.0)

Chi-Square = 10.17527: D.F. = 4: Sig. = .0376: I index = 0.9777

The I index score for the "cost basis for recording property, plant and equipment" (table 7.6) is 0.7906, while that for the "gains and losses on disposal of property, plant and equipment" (table 7.7) is 0.9777. Hence, the average score for the two items which stands at 0.8841 is well above the sectional average of 0.7061 (see table 7.16). It can therefore be argued based on these scores that between the five countries and with respect to the practices covered in this chapter, the issue of accounting for property, plant and equipment has attained an above average level of harmonisation.

Depreciation of Fixed Assets

With regard to depreciation methods, the regulatory requirements of all the countries allow for many options. Consequently, in all five countries both linear and accelerated methods of providing for depreciation are permissible. Hence there are no regulations prohibiting the use of any of the following methods: straight-line, declining balance, sum-of-the-years'-digits, units of production and hours of use. However, in Germany and the United States the use of the sinking fund depreciation method is specifically disallowed. IAS 4 which deals with depreciation accounting does not endorse or disapprove of any method, it only requires that depreciation should be provided "on a systematic basis to each accounting period during the useful life of the asset" (IASC 1992, p.100).

In all the countries, more or less, companies have some discretion in line with the peculiarities of their business over the determination of the useful lives of their assets even in situations like in Japan and Germany where the useful lives of assets are usually specified by the income tax laws.

In practice, many German and French companies make use of accelerated methods up to the point where the depreciation charge derived from the use of accelerated methods is lower than that derivable if the straight-line method were to be used. At that point,

they then switch over to the straight-line method.

It is also pertinent to mention that in French accounting there are two types of depreciation provisions - book depreciation which corresponds to the normal usage of the term in Anglo-American accounting of providing for the wear and tear arising from the use of an asset. Additionally, there is the Excess Fiscal Depreciation (amortissements dérogatoires), which allows companies to charge depreciation solely for the purpose of reducing the company's tax liability. Accumulated Fiscal Depreciation is recorded under shareholders' equity as untaxed provisions and the related charge reflected in the income statement as nonrecurring expense.

Table 7.8 **Disclosure of depreciation policy**

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	6 (8.6)	4 (5.5)	0 (0.0)	2 (2.2)	0 (0.0)	12 (2.9)
Yes	64 (91.4)	69 (94.5)	90 (100.0)	88 (97.8)	90 (100.0)	401 (97.1)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)

Chi-Square = 15.21509; D.F. = 4; Sig. = .0043

The tests of disclosure of policy and method of depreciation adopted strongly indicate that significant differences exist in the practice of companies from the five countries studied. Furthermore, the I index score of 0.2295 derived from table 7.9 (method of accounting for depreciation), which is the lowest for all the topics treated in this section, suggests a very low level of harmonisation of depreciation accounting methods between the countries.

Table 7.9 **Method of accounting for depreciation**

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Straight line (SL)	41 (69.5)	8 (11.6)	4 (4.4)	81 (97.6)	68 (75.6)	202 (51.7)
Declining Balance (DB)	0 (0.0)	4 (5.8)	65 (72.2)	0 (0.0)	12 (13.3)	81 (20.7)
SL & DB	18 (30.5)	57 (82.6)	21 (23.3)	2 (2.4)	10 (11.1)	108 (27.6)
Column Total	59 (15.1)	69 (17.6)	90 (23.0)	83 (21.2)	90 (23.0)	391 (100.0)

Chi-Square = 366.48881; D.F. = 8; Sig. = .0000; I index = 0.2295

The possible explanation of the finding on depreciation methods is similar to that for the findings on inventory valuation, that is, because the regulations allow for the use

of many alternatives, room is created for the existence of substantial differences in the practices of companies within and between countries.

Accounting for Long-term Investments

In France, long-term investments should be stated at the lower of cost or their useful value to the investor. Like the UK, investments should be valued on an individual basis and may not be valued on a portfolio basis. Gains or losses on the disposal of long-term investments should be treated as extraordinary income or expense. Investments may be revalued upward, but a downward valuation of a long-term investment should be debited to a revaluation reserve under shareholders' equity. The reversal of the adjustment however, should be reflected in income as extraordinary income.

German regulations normally require that long-term investments be carried at cost. However, if an investment which is carried at cost has declined substantially in value, it may be written down to current value if the decline is judged permanent. Gains or losses on the disposal of long-term investments should be included in the results of ordinary activities.

As for Japan, long-term investments should ideally be stated at cost. However, the use of the lower of cost or market value is not prohibited. Gains or losses on the disposal of long-term investments are to be recorded as extraordinary gains or losses.

In the United Kingdom, long-term investments are to be stated at cost or market value or any other value the directors judge to be most appropriate. Profits on sale of long-term investments should be recognised in income. If the profit is material it should be shown under exceptional items. Surplus on the upward revaluation of long-term investments should be taken to revaluation reserve. Deficits, however, should be written off to profit and loss immediately and should only be charged to revaluation reserve to the extent of any surplus from a previous revaluation of the same asset. On the eventual disposal of such an asset, the surplus may be included in the profit and loss account. If material, it should also be classed as an exceptional item.

In the United States, investments are divided into two main categories, Marketable securities and non Marketable securities. Marketable means that the security has a ready market price. Hence, marketable securities can be of a short term nature, when they can be described as being current investment or of a long term nature, when they

can be described as long-term investments. Marketable securities should be carried on a portfolio basis at the lower of aggregate cost or market value. Any surplus of aggregate cost over market should be recorded as a valuation allowance. Other non marketable investments should be carried at cost except when there has been a substantial decline in value which is judged to be permanent in nature. Gains and losses on the sale of investments should be taken to income. Deficits on the downward revaluation of investments should be written off to income immediately.

The IASC requires that long-term investments be carried at cost or revalued amounts, and in the case of marketable equity securities, at the lower of cost and market value determined on a portfolio basis. Gains or losses arising from the disposal of long-term investments should be recognised in income immediately.

Table 7.10 Disclosure of policy on measurement of long-term investments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	17 (26.1)	6 (8.2)	7 (7.8)	34 (37.8)	67 (74.4)	131 (32.0)
Yes	52 (73.9)	67 (91.8)	83 (92.2)	56 (62.2)	23 (25.6)	281 (68.0)
Column Total	69 (16.7)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	412 (100.0)

Chi-Square = 120.16280; D.F. = 4; Sig. = .0000

Tests of disclosure of policy and bases of recording long-term investments suggest that there are significant differences in practices between the five countries studied. However, on the issue of the manner of treating gains or losses on the disposal of long-term investments, the tests indicate that there is no significant difference between the countries.

Table 7.11 Method of valuing long-term investments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Cost	41 (78.8)	48 (71.6)	43 (51.8)	33 (58.9)	18 (78.3)	183 (65.1)
Others	11 (21.2)	19 (28.4)	40 (48.2)	23 (41.1)	5 (21.7)	98 (34.9)
Column Total	52 (18.5)	67 (23.8)	83 (29.5)	56 (19.9)	23 (8.2)	281 (100.0)

Chi-Square = 14.73877; D.F. = 4; Sig. = .0053; I index = 0.6088

Table 7.11 shows that an I index score of 0.6088 was derived in connection with the "method of valuing long-term investments". On the other hand, table 7.12 displays the

I index value of 0.9889 for the treatment of "gains and losses on the disposal of long-term investments". This gives an average score of 0.7988 for the two items dealing with long-term investments for which the I index scores were computed. The I index score of 0.9889 for the treatment of "gains and losses on the disposal of long-term investments" is suggestive of the attainment of near uniformity in practice on this issue.

Table 7.12 Disposal of long-term investments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
In current income	49 (100.0)	38 (97.4)	54 (98.2)	33 (100.0)	9 (100.0)	183 (98.9)
Taken to reserves	0 (0.0)	1 (2.6)	1 (1.8)	0 (0.0)	0 (0.0)	2 (1.1)
Column Total	49 (26.5)	39 (21.1)	55 (29.7)	33 (17.8)	9 (4.9)	185 (100.0)

Chi-Square = 2.07606; D.F. = 4; Sig. = .7218; I index = 0.9889

Accounting for Current Investments

In France, current investments are stated at the lower of cost or probable transaction value. Provisions for declines in value are determined on an individual basis. However, investments may be valued on a portfolio basis if:

1. the investments are quoted and constitute a highly liquid portfolio;
 2. market values have fallen abnormally and this decline appears to be temporary.
- Gains or losses from the disposal of current investments should be reflected in income under financial income. A subsequent adjustment to a prior downward revaluation of current investment should also be taken to income under financial income.

In Germany and Japan, current investments are carried at the lower of acquisition cost or market. Gains or losses on the disposal of a current investment should be included in the results of ordinary activities in Germany, but included under nonoperating income or expense under Japanese regulation.

UK regulation requires that current investments should be valued at lower of cost or market value. They can also be stated at current cost. Profits on sale of current investments should be recognised in income. If the profit is material it should be shown under exceptional items. Surplus on the upward revaluation of current assets should be taken to revaluation reserve. On the eventual disposal of such an asset, the surplus may be included in the profit and loss. If material, it should also be classed as

an exceptional item.

In the US, current marketable securities should be carried on a portfolio basis at the lower of aggregate cost or market value. Any surplus of aggregate cost over market should be recorded as a valuation allowance. Current non-marketable investments should be carried at cost except when there has been a substantial decline in value which is judged to be permanent in nature. Gains and losses on the sale of investments should be taken to income. Deficits on the downward revaluation of investments should be written off to income immediately.

IAS 25 recommends that current investments be carried at either market or lower of cost and market value. The carrying value of marketable securities should be at either aggregate or individual basis. Gains or losses on the disposal of current investments should be reflected in the income of the period when the disposals occur.

Table 7.13 Disclosure of policy on measurement of current investments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	28 (40.0)	29 (39.7)	2 (2.2)	59 (65.6)	50 (55.6)	168 (40.7)
Yes	42 (60.0)	44 (60.3)	88 (97.8)	31 (34.4)	40 (44.4)	245 (59.3)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)
Chi-Square = 86.53420; D.F. = 4; Sig. = .0000						

As was the case with long-term investments the tests on disclosure of policy and bases for recording current investments suggest that there are significant differences between the practices of companies from the five countries, while the tests of the treatment of gains on losses on the disposal of current investments indicate the absence of any significant differences.

Table 7.14 Measurement of current investments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Market value	5 (11.9)	0 (0.0)	1 (1.1)	4 (14.8)	2 (5.1)	12 (5.0)
LOCOM	33 (78.6)	42 (95.5)	73 (83.9)	16 (59.3)	36 (92.3)	200 (83.7)
Cost	4 (9.5)	2 (4.5)	13 (14.9)	7 (25.9)	1 (2.6)	27 (11.3)
Column Total	42 (17.6)	44 (18.4)	87 (36.4)	27 (11.3)	39 (16.3)	239 (100.0)
Chi-Square = 27.72416; D.F. = 8; Sig. = .0005; I index = 0.7662						

Table 7.15 **Treatment of gain/loss on disposal of current investments**

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
In current income	40 (100.0)	27 (100.0)	57 (96.6)	27 (100.0)	22 (100.0)	173 (98.9)
In Reserves	0 (0.0)	0 (0.0)	2 (3.4)	0 (0.0)	0 (0.0)	2 (1.1)
Column Total	40 (22.9)	27 (15.4)	59 (33.7)	27 (15.4)	22 (12.6)	175 (100.0)

Chi-Square = 3.97766; D.F. = 4; Sig. = .4090; I index = 0.9914

The I Index score for the "method of valuing current investments" (table 7.14) is 0.7662, while that for the "treatment of gains/losses on disposal of current investments" (table 7.15) is 0.9914 - the highest index score for this chapter. The average score for the current investment accounting related score of 0.8788 is well above the sectional average of 0.7061 and thus suggests that on this topic a relatively high level of harmonisation has been attained in the practices of companies from the five countries studied.

Conclusions - section 7A.1

In this section, chi-square tests were conducted on fifteen items, out of which only three (disclosure of policy on property, plant and equipment; treatment of gains and losses on disposal of long-term investments and; treatment of gains and losses on disposal of current investments), yielded non significant results. Based on the above findings, it can therefore be concluded that there are still significance differences in the accounting practices of companies from the five countries studied with respect to the topics covered in this section.

Summary of Chi-square test results

Topics	Chi-Square Values	Significance
1. Disclosure of inventory valuation policy	30.04270	.0000*
2. Method used to assign cost to inventory	87.37320	.0000*
3. Measurement basis for recording inventory	69.50415	.0000*
4. Definition of market value	52.36718	.0000*
5. Disclosure of policy for measuring PPE	8.71308	.0687
6. Cost basis of for recording PPE	183.50459	.0000*
7. Gains or losses on disposal of PPE	10.17527	.0376*
8. Disclosure of depreciation policy	15.21509	.0043*
9. Method of accounting for depreciation	366.48881	.0000*
10. Disclosure of policy on long-term investments	120.16280	.0000*
11. Method of valuing long-term investments	14.73877	.0053*
12. Disposal of long-term investments	2.07606	.7218
13. Disclosure of policy on current investments	86.53420	.0000*
14. Measurement of current investments	27.72416	.0005*
15. Treatment of gain/loss on disposal of current investment	3.97766	.4090

Table 7.16

* Denotes Significant result.

As can be observed from table 7.17, the I index scores range from 0.2295 for "method of accounting for depreciation" to 0.9914 for the treatment of "gains/losses on disposal of current investments", with the average index for the section standing at 0.7061. A closer look at table 7.17 reveals that the three topics with the highest index scores have to do with the treatment of disposal gains/losses. The high I index scores derived from these three topics is a clear reflection of the preferences of both the regulators and companies for taking disposal gains and losses to income as they occur. Furthermore, the scores derived on account of two of the topics: "method used to assign cost to inventories" (0.2825) and "method of accounting for depreciation" (0.2295), suggests that the level of international harmony achieved on these two topics is extra-ordinarily low. This perhaps is a direct result of the many options allowed both in national accounting regulations and international accounting standards for treating these two topics. Overall, the I index scores seem to indicate that on some topics, a high level of international harmony has been attained already (eg treatment of disposal gains and losses on current investments). However, a lot is still to be done to improve the level of international harmony on some other topics, for example, the accounting treatment of depreciation.

Table 7.17 **Summary of I index scores**

Topic	I index
1. Method used to assign cost to inventories	0.2825
2. Measurement basis for recording inventories	0.7564
3. Definition of market value	0.6990
4. Cost basis for recording property, plant and equipment	0.7906
5. Gains/losses on disposal of property, plant and equipment	0.9777
6. Method of accounting for depreciation	0.2295
7. Method of valuing long-term investments	0.6088
8. Gains/losses on disposal on long-term investments	0.9889
9. Method of valuing current investments	0.7662
10. Gains/losses on disposal of current investments	0.9914
 Average I index score	 0.7061

SECTION 7A.2: AGGREGATE ANALYSIS OF THE IMPACT OF LISTING STATUS ON ACCOUNTING PRACTICES RELATING TO INVENTORIES; PROPERTY, PLANT AND EQUIPMENT; DEPRECIATION; AND INVESTMENTS

In this section fifteen tests were conducted to determine the impact of listing status on the accounting measurement and associated disclosure practices of companies from France, Germany, Japan, UK and USA, with particular respect to the topics of inventories; property, plant and equipment; depreciation; and investments. Only two of the tests gave significant results, namely: tests on the basis for recording inventory and the method of accounting for depreciation (table 7.18). These findings tend to suggest that on the topics covered in this chapter there are only slight variations in the accounting measurement practices of multi-listed and domestic listed companies.

It is surprising to observe that none of the disclosure based tests yielded any significant results. Additionally, it can be observed from table 7.18 that out of the five disclosure based items, the domestic listed companies achieved higher levels of disclosure than the multi-listed companies on two items (disclosure of policy on depreciation and long-term investment).

Summary of Chi-square test results

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Disclosure of inventory valuation policy	95.1	97.9	2.23111	.1353
2. Method used to assign cost to inventory			6.28996	.0983
3. Measurement basis for recording inventory			8.72473	.0031*
4. Definition of market value			4.99871	.0821
5. Disclosure of policy for measuring PPE	96.0	98.4	2.09858	.1474
6. Cost basis of for recording PPE			3.19533	.0738
7. Gains or losses on disposal of PPE			0.94370	.3313
8. Disclosure of depreciation policy	97.3	96.8	0.10000	.7518
9. Method of accounting for depreciation			10.51292	.0052*
10. Disclosure of policy on long-term investments	71.1	64.2	2.25895	.1328
11. Method of valuing long-term investments			0.50127	.4789
12. Disposal of long term investments			0.45263	.5011
13. Disclosure of policy on current investments	58.2	60.6	0.24776	.6187
14. Measurement of current investments			2.30692	.3155
15. Treatment of gain/loss on disposal of current investments			0.42878	.5126

Table 7.18

* Denotes Significant result.

In chapter six, it was suggested that significant differences between the accounting measurement practices of domestic and multi-listed companies is more likely to be found in situations where: there are major differences between domestic and international practices; accounting standards or rules allow for lots of options, and/or; accounting standards and rules are not strictly enforced. The findings from this section to a large extent can be explained by a combination of some of the conditions stated above. The two significant results were derived in respect of "cost basis for recording inventory" and "method of accounting for depreciation". The relevant regulations of both the IASC and the five countries allow for many options on these two topics (see section 7A.1). Though options are allowed across the five countries on some of the other topics, for instance, "method used to assign cost to inventory", a closer look at the regulations of the various countries shows little or no difference between domestic practice and international practice as represented by IASs.

SECTION 7A.3: IMPACT OF LISTING STATUS ON ACCOUNTING PRACTICES: INDIVIDUAL COUNTRY COMPARISONS

SECTION 7A.3.1: FRANCE

In all, twelve tests were carried out in this section. None of the tests yielded significant results. It was not possible to conduct tests on three items: treatment of gains and losses on the disposal of property, plant and equipment; treatment of gains

and losses on the disposal of long-term investments; method of treating gains and losses from the disposal of current investments, as all the French companies in the sample recognised all such transactions in the income of the period when they arose. In absolute terms, Table 7.19 shows that though the multi-listed companies achieved higher levels of disclosure than the domestic listed companies on four out of the five disclosure based items, the differences are very narrow. Taken together, the findings based on this section clearly indicate that there are no substantial differences in the accounting measurement and associated disclosure practices of domestic listed and multi-listed French companies.

Summary of Chi-square test results

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Disclosure of inventory valuation policy	82.2	92.0	.58333	.4450
2. Method used to assign cost to inventory			.02908	.9856
3. Measurement basis for recording inventory			1.22591	.2682
4. Definition of market value			.06140	.8043
5. Disclosure of policy for measuring PPE	95.6	96.0	.00000	1.0000
6. Cost basis of for recording PPE			.51106	.4747
7. Disclosure of depreciation policy	91.1	92.0	.00000	1.0000
8. Method of accounting for depreciation			.34759	.5555
9. Disclosure of policy on long-term investments	73.3	75.0	.02255	.8806
10. Method of valuing long-term investments			1.09029	.2964
11. Disclosure of policy on current investments	60.0	60.0	.00000	1.0000
12. Measurement of current investments			1.86136	.3943

Table 7.19

* Denotes Significant result.

The findings above is almost consistent with that obtained in section 6A.3.1 on France regarding the topics covered in chapter 6. However, the findings in the current chapter is perhaps best explained by the fact that there is not much difference between French regulation and international practice on many of the topics treated in this chapter.

SECTION 7A.3.2 : GERMANY

Altogether, twelve tests were conducted under this section, out of which only one (definition of market value, see table 7.20) yielded significant result. On the following three topics it was not possible to carry out any tests due to the reason that all the responding German companies used the same method for each: cost basis for recording items of property, plant and equipment; treatment of gains and losses on the disposal of fixed assets and; treatment of gains and losses on the disposal of current investments. Table 7.20 also shows that out of the five disclosure based items, the domestic listed companies achieved a higher level of disclosure on two items

(disclosure of policy for accounting for property, plant and equipment and; depreciation). In aggregate, it is reasonable to conclude from these results that there is not much difference between the accounting measurement and associated disclosure practices of domestic listed and multi-listed German companies with respect to the topics discussed in chapter 7.

Summary of Chi-square test results

Topics	Domestic (%)	Multi (%)	Chi Square Values	Significance
1. Disclosure of inventory valuation policy	95.6	96.4	.00000	1.0000
2. Method used to assign cost to inventory			1.71845	.4235
3. Measurement basis for recording inventory			.32712	.5674
4. Definition of market value			6.58498	.0372*
5. Disclosure of policy for measuring PPE	97.8	96.4	.00000	1.0000
6. Disclosure of depreciation policy	95.6	92.9	.00000	1.0000
7. Method of accounting for depreciation			.27570	.8712
8. Disclosure of policy on long-term investments	91.1	92.9	.00000	1.0000
9. Method of valuing long-term investments			2.13476	.1440
10. Disposal of long-term investments			.00611	.9377
11. Disclosure of policy on current investments	60.0	60.7	.00368	.9516
12. Measurement of current investments			.16433	.6852

Table 7.20

* Denotes Significant result.

As was the case with France, the findings in this section might be best explained by the fact that there is not much difference between German accounting regulation and international practice on many of the topics treated in this chapter. On the topic of cost basis for recording items of property, plant and equipment where there is some slight difference between German regulation (only cost basis is allowed), and IASs (cost basis as well as revaluation are allowed), the strictness of the German regulatory requirement does not provide any room for choice to companies. This makes it almost impossible for the practices of domestic listed and multi-listed companies to vary under such a condition, notwithstanding the differences between international practice and German practice on this issue. This thinking is further supported when it is considered that on the one topic (definition of market value) whose test yielded a significant result, German regulation allows use of either net realisable value or replacement cost, while IAS 2 favours the use of net realisable value. It is therefore argued that the options provided by German accounting regulation on this topic, coupled with the slight difference between German regulation and the preference of international regulators, provided a necessary condition for the significant differences observed in the practices of German domestic listed and multi-listed companies on this particular topic. Hence, the major findings of this section is in accordance with the

explanatory framework developed in section 6A.2 and 6A.3. regarding the likely causes of differences in the accounting measurement and associated disclosure practices of domestic listed and multi-listed companies.

SECTION 7A.3.3: JAPAN

Out of the twelve topics on which chi-square tests were conducted in this section, three yielded significant results, namely: basis for recording inventories; disclosure of policy for measuring property, plant and equipment and; method of accounting for depreciation. No tests were conducted with respect to disclosure of policy on inventories and depreciation as all the Japanese companies disclosed their policies for treating these two items. Also no test was conducted on the cost basis for recording property, plants and equipment since all the companies, in line with the requirements of Japanese regulations, used the cost basis. While these findings suggest some association between listing status and the accounting practices of Japanese companies, taken overall, the evidence is rather inconclusive.

Summary of Chi-square test results

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Disclosure of inventory valuation policy	100.0	100.0		
2. Method used to assign cost to inventory			4.05714	.2554
3. Measurement basis for recording inventory			10.07964	.0015
4. Definition of market value			1.39683	.4974
5. Disclosure of policy for measuring PPE	86.7	100.0	6.42857	.0346
6. Gains or losses on disposal of PPE			2.60671	.1064
7. Disclosure of depreciation policy	100.0	100.0		
8. Method of accounting for depreciation			10.45714	.0054
9. Disclosure of policy on long-term investments	95.6	88.9	.61962	.4312
10. Method of valuing long-term investments			.01484	.9030
11. Disposal of long-term investments			.00849	.9266
12. Disclosure of policy on current investments	100.0	95.6	.51136	.4745
13. Measurement of current investments			1.69474	.4285
14. Gain/loss on disposal of current investments			.80361	.3700

Table 7.21

* Denotes Significant result.

Of the five disclosure based topics, the two groups of companies both attained a 100 percent disclosure level on two items (disclosure of inventory valuation policy and depreciation policy). It is however surprising to observe from table 7.21 that of the remaining three topics, the domestic listed companies attained higher levels of disclosure on two (disclosure of policy on long-term investments and current investments).

The significant results found regarding tests on the "basis for recording inventory" and "method of accounting for depreciation" is not very surprising given that Japanese regulation on these two items allow for many options. The explanation for the overall finding in this section suggests that the association between listing status and the accounting measurement and associated disclosure practices of Japanese companies is to a large extent perhaps accounted for by the closeness between Japanese accounting regulations and accepted international practice on many of the topics discussed under this section.

SECTION 7A.3.4: UNITED KINGDOM

In this section only nine tests were conducted as it was not possible to carry out tests on six topics, namely: disclosure of inventory valuation policy; basis for recording inventories; definition of market value; disclosure of policy on accounting for property, plant and equipment; treatment of gains and losses on disposal of long-term investments and; treatment of gains and losses on disposal of current investments. The six tests were not conducted because on the two disclosure related topics, all the companies disclosed their policies, while on the other four policy-based items, all the companies adopted the same policies. Out of the nine tests conducted, three yielded significant results: method used to assign costs to inventory; cost basis for recording property, plant and equipment and; disclosure of policy for measuring long-term investments. When it is considered that on the six issues for which tests were not conducted the multi-listed and domestic listed companies employed exactly the same practices, it can reasonably be concluded that the weight of evidence leans more on the side of the viewpoint that there is no association between listing status and the accounting measurement and associated disclosure practices of the UK companies surveyed.

Summary of Chi-square test results

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Disclosure of inventory valuation policy	100.0	100.0		
2. Method used to assign cost to inventory			8.57143	.0356
3. Disclosure of policy for measuring PPE	100.0	100.0		
4. Cost basis of for recording PPE			14.75709	.0001
5. Gains or losses on disposal of PPE			.00000	1.0000
6. Disclosure of depreciation policy	100.0	95.6	.51136	.4745
7. Method of accounting for depreciation			.00000	1.0000
8. Disclosure of policy on long-term investments	75.6	48.9	6.80672	.0091
9. Method of valuing long-term investments			1.28190	.2575
10. Disclosure of policy on current investments	35.6	33.3	.04921	.8244
11. Measurement of current investments			.10597	.9484

Table 7.22

* Denotes significant result.

A closer examination of table 7.22 reveals that out of the five disclosure based items, both categories of companies were even on two topics: disclosures of inventory policy and policy for accounting for property, plant and equipment. Surprisingly, on the three other items, namely: disclosures of policies on depreciation, long-term investments and current investments, the UK domestic listed companies attained higher levels of disclosures than the multi-listed companies. These findings run counter to expectations based on the extant literature (eg FEE (1991)).

As for the two policy based topics that yielded significant results (method used to assign cost to inventory and cost basis for recording property, plant and equipment), the findings are not very surprising given that UK regulations on both topics allow for many options. Take for instance the topic of the cost basis for recording property, plant and equipment. UK regulation allows for the use of original acquisition or manufacturing cost, revalued amounts and current cost. On the other hand, regulations in the USA, Japan and Germany endorse the use of the original acquisition or manufacturing cost basis. Therefore, any UK company listed on stock exchanges in any of these countries might find it more cost effective to use the cost basis which is acceptable both to regulators in the UK as well as in those other countries. The UK data on this topic (see Appendix 4), which shows that 62.2 percent of all the UK multi-listed companies used the original acquisition or manufacturing cost basis as against 22.2 percent of the UK domestic companies that used this basis, lends further support to this explanation.

SECTION 7A.3.5: UNITED STATES OF AMERICA

It was only possible to conduct tests on eleven topics, out of which only one yielded significant result (basis for recording inventory). Tests were not carried out on disclosure of policy on depreciation since all the US companies disclosed their policies. Also, it was not possible to conduct tests on three policy based topics: basis for recording items of property, plant and equipment; treatment of gains and losses on disposal of long-term investments and; treatment of gains and losses on disposal of current investments, as all the US companies adopted identical policies for accounting for each of the topics. Taken overall, the above findings strongly suggest that there is little or no difference between the accounting measurement and associated disclosure practices of domestic listed and multi-listed US companies regarding the topics discussed under this section.

Summary of Chi-square test results

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Disclosure of inventory valuation policy	97.8	97.8	.00000	1.0000
2. Method used to assign cost to inventory			4.36609	.2246
3. Measurement basis for recording inventory			4.46984	.0345*
4. Definition of market value			1.20000	.5488
5. Disclosure of policy for measuring PPE	100.0	97.8	.00000	1.0000
6. Gains or losses on disposal of PPE			.00297	.9565
7. Disclosure of depreciation policy	100.0	100.0		
8. Method of accounting for depreciation			2.26275	.3226
9. Disclosure of policy on long-term investments	20.0	31.1	.93446	.2269
10. Method of valuing long-term investments			.00000	1.0000
11. Disclosure of policy on current investments	35.6	53.3	2.88000	.0897
12. Measurement of current investments			2.03125	.3622

Table 7.23

*** Denotes significant result.**

Table 7.23 above shows that disclosure levels for the domestic listed and multi-listed companies were even on two topics (inventory and depreciation); the domestic listed companies achieved a higher level of disclosure on one topic (property, plant and equipment); while the multi-listed companies achieved higher levels of disclosures on two topics (long-term investments and current investments). This does not represent a clear departure from the disclosure patterns encountered in section 6A.3.5.

The significant result derived in this section in connection with the topic of measurement basis for recording inventory might best be explained on account of the many options allowed by US accounting regulation on this topic. The non significant

results found on many of the other topics is perhaps explained by the fact that international practice on many of the topics is similar to US practice. Given this scenario, the practices of domestic listed companies and multi-listed companies, should not be expected to differ significantly.

SUMMARY: SECTION 7A.3

From the table it can be observed that Japan and the UK had the most number of items with significant results, that is, 3 for each, followed by Germany and the US 1 each and finally France with no significant result. This can be interpreted to mean that with respect to the topics discussed in this chapter, the greatest variation in practice between multi-listed companies and domestic listed companies was observed in the accounting measurement and associated disclosure practices of Japan and UK, Germany and the USA, and France in that order.

Table 7.24

Summary of Findings Section 7A.3

	France	Germany	Japan	UK	US
1. Significant results	0	1	3	3	1
2. Non Significant results	12	11	9	6	10
3. Tests not conducted	3	3	3	6	4
	-----	-----	-----	-----	-----
Total number of items	15	15	15	15	15
	-----	-----	-----	-----	-----

The factors which might be responsible for these varying degrees of association between listing status and accounting measurement practices of the different have been explained in the discussions following the findings on the individual countries, there is no intention to restate them here. It is however, interesting to observe that the order derived from table 7.22 above deviates only slightly from that encountered in the last chapter (section 6A.3), which gave the following order: Japan, Germany, US in that order, with France and the UK in a tie for the last position. Notwithstanding the closeness in rankings between the findings on this section and those for section 6A.3, it is still pertinent to caution that the order can easily alter depending on the topics considered.

Overall, the findings of the tests on the individual countries, in the main, accords with findings based on the aggregated tests. The major conclusion to be drawn from both categories of tests is that with respect to the topics discussed in this chapter, there is

little or no difference between the accounting measurement and associated disclosure practices of domestic listed and multi-listed companies from France, Germany, Japan, UK and the USA. The main reason given for this is that there is not much variation between international practice and domestic regulations in most of the countries regarding many of the topics discussed.

SECTION 7B

SECTION 7B.1: COMPARISON OF ACCOUNTING PRACTICES OF FRANCE, GERMANY, JAPAN, UNITED KINGDOM AND THE UNITED STATES OF AMERICA IN 1970/71

Accounting Regulations Relating to Inventories, Fixed Assets, Depreciation and Investments - 1970/71

On the topics covered in this chapter there were minor changes between the regulations in most of the countries in 1970/71 and 1990/91. One of the few changes is the French Law of January 1, 1984, allowing for the discretionary revaluations of groups of assets. In Japan during 1970 it was still possible to find some companies carrying fixed assets at upwardly revalued figures as a result of the Fixed Assets Revaluation Law of 1950 (as amended), which authorised the revaluation of fixed assets following severe currency inflation experienced by Japan in the period immediately following the Second World War. Some other changes include the introduction in the UK of SSAP 9 (1975) favouring the use of the lower of cost or net realisable value method of accounting for inventories and; SSAP 6 (1974) requiring companies to reflect gains and losses on the disposal of assets in the profit and loss accounts. Apart from the above mentioned, there have not been any serious and fundamental changes in the regulation relating to the topics discussed in this chapter. Even when precise standards or codified rules did not exist on an issue, there were generally accepted standards of good financial reporting practice which later simply were collated and published under the authority of one body or the other (For example ASC, FASB etc.). Consequently, to avoid unnecessary repetitions, no effort will be made to discuss the regulatory provisions governing any of the topics in any detail in this section.

Accounting for Inventories

The tests of disclosure and the measurement basis for recording inventory suggests that there were significant differences between the practices adopted by companies from the five countries in 1970/71. Tests on the methods of assigning costs to inventories which was restricted to Germany, Japan, United Kingdom and the United States of America, due to a lack of disclosure by French companies also implied that there are significant differences in practices between the four countries in 1970/71 financial year.

Table 7.25 Disclosure of inventory valuation policy

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	24 (96.0)	9 (21.4)	2 (3.7)	1 (1.2)	2 (2.2)	38 (13.0)
Yes	1 (4.0)	33 (78.6)	52 (96.3)	81 (98.8)	88 (97.8)	255 (87.0)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)

Chi-Square = 178.70552; D.F. = 4; Sig. = .0000

However, tests of the interpretation of the concept of market value suggests that there were no significant differences between the five countries in 1970/71. These findings represent a mild departure from the 1990/91 comparison of the practices of companies from the five countries (see section 7A.1), when significant differences were observed on all four of the inventory related items.

Table 7.26 Method used to assign cost to inventory

	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
FIFO	0 (0.0)	4 (8.0)	1 (10.0)	29 (37.7)	34 (22.4)
LIFO	2 (13.3)	5 (10.0)	0 (0.0)	9 (11.7)	16 (10.5)
Weighted Average	10 (66.7)	24 (48.0)	6 (60.0)	21 (27.3)	61 (40.1)
Others	3 (20.0)	17 (34.0)	3 (30.0)	18 (23.4)	41 (27.0)
Column Total	15 (9.9)	50 (32.9)	10 (6.6)	77 (50.7)	152 (100.0)

Chi-Square = 27.13081; D.F. = 9; Sig. = .0013; I index = 0.3853

Of the three items for which the I index was calculated in this section, the item with the lowest I index score of 0.3853 is "method of assigning costs to inventory" (table 7.26), this is followed by the "definition of market value" which had a score of 0.6164

(table 7.28) and then the "basis for recording inventories" with a score of 0.6781 (table 7.27).

Table 7.27 Measurement basis for recording inventory

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Cost	0 (0.0)	6 (18.2)	35 (67.3)	7 (8.6)	12 (14.1)	60 (23.8)
LOCOM	1 (100.0)	27 (81.8)	17 (32.7)	74 (91.4)	73 (85.9)	192 (76.2)
Column Total	1 (0.4)	33 (13.1)	52 (20.6)	83 (32.1)	85 (33.7)	252 (100.0)

Chi-Square = 69.79896; D.F. = 4; Sig. = .0000; I index = 0.6781

The average I index score for the inventory related issues of 0.5599 is below both the sectional average of 0.6182 (see table 7.41) and the average for the inventory based items for the 1990/91 financial years. However, as was the case with 1990/91, the fact that the average is below the sectional average suggests that inventory accounting practices are among the least harmonised of all the topics treated in this chapter.

Table 7.28 Definition of market value

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Net realisable value (NRV)	1 (100.0)	13 (76.5)	1 (50.0)	55 (78.6)	7 (46.7)	77 (73.4)
Replacement cost (RC)	0 (0.0)	2 (11.8)	1 (50.0)	5 (7.1)	6 (40.0)	14 (13.3)
NRV & RC	0 (0.0)	2 (11.8)	0 (0.)	10 (14.3)	2 (13.3)	14 (13.3)
Column Total	1 (1.0)	17 (16.2)	2 (1.9)	70 (66.7)	15 (14.3)	105 (100.0)

Chi-Square = 14.65699; D.F. = 8; Sig. = .0662; I index = 0.6164

Accounting for Property, Plant and Equipment

Tests on disclosure, basis for recording, and the treatment of gains and losses on the disposal of property, plant and equipment strongly suggest the existence of significant differences in the 1970/71 practices of the companies studied from the five countries.

Table 7.29 Disclosure of policy for measuring PPE

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	23 (92.0)	12 (28.6)	29 (53.7)	2 (2.4)	0 (0.0)	66 (22.5)
Yes	2 (8.0)	30 (71.4)	25 (46.3)	80 (97.6)	90 (100.0)	227 (77.5)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)

Chi-Square = 145.22779; D.F. = 4; Sig. = .0000

The I index score for the "basis for recording PPE" (table 7.30) is 0.7629, while that for treatment of "gains or losses on disposal of PPE" is 0.7410 (table 7.31). This gives an average figure of 0.7520, which is well above the sectional average of 0.6182 (see table 7.41). Based on these scores, it is fair to say that accounting practices relating to property, plant and equipment are among the most harmonised of the topics covered in this chapter. It is also encouraging to observe that the average score of the PPE based items for 1970/71 of 0.7520 is below that for 1990/91 of 0.8841 (see section 7A.1), this implies that in addition to the level of harmonisation on this item being relatively high, the trend is suggestive of an upward movement.

Table 7.30 Cost basis for recording PPE

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Original cost	2 (100.0)	28 (93.3)	22 (100.0)	29 (36.3)	90 (100.0)	171 (76.3)
Cost or valuation	0 (0.0)	2 (6.7)	0 (0.0)	51 (63.8)	0 (0.0)	53 (23.7)
Column Total	2 (.9)	30 (13.4)	22 (9.8)	80 (35.7)	90 (40.2)	224 (100.0)

Chi-Square = 111.31207; D.F. = 4; Sig. = .0000; I index = 0.7629

Table 7.31 Gains or losses on disposal of PPE

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
In current income	1 (100.0)	31 (91.1)	11 (91.7)	22 (36.1)	15 (100.0)	80 (65.0)
To reserves	0 (0.0)	3 (8.8)	1 (8.3)	39 (63.9)	0 (0.0)	43 (35.0)
Column Total	1 (0.8)	34 (27.6)	12 (9.8)	61 (49.6)	15 (12.2)	123 (100.0)

Chi-Square = 52.11943; D.F. = 4; Sig. = .0000; I index = 0.7410

Accounting for Depreciation

Evidence provided by the test of disclosure (table 7.32) and the test of depreciation methods (table 7.33), strongly support the view point that there were significant differences in the depreciation accounting practices of companies from France, Germany, Japan, United Kingdom and the United States of America during the 1970/71 financial year.

Table 7.32 Disclosure of depreciation policy

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	24 (96.0)	8 (19.0)	1 (1.9)	50 (61.0)	3 (3.3)	86 (29.4)
Yes	1 (4.0)	34 (81.0)	53 (98.1)	32 (39.0)	87 (96.7)	207 (70.6)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)
Chi Square = 144.32495; D.F. = 4; Sig. = .0000						

The index score for the "method of accounting for depreciation" (table 7.33) of 0.3294 is not only well below the sectional average of 0.6182, but is also the lowest score for all the topics treated in this section, just as was the case with this topic for the 1990/91 comparisons. Worse still, the score for 1970/71 was higher than that for 1990/91 of 0.2295 (see table 7.41). This can be interpreted to mean that not only is the level of harmonisation associated with this topic low, there does not appear to be any prospects of improvement in the trend.

Table 7.33 Method of accounting for depreciation

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Straight line (SL)	0 (0.0)	3 (8.8)	3 (5.8)	29 (90.6)	54 (62.1)	89 (43.2)
Declining balance (DB)	0 (0.0)	1 (2.9)	22 (42.3)	0 (0.0)	13 (14.9)	36 (17.5)
SL & DB	1 (100.0)	30 (88.2)	27 (51.9)	3 (9.4)	19 (21.8)	80 (39.3)
Column Total	1 (0.5)	34 (16.5)	52 (25.2)	32 (15.5)	87 (42.2)	206 (100.0)
Chi-square = 121.33656; D.F. = 16; Sig. = .0000; I index = 0.3294						

Accounting for Long-term Investments

Tests of disclosure of policy and treatment of gains and losses on the disposal of long-term investments tend to suggest that there were significant differences between the practices of German, Japanese, UK and US companies for 1970/71. On the other

hand, tests of the methods used to value long-term investments appears to suggest the existence of no significant differences between the practices of companies from all five countries in 1970/71.

Table 7.34 Disclosure of policy on measurement of long-term investments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	23 (92.0)	28 (66.7)	16 (29.6)	6 (7.3)	43 (47.8)	116 (39.6)
Yes	2 (8.0)	14 (33.3)	38 (70.4)	76 (92.7)	47 (52.2)	177 (60.4)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)

Chi-Square = 82.06065; D.F. = 4; Sig. = .0000

Table 7.35 Method of valuing long-term investments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Cost	2 (100.0)	13 (92.9)	33 (86.8)	57 (75.0)	40 (85.1)	145 (81.9)
Others	0 (0.0)	1 (7.1)	5 (13.2)	19 (25.0)	7 (14.9)	32 (18.1)
Column Total	2 (1.1)	14 (7.9)	38 (21.5)	76 (42.9)	47 (26.6)	177 (100.0)

Chi-Square = 4.97325; D.F. = 4; Sig. = .2901; I index = 0.8471

The I index for the "method of valuing long-term investments" is 0.8471 (table 7.35). This is the highest individual index score for all the topics treated in this section. However, the average index score for the long-term investment related items reduces to 0.7137 as result of the index score for the treatment of "gains or losses on the disposal of long-term investments" (table 7.36), which stands at 0.5803. Notwithstanding this fact, the average score for this topic is well above the sectional average of 0.6182, and thus signifies that in 1970/71, accounting practices on long-term investments were relatively speaking more harmonised than those of the other topics encountered in this section such as depreciation.

Table 7.36 Disposal of long-term investments

	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
In current income	2 (100.0)	8 (100.0)	12 (29.3)	4 (66.7)	26 (45.6)
To reserves	0 (0.0)	0 (0.0)	29 (70.7)	2 (33.3)	32 (54.4)
Column Total	2 (3.5)	8 (14.0)	41 (71.9)	6 (10.5)	57 (100.0)

Chi-Square = 17.41082; D.F. = 3; Sig. = .0006; I index = 0.5803

Accounting for Current Investments

With respect to current investments, the test of disclosure (table 7.37), method of valuing current investments (table 7.38), and that on the treatment of gains and losses on the disposal of current investments (table 7.39), strongly support the viewpoint that there were significant differences in the current investments accounting practices of companies from the five countries in 1970/71 financial year.

Table 7.37 Disclosure of policy on measurement of current investments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	22 (88.0)	30 (71.4)	12 (22.2)	64 (78.0)	43 (48.3)	171 (58.6)
Yes	3 (12.0)	12 (28.6)	42 (77.8)	18 (22.0)	46 (51.7)	121 (41.4)
Column Total	25 (8.6)	42 (14.4)	54 (18.5)	82 (28.1)	89 (30.5)	292 (100.0)

Chi-Square = 57.86185; D.F. = 4; Sig. = .0000

Table 7.38 Measurement of current investments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Market value	0 (0.0)	1 (8.3)	0 (0.0)	5 (33.3)	1 (2.2)	7 (5.9)
LOCOM	3 (100.0)	11 (91.7)	23 (54.8)	4 (26.7)	37 (80.4)	78 (66.1)
Cost	0 (0.0)	0 (0.0)	15 (35.7)	6 (40.0)	6 (13.0)	27 (22.9)
Column Total	3 (2.5)	12 (10.2)	42 (35.6)	15 (12.7)	46 (39.0)	118 (100.0)

Chi-Square = 43.87414; D.F. = 12; Sig. = .0000; I index = 0.5731

With respect to current investments, the I index score for the method of valuation is 0.5731 (table 7.38), while that for the treatment of disposal gains/losses is 0.6999 (table 7.39). The average of 0.6365 is slightly above the average for the section and connotes an above average level of harmonisation on this topic in 1970/71, relative to some of the other topics discussed in this section, for instance inventory valuation practices.

Table 7.39 Treatment of gain/loss on disposal of current investments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
In current income	1 (100.0)	5 (100.0)	18 (100.0)	4 (40.0)	3 (60.0)	31 (79.5)
To reserves	0 (0.0)	0 (0.0)	0 (0.0)	6 (60.0)	2 (40.0)	8 (20.5)
Column Total	1 (2.6)	5 (12.8)	18 (46.2)	10 (25.6)	5 (12.8)	39 (100.0)

Chi-Square = 16.92097; D.F. = 4; Sig. = .0020; I index = 0.6999

Conclusions: Section 7B.1

Comparison of Chi-Square Results: 1970/71

In this section, chi-square tests were conducted on fifteen items out of which only two "definition of market value" and the "method of valuing long-term investments" (table 7.40) yielded non-significant results. Therefore, based on the chi-square tests, it can be concluded that there were substantial differences in the accounting measurement and associated disclosure practices of the companies from the five countries studied with respect to the issues treated in this chapter in the 1970/71 financial year.

Summary of Chi-square test results

Topics	Chi-Square	Significance
1. Disclosure of inventory valuation policy	178.70552	.0000*
2. Method used to assign cost to inventory	27.13081	.0013*
3. Measurement basis for recording inventory	69.79896	.0000*
4. Definition of market value	14.65699	.0662
5. Disclosure of policy for measuring PPE	145.22779	.0000*
6. Cost basis of for recording PPE	111.31207	.0000*
7. Gains or losses on disposal of PPE	52.11943	.0000*
8. Disclosure of depreciation policy	144.32495	.0000*
9. Method of accounting for depreciation	121.33656	.0000*
10. Disclosure of policy on L-term investments	82.06065	.0000*
11. Method of valuing long-term investments	4.97325	.2901
12. Disposal of long-term investments	17.41082	.0006*
13. Disclosure of policy on current investments	57.86185	.0000*
14. Measurement of current investments	43.87414	.0000*
15. Gain/loss on disposal of current investments	16.92097	.0020*

Table 7.40

* Denotes Significant result.

Comparison of I index scores: 1970/71 and 1990/91

For the 1970/71 financial year, the I index scores range from 0.3294 for "method of accounting for depreciation", to 0.8471 for "method of valuing long-term investments". The average score for all the topics for 1970/71 as can be seen from table 7.41 is 0.6182.

Summary of I index scores

Topics	1970/71	1990/91	Change
1. Method used to assign cost to inventories	0.3853	0.2825	-0.1028
2. Measurement basis for recording inventories	0.6781	0.7564	+0.0783
3. Definition of market value	0.6164	0.6990	+0.0826
4. Cost basis for recording property, plant and equipment	0.7629	0.7906	+0.0277
5. Gains/losses on disposal of property, plant and equipment	0.7093	0.9777	+0.2684
6. Method of accounting for depreciation	0.3294	0.2295	-0.0999
7. Method of valuing long-term investments	0.8471	0.6088	-0.2383
8. Gains/losses on disposal on long-term investments	0.5803	0.9889	+0.4986
9. Method of valuing current investments	0.5731	0.7662	+0.1931
10. Gains/losses on disposal of current investments	0.6999	0.9914	+0.2915
Average I index score	0.6182	0.7061	+0.0879

Table 7.41

For 1970/71, the average score for all the topics as can be seen from table 7.41 is 0.6182, this is only 0.0879 less than the average score for 1990/91 of 0.7061. This can be interpreted to mean that over the two time periods, on average there has been only a slight increase in the level of harmonisation regarding the topics treated in this chapter.

It is interesting to observe from table 7.41 that on three of the issues, the I index scores for the 1970/71 financial year were higher than those for 1990/91. The three topics are: method used to assign cost to inventory; method of accounting for depreciation and; method of valuing long-term investments. While it is complex to explain the decrease in the I index score for the method of accounting for depreciation, the downward slide in the value of the I index score for the method of assigning costs to inventory is largely explained by the considerable swing by German and UK companies from the use of the average cost method to FIFO and other methods (see tables 7.2 and 7.26). This cannot be attributed to changes in regulation since the regulations in both countries do not prohibit the use of the average cost method of inventory valuation. On the other hand, the lower I index score derived on the topic of valuation of long-term investments is explained by shifts by companies from all the

five countries away from using the cost method (the predominant method in 1970/71) of valuation to the use of other basis such as revalued amounts or market values (see tables 7.11 and 7.35). This shift is more likely to have been influenced by factors such as inflationary pressures, rather than accounting regulations since the regulations in all the country have continued to allow the use of the cost basis of accounting for long-term investments. Whatever the reasons are for these lower I index scores, these findings are surprising in the light of the major efforts that have been made during the period to bring about comparability of financial statements world wide.

SECTION 7B.2: AGGREGATE COMPARISONS OF 1970/71 AND 1990/91 FINANCIAL YEARS

Under this section, fifteen tests were conducted to ascertain in aggregate, whether or not the accounting measurement and associated disclosure practices of all the companies irrespective of countries of origin, differ significantly, during the 1970/71 and 1990/91 financial years. As can be seen from table 7.42 below, tests on twelve of the topics yielded significant results.

Summary of Chi-square test results

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of inventory valuation policy	87.0	98.3	+11.3	27.33111	.0000*
2. Method used to assign cost to inventory				12.21136	.0067*
3. Measurement basis for recording inventory				3.13482	.0766
4. Definition of market value				8.41245	.0149*
5. Disclosure of policy for measuring PPE	77.5	98.0	+20.5	57.00389	.0000*
6. Cost basis of for recording PPE				3.81646	.0508
7. Gains or losses on disposal of PPE				97.38931	.0000*
8. Disclosure of depreciation policy	70.6	97.6	+27.0	79.76676	.0000*
9. Method of accounting for depreciation				19.36218	.0007*
10. Disclosure of policy on L-term investments	60.4	61.8	+ 1.4	0.11487	.7347
11. Method of valuing long-term investments				10.64379	.0011*
12. Disposal of long-term investments				69.31581	.0000*
13. Disclosure of policy on current investments	41.4	52.2	+10.8	6.82557	.0090*
14. Measurement of current investments				19.67422	.0002*
15. Gain/loss on disposal of current investments				22.18161	.0000*

Table 7.42

* Denotes Significant result.

Data from the disclosure based items also show that disclosure levels in 1990/91 financial year were higher than those of 1970/71 financial year on all the topics. The margins ranged from 1.4 percent for disclosure of policy on long-term investments, to 27.0 percent on account of disclosure of policy for treating depreciation. Based on the

above, it can therefore be argued that the evidence is in favour of the viewpoint that there are significant differences in the accounting measurement and associated disclosure practices of the companies during the two time periods.

It is difficult to point at any particular factor that explains these findings. More so since there were no substantial changes in the relevant regulatory requirements pertaining to most of the topics in most of the countries (with the possible exception of the UK) over these two time periods. It therefore seems to be the case that factors other than regulatory pressures have brought about most of the changes observed in the accounting practices of the companies during these two periods. If we use the topic of long-term investments for example. Though there has hardly been any regulations during the two periods prohibiting the use of the cost basis of recording the value of long-term investments, Tables 7.11 and 7.35 show that there has been a dramatic change from the use of the cost basis adopted by 81.9 percent of all responding companies 1970/71 to 65.1 percent in 1990/91. Apart from regulations, another possible factor explaining this shift might be inflation. Hence, given that in any case, regulations on most of the topics allow for lots of options; over time, it is not impossible for companies to shift from one method to others in response to changing economic conditions.

SECTION 7B.3: COMPARISON OF 1970/71 AND 1990/91 FINANCIAL YEARS ON INDIVIDUAL COUNTRY BASIS

Section 7B.3.1: FRANCE

Altogether, eleven tests were conducted, out of which five (all disclosure based), yielded significant results. Generally, the disclosure levels attained by the French companies during the 1970/71 financial year, were very low in comparison to the disclosure levels for 1990/91 financial year. As a matter of fact on three items (method used to assign costs to inventories, treatment of gains and losses on the disposal of long-term investments and current investments), tests were not carried out because none of the French companies in the sample disclosed their policy on any of these items during the 1970/71 financial year. However, on the remaining one item (treatment of gains and losses on disposal of fixed assets), it was not possible to conduct any test since all the responding French companies recognised all such transactions in the income of the period when they arose.

Summary of Chi-square test results

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of inventory valuation policy	4.0	96.0	+92.0	42.32000	.0000*
2. Measurement basis for recording inventory				.00000	1.0000
3. Definition of market value				.00000	1.0000
4. Disclosure of policy for measuring PPE	8.0	96.0	+88.0	38.78205	.0000*
5. Cost basis of for recording PPE				.00000	1.0000
6. Disclosure of depreciation policy	4.0	84.0	+80.0	32.46753	.0000*
7. Method of accounting for depreciation				1.07000	.3684
8. Disclosure of policy on long-term investments	8.0	76.0	+68.0	23.72742	.0000*
9. Method of valuing long-term investments				.00000	1.0000
10. Disclosure of policy on current investments	12.0	48.0	+36.0	7.71429	.0055*
11. Measurement of current investments				.57692	.7494

Table 7.43

* Denotes Significant result.

The findings in this section suggest strongly that while there have been significant increases in the level of disclosures of accounting policy by French companies, there has not been much change in the accounting policies adopted by French companies during the two periods. This point is buttressed by the fact that while table 7.43 shows wide increases in levels of disclosures over the two periods ranging from the lowest rate of increase of 36 percent (disclosure of policy for treating current investments), to the highest rate of increase of 92 percent (disclosure of inventory valuation policy); none of the policy based tests yielded significant results.

Section 7B.3.2 : GERMANY

In all, fourteen tests were conducted in a bid to ascertain whether or not the accounting measurement and associated disclosure practices of German companies differ significantly during the 1970/71 and 1990/91 financial years. No test was conducted on the subject of the treatment of gains and losses on the disposal of current investments, since all the responding German companies reflected such transactions in the income of the period when they arose. As was the case with the French based analysis, there was a consistency in pattern encountered in this section. All the five tests of disclosure suggested that there have been significant changes in practice between 1970/71 and 1990/91, while all the other nine test of methods of valuation and treatment of gains and losses on disposals, yielded results supporting the existence of no significant differences between the two periods of time. For disclosures, usually the changes were in the form of improvements in the rate of disclosure. The most marked improvement in disclosure was witnessed in the case of disclosure of policy on long-term investments (table 7.44), which rose from 33.3 percent in 1970/71 to

95.2% in 1990/91.

The conclusion from the above findings therefore, is that, while there have been substantial increases in the level of disclosures of accounting policies by German companies, there has been little or no changes in the measurement methods adopted by German companies during the 1970/71 and 1990/91 financial years. The results of the tests of accounting policies or methods fairly reflects what has been stated earlier on, that is, the fact that the regulations for dealing with most of the topics discussed in this chapter have not changed much, either locally or internationally. As was also said about France, the higher levels of German disclosures of policy is perhaps a reflection of a general level of improvement in the disclosure aspects of German financial reporting.

Summary of Chi-square test results

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of inventory valuation policy	78.6	95.2	+16.6	5.12578	.0236*
2. Method used to assign cost to inventories				2.97143	.2263
3. Measurement basis for recording inventory				3.61232	.0574
4. Definition of market value				.30691	.8577
5. Disclosure of policy for measuring PPE	71.4	97.6	+26.2	11.01192	.0009*
6. Cost basis of for recording PPE				.90444	.3416
7. Gains or losses on disposal of PPE				4.73356	.0938
8. Disclosure of depreciation policy	81.0	97.6	+16.6	4.48000	.0343*
9. Method of accounting for depreciation				.83009	.6603
10. Disclosure of policy on L-term investments	33.3	95.2	+61.9	35.05185	.0000*
11. Method of valuing long-term investments				.48214	.4875
12. Disposal of long-term investments				.00000	1.0000
13. Disclosure of policy on current investments	28.6	57.1	+28.5	7.00000	.0082*
14. Measurement of current investments				.12857	.7199

Table 7.44

* Denotes Significant result.

Section 7B.3.3: JAPAN

Regarding Japan, it was only possible to carry out twelve tests in order to establish the extent to which significant differences exists in the accounting practices of Japanese companies during the 1970/71 and 1990/91 financial years. No tests were conducted on three topics: cost basis for recording property, plant and equipment; treatment of gains and losses on disposal of long-term investments and; treatment of gains and losses on disposal of current investments, because all the responding Japanese companies used the same policies for each of the three types of transactions.

Summary of Chi-square test results

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of inventory valuation policy	96.3	100.0	+ 3.7	.50943	.4754
2. Method used to assign cost to inventory				2.75132	.4316
3. Measurement basis for recording inventory				3.98044	.0460*
4. Definition of market value				.44444	.8007
5. Disclosure of policy for measuring PPE	46.3	94.4	+48.1	30.01974	.0000*
6. Gains or losses on disposal of PPE				.39721	.5285
7. Disclosure of depreciation policy	98.1	100.0	+ 1.9	.00000	1.0000
8. Method of accounting for depreciation				11.92916	.0026*
9. Disclosure of policy on L-term investments	70.4	92.6	+22.2	8.83636	.0030*
10. Method of valuing long term investments				9.65674	.0019*
11. Disclosure of policy on current investments	77.8	98.1	+20.3	10.58138	.0011*
12. Measurement of current investments				12.26603	.0065*

Table 7.45

* Denotes Significant result.

Of the twelve topics tested, seven (three disclosure based and four policy based items) yielded significant results. This would therefore seem to suggest that during the period Japanese financial reporting has experienced more significant changes in the methods used for accounting for some of the topics covered under this section, than was the case with either France or Germany. On the disclosure based items, according to normal expectations, the 1990/91 disclosure levels were higher than those of 1970/71 financial year on all five counts (table 7.45).

The significant results derived from test on four of the policy based topics runs counter to the trend observed so far. A deeper scrutiny shows that on three of the items: basis for recording inventories (tables 7.3 and 7.27); valuation basis for long-term investments (tables 7.11 and 7.35) and; valuation basis for recording current investments (tables 7.14 and 7.38), the significant results obtained were principally due to major shifts by Japanese companies from the practice of adopting the cost basis for recording all three types of transactions, to the usage of the lower of cost method, which is the more widely used method internationally. It can therefore be argued based on this fact that the significant results derived on these topics reflect a move by Japanese companies towards an option which is more in keeping with international norms.

SECTION 7B.3.4: UNITED KINGDOM

With respect to the UK, fifteen tests were conducted, out of which tests on ten topics yielded significant results. Only two of the topics which yielded significant results are disclosure based (see table 7.46 below), the other eight are policy based topics. These findings show that of all the countries studied, the UK encountered the most number of significant differences between the accounting measurement and associated disclosure practices of the year 1970/71 and those of 1990/91. The findings also strongly suggests the existence of substantial variations in the practices of UK companies over the two time periods.

Summary of Chi-square test results

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of inventory valuation policy	98.8	100.0	+ 1.2	.00000	1.0000
2. Method used to assign cost to inventory				10.56178	.0051*
3. Measurement basis for recording inventory				5.45103	.0196*
4. Definition of market value				19.49531	.0001*
5. Disclosure of policy for measuring PPE	97.6	100.0	+ 2.4	.50617	.4768
6. Cost basis of for recording PPE				.70118	.4024
7. Gains or losses on disposal of PPE				62.80953	.0000*
8. Disclosure of depreciation policy	39.0	97.6	+58.6	64.87912	.0000*
9. Method of accounting for depreciation				2.10583	.1467
10. Disclosure of policy on long-term investments	92.7	59.8	-32.9	24.52431	.0000*
11. Method of valuing long-term investments				5.35148	.0207*
12. Disposal of long-term investments				33.29831	.0000*
13. Disclosure of policy on current investments	22.0	29.3	+ 7.3	1.15222	.2831
14. Measurement of current investments				6.47338	.0393*
15. Gain/loss on disposal of current investments				12.01644	.0005*

Table 7.46

* Denotes Significant result.

The number of the topics that yielded significant results and their nature deviates very widely from both normal expectations based on the trend prior to now, and so the UK findings warrant some detailed explanations and discussions. The ensuing discussions will focus on the policy based items that gave rise to significant results, given that the significant results derived on two of the disclosure based topics are not unexpected.

A closer look at Appendix 4 reveals that the significant results derived on seven of the topics tested arose due to four principal reasons, namely: increase in the use of the FIFO method, increase in the use of the net realisable value method; increase in the use of the lower of cost or market concept; increase in the number of UK companies that reflect disposal gains and losses in current income. The increase in the use of the

lower of cost or market concept and net realisable value method are possibly explained by the introduction of SSAP 9 (Stocks and Long-term Contracts) during the period between 1970/71 and 1990/91. Furthermore, the tendency for more UK companies to recognise disposal gains and losses in current income rather than reserves (see Appendix 4) might also be explained by the introduction of SSAP 6 (extraordinary items and prior year adjustments) in 1974 requiring that disposal gains and losses on various assets be recognised in the profit and loss of the period when they arise. Hence, it can be argued that most of the changes observed in UK accounting measurement practices over the period were mainly as a result of regulatory factors.

Section 7B.3.5: UNITED STATES OF AMERICA

Regarding the USA, fourteen tests were conducted, out of which only three yielded significant results: method used to assign cost to inventories, disclosure of policy on long-term investments and treatment of gains and losses on the disposal on current investments. No test was carried out on the cost basis for recording property, plant and equipment as all the responding US companies used the cost basis in both years. Taken overall, the results would tend to support the view that there were few significant differences in the accounting measurement and associated disclosure practices adopted by US companies as between 1970/71 and 1990/91.

Summary of Chi-square test results

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of inventory valuation policy	97.8	97.8	0.0	.00000	1.0000
2. Method used to assign cost to inventory				23.84138	.0000*
3. Measurement basis for recording inventory				1.21128	.2711
4. Definition of market value				.16993	.9185
5. Disclosure of policy for measuring PPE	100.0	98.9	-1.1	.00000	1.0000
6. Gains or losses on disposal of PPE				.20500	.9959
7. Disclosure of depreciation policy	96.7	100.0	+3.3	1.35593	.2442
8. Method of accounting for depreciation				5.88312	.2080
9. Disclosure of policy on long-term investments	52.2	25.6	-26.6	13.46494	.0002*
10. Method of valuing long-term investments				.14151	.7068
11. Disposal of long-term investments				2.70000	.1429
12. Disclosure of policy on current investments	51.7	44.4	-7.3	.93993	.3323
13. Measurement of current investments				5.37847	.1461
14. Gain/loss on disposal of current investments				4.56668	.0326*

Table 7.47

* Denotes Significant result.

The conclusions based on the findings are not generally speaking surprising given that

US accounting regulations on many of the topics hardly underwent any radical changes over the two periods. However, it is unexpected to observe from table 7.47 above that on three of the five disclosure based topics, the companies achieved a higher level of disclosure in 1970/91 than in 1990/91, by margins as high as 26.6 percent as was the case with disclosure of the policy for treating long-term investments.

Table 7.48 Summary of Findings Section 7B.3

	France	Germany	Japan	UK	US
1. Significant results	5	5	7	10	3
2. Non Significant results	6	9	5	5	11
3. Topics not tested	4	1	3	0	1
	-----	-----	-----	-----	-----
Total number of items	15	15	15	15	15
	-----	-----	-----	-----	-----

Based on the number of significant results derived (see table 7.48), the US appear to have witnessed the least change. This is not very surprising since the US had authoritative guidelines on most of the topics prior to the 1970/71 financial year. Next to the US are France and Germany with five significant results each. This is followed by Japan with seven significant results, and finally the UK witnessed the most changes with ten significant results. The UK position in this ranking as was explained earlier on was mainly due to some changes in UK accounting regulation pertaining to some of the topics over the two periods of time. Taken overall, the findings from this section mirror to a large extent, the regulatory conditions existing with regard to many of the topics during each particular time period.

Concluding Remarks on Chapter 7

Table 7.49 below shows that the tests of country differences in accounting measurement and associated disclosure practices of the companies for 1970/71 financial year, yielded the most number of significant results(13). This is closely followed by the inter-country comparisons for 1990/91 and the tests of differences between 1970/71 and 1990/91 (12 each). As was the case with the topics treated in chapter 6, aggregate tests based on listing status gave rise to the least number of significant results (2).

Table 7.49 **Summary of aggregate test results**

	Country Differences		Listing Status	1970/71 and 1990/91 Comparisons
	1970/71	1990/91		
Significant results	13	12	2	12
Non significant results	2	3	13	3
	-----	-----	---	-----
Total	15	15	15	15
	-----	-----	---	-----

Analysis based on the I index shows that, on average, for the practices surveyed here, there has been a slight increase (0.0879), in the level of harmony existing in the accounting measurement and associated disclosure practices of companies from the five countries between the 1970/71 and 1990/91 financial years. It is, however, surprising to observe from the I index score that on three topic: basis for recording inventories; method of accounting for depreciation and; method of valuing long-term investments, the score values indicate a fall in the level of harmony. This is contrary to normal expectations, in the light of the major efforts that have been made between these two time periods to increase the level of comparability of financial statements world wide.

The I index scores for 1990/91 also suggests that the level of harmony existing on some topics like method of accounting for depreciation (0.2295) and the basis of recording inventory (0.2825), are relatively very low in comparison with others like treatment of gains and losses on disposal of current investments (0.9914) and on long-term investments (0.9889). This seems to indicate that there are still very wide differences as to the levels of harmony attained between the various accounting measurement topics. The policy implications of these findings is taken up in chapter 9.

CHAPTER EIGHT

EMPIRICAL TESTS AND DISCUSSIONS; BORROWING COSTS; DEFERRED TAXES; EXTRA-ORDINARY AND EXCEPTIONAL ITEMS; RESEARCH AND DEVELOPMENT COSTS; PENSIONS AND RETIREMENT BENEFITS; LONG-TERM CONTRACTS; AND GOVERNMENT GRANTS

SECTION 8.0: INTRODUCTION

This chapter presents the results of empirical tests and discussions on a wide range of topics that are vital for the purposes of determining the profits of most business enterprises. Specifically, the topics covered in this chapter include the accounting treatment of: borrowing costs; deferred taxation; extra-ordinary and exceptional items; research and development (R&D) costs; pensions and retirement benefit (PRB) costs; long-term contracts and; government grants. The pattern employed in presenting the findings on these topics is similar to that adopted for chapters 6 and 7. This chapter should also be read in conjunction with the introductory guidelines to the empirical chapters presented in chapter 6.

SECTION 8A.1: COMPARISON OF ACCOUNTING PRACTICES OF FRANCE, GERMANY, JAPAN, UNITED KINGDOM AND THE UNITED STATES OF AMERICA - 1990/91 FINANCIAL YEAR

Capitalisation of Borrowing Costs

Regulations in all the five countries, similar to the position of the IASC, allow companies the options of amortising or expensing borrowing costs on assets and projects whose acquisition or construction require a long period of time. However, in Germany, the practice of capitalising borrowing costs is not actively encouraged, it is only permissible if a company can establish that there is a close and identifiable relationship between the loan and related asset whose construction or manufacture spans over more than one fiscal period.

Table 8.1 Disclosure of policy on borrowing costs

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	47 (67.1)	63 (84.9)	46 (51.1)	24 (26.7)	27 (11.1)	207 (50.1)
Yes	23 (32.9)	10 (15.1)	44 (48.9)	66 (73.3)	63 (68.9)	206 (49.9)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)

Chi-Square = 76.34562; D.F. = 4; Sig. = .0000

Table 8.2 Method of accounting for borrowing costs

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Expensed	10 (43.5)	8 (80.0)	39 (88.6)	38 (57.6)	6 (9.5)	101 (49.0)
Amortised	13 (56.5)	2 (20.0)	5 (11.4)	28 (42.2)	57 (90.5)	105 (51.0)
Column Total	23 (11.2)	10 (4.9)	44 (21.4)	66 (32.0)	63 (30.6)	206 (100.0)

Chi-Square = 73.01476; D.F. = 4; Sig. = .0000; I index = 0.3843

Both the test of disclosure and method of treating borrowing costs suggest that there are significant differences between practices in the five countries. The I index score of 0.3843 derived for this topic (table 8.2) is far below the average for the section which is 0.6655. This implies that the topic of borrowing costs is one of the least harmonised of all the topics treated in this chapter.

Accounting for Deferred Taxes

Under French regulation, deferred taxes is not recognised in statutory financial statements. However, in consolidated financial statements, deferred taxes can be accounted for by either the deferral method or the liability method. Also, companies are at liberty to recognise timing differences of partial or full basis. The French institute of Chartered Accountants prefers the liability method and full recognition of timing differences.

In Germany, because of the relatively close relationship between financial accounting and tax accounting, the occurrence of timing differences is not a very common phenomenon. However, the Commercial Code stipulates that a net deferred tax liability should be recorded using the liability method. No method is prescribed for the recording of deferred tax assets. Similarly, in Japan, there is a strong link between financial accounting and tax accounting such that usually the amount of income tax reported in the balance sheet is often the amount of tax currently payable. Inter-period

allocation of income tax is only permissible on the recognition of the tax effects of eliminating intercompany unrealised profits on consolidation.

SSAP (15) requires UK companies to account for deferred taxes under the liability method on a partial provision basis. In the United States as a result of the delays in the adoption of SFAS No. 96 two methods of accounting for income taxes are currently acceptable: the liability method under SFAS No. 96 and the deferral method, which is based on APB Opinion No. 11. The provisions of the SFAS No. 96 are effective for fiscal years beginning after December 15, 1991. IAS 12 which deals with taxes, endorses the use of either deferral or liability methods. Under IAS 12, though the full provision basis is unconditionally allowed, the partial provision basis can also be used if the timing difference on a particular issue is unlikely to reverse in the near future (at least three years).

Table 8.3 Disclosure of deferred tax policy

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	14 (20.0)	41 (56.2)	22 (24.4)	5 (5.6)	8 (8.9)	90 (21.8)
Yes	56 (80.0)	32 (43.8)	68 (75.6)	85 (94.4)	82 (91.1)	323 (78.2)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)
Chi-Square = 73.82213; D.F. = 4; Sig. = .0000						

All the tests related to deferred taxation, namely: disclosure, basis of providing for deferred taxation and method of treating deferred taxes indicate that there are significant differences between the practices of companies from France, Germany, Japan, United Kingdom and the United States of America.

Table 8.4 Basis for providing for deferred tax

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Flow Through	4 (8.9)	0 (0.0)	42 (73.7)	0 (0.0)	4 (4.9)	50 (18.1)
Full provision	13 (28.9)	1 (14.3)	14 (24.6)	2 (2.4)	54 (65.9)	84 (30.4)
Partial provision	28 (62.2)	6 (85.7)	1 (1.8)	83 (97.6)	24 (29.3)	142 (51.4)
Column Total	45 (16.3)	7 (2.5)	57 (20.7)	85 (30.8)	82 (29.7)	276 (100.0)
Chi-Square = 254.04846; D.F. = 8; Sig. = .0000; I index = 0.2321						

The I Index score for "the basis for providing for deferred taxes" (table 8.4) of 0.2321

is the lowest score of all the topics discussed in this section, while that for the "method of treating deferred tax" (table 8.5) of 0.3953 is the third lowest score for this section. The average score for the deferred tax based I index values which stands at 0.3137 is far below the average score for this section. Based on these scores, it can be argued that deferred tax accounting practices is among the least harmonised of the topics discussed in this section.

Table 8.5 Method of treating deferred tax

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
deferral method	3 (6.0)	0 (0.0)	14 (93.3)	1 (1.3)	37 (60.7)	55 (26.7)
liability method	47 (94.0)	5 (100.0)	1 (6.7)	74 (98.7)	24 (39.3)	151 (73.3)
Column Total	50 (24.3)	5 (2.4)	15 (7.3)	75 (36.4)	61 (29.6)	206 (100.0)

Chi Square = 107.39633; D.F. = 4; Sig. = .0000; I index = 0.3953

Extraordinary and Exceptional Items

With respect to extraordinary and exceptional items or nonrecurring items, the requirements in all the five countries and the IASC are more or less the same. Companies are allowed to recognise such items in the income of the period they arise, but separately from the results of the normal or usual activities of the enterprise. The differences between the countries lie in the definition of what constitutes extraordinary and exceptional items. France and the United Kingdom best illustrate this.

Extraordinary and Exceptional or Unusual Items - are defined in French accounting to mean all transactions that are outside the day to day operation of the business, for instance subsidies received, gains or losses on the disposal of an asset, penalties paid, profit from the disposal of a subsidiary, and so on. In the United Kingdom a distinction is made between the terms extraordinary and exceptional. SSAP 6 defines extraordinary items as arising from events that fall outside the ordinary activities of the company and that are therefore not expected to recur frequently or regularly. Exceptional items are defined as deriving from events that fall within the ordinary activities of the company but need to be disclosed separately because of their size. French accounting does not make this distinction as the term "exceptionnel" is used to cover both categories of events.

Table 8.6 Disclosure of policy on extra-ordinary/exceptional items

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	20 (30.0)	20 (27.4)	73 (81.1)	5 (5.6)	64 (71.1)	183 (44.3)
Yes	50 (70.0)	53 (72.6)	17 (18.9)	85 (94.4)	26 (28.9)	230 (55.7)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)

Chi-Square = 144.64238; D.F. = 4; Sig. = .0000

While the chi-square test of disclosure of policy for accounting for extra-ordinary and exceptional items (table 8.6) suggest strongly that there are significant differences between the practices of companies from the five countries, the test of the method of accounting for extra-ordinary and exceptional items (table 8.7) tends to indicate the existence of no significant differences between the five countries.

Table 8.7 Treatment of extra-ordinary and exceptional items

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
In current income	50 (100.0)	49 (98.0)	17 (100.0)	83 (100.0)	26 (100.0)	225 (99.6)
Taken to reserves	0 (0.0)	1 (2.0)	0 (0.0)	0 (0.0)	0 (0.0)	1 (0.4)
Column Total	50 (22.1)	50 (22.1)	17 (7.5)	83 (36.7)	26 (11.5)	226 (100.0)

Chi-Square = 3.50550; D.F. = 4; Sig. = .4770; I index = 0.9950

On the other hand, the I index score for the accounting treatment of extra-ordinary and exceptional items (table 8.7) of 0.9950 which is the highest score for all the topics discussed in this section suggests a very high level of harmonisation between the companies on this topic. As can be seen from table 8.7 with the possible exception of one German company, all the other companies in the five countries reflect extraordinary and exceptional items in the income of the period when they arise. This is one of the few topics which has achieved near unanimity of treatment across all five countries. Given this scenario, it is difficult to justify the continued allowance of the option to take extraordinary and exceptional items to reserve or shareholders' interests.

Accounting for Research and Development Expenditures

French accounting regulation stipulates that R & D expenditures should be expensed as incurred except when the following conditions are met:

1. The project is clearly defined and the costs attributed to it can be identified.
2. The technical or commercial feasibility of the product or process has been established.

Capitalised research and development expenditures must normally be amortised over a maximum period of five years. If at any time the above two conditions do not hold, then the remaining unamortised R & D expenditure should be written off in full and should never be reinstated even if the situation alters.

In Japan, R & D expenditures can only be capitalised and amortised for the following purposes:

1. Research on new goods or techniques
2. Adoption of new techniques or new managing systems
3. Exploitation of resources
4. Development of markets

Research and development costs incurred in the ordinary course of business should be expensed immediately.

The rules pertaining to R & D accounting in the UK derive from two principal sources - the Companies Act and SSAP (13). The Act permits the capitalisation of development costs in special circumstances. SSAP 13 clarifies the special circumstances to mean when:

1. There is a clearly defined project
2. The related expenditure is separately identifiable
3. The outcome of the project has been assessed with reasonable certainty
4. The aggregate costs associated with the project is likely to be exceeded by future revenues expected from the project
5. There is adequate resources to undertake the project.

The amortisation of the capitalised development costs can only commence when commercial production begins. If the above 5 stated conditions cease to apply, then the company should write off the remaining capitalised development expenditure immediately. IAS 9 which deals with the accounting treatment of R & D expenditures is similar to SSAP (13) in all major aspects.

In Germany, R & D expenses are not normally to be capitalised but expensed as incurred. This is similar to the requirements of SFAS Nos. 2 and 86 and FASB Interpretation No. 4, that research and development expenses incurred by US companies be written off to profit and loss account when incurred, except for the special case of computer software research and development costs.

In this section the analyses is divided into two components, that is, "research expenditures" and "development expenditures" in recognition of the fact that in a country such as the United Kingdom, the regulatory requirements vary slightly between research costs and development costs.

Table 8.8 Disclosure of policy on R & D expenditures

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	40 (58.6)	69 (94.5)	45 (50.0)	22 (24.4)	54 (61.1)	233 (56.4)
Yes	30 (41.1)	4 (5.5)	45 (50.0)	68 (75.6)	36 (38.9)	180 (43.6)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)
Chi Square = 82.49089; D.F. = 4; Sig. = .0000						

The test of disclosure suggests that there were significant differences between the level of disclosures of companies from the five countries regarding R & D policy. On the other hand, tests of method of treating R & D (tables 8.9 and 8.10), indicate that there are no significant differences between the practices of the companies from the five countries.

Table 8.9 Treatment of research expenditures

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Expensed	29 (96.7)	4 (100.0)	41 (93.2)	67 (97.1)	33 (91.7)	174 (95.1)
Capitalised	1 (3.3)	0 (0.0)	3 (6.8)	2 (2.9)	3 (8.3)	9 (4.9)
Column Total	30 (16.4)	4 (2.2)	44 (24.0)	69 (37.7)	36 (19.7)	183 (100.0)
Chi Square = 2.20751; D.F. = 4; Sig. = .6977; I index = 0.9465						

The I index score for the method of treating research expenditures is 0.9465, while that for the method of treating development expenditures is 0.9098. This gives an average index score of 0.9282 which in addition to being above the sectional average of 0.6655 suggests that a high level of harmonisation of accounting practices appear to have been attained on the issue of accounting for research and development costs among companies from the five nations embraced by this study.

Table 8.10 Treatment of development expenditure

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Expensed	21 (84.0)	4 (100.0)	42 (93.3)	63 (92.6)	34 (94.4)	164 (92.1)
Capitalised	4 (16.0)	0 (0.0)	3 (6.7)	5 (7.4)	2 (5.6)	14 (7.9)
Column Total	25 (14.0)	4 (2.2)	45 (25.3)	68 (38.2)	36 (20.2)	178 (100.0)

Chi Square = 3.00328; D.F. = 4; Sig. = .5573; I index = 0.9098

Accounting for Pensions and Retirement Benefits (PRB) Costs

Under French regulations, provision for pensions should be based on actuarial assumptions and the accrued benefit method is the most preferred method. The effect of changes in actuarial assumptions and past service costs can be deferred and amortised over the expected average remaining service life of the employee group concerned. On the other hand, in Germany, actuarial calculations connected with pensions are usually based on tax laws. Past service cost, changes in actuarial assumptions since December 31, 1986, are to be recognised currently as adjustments of pension expense and should not be spread over a number of years. This is a departure from the pre 1986 rule which allowed the options of either expensing such items immediately, or spreading them over three years.

According to Opinion 2 of the Japanese Business Accounting Deliberation Council (BADC) there are three methods of computing the amount of a company's liability for lump-sum benefits:

1. Estimated future payment method - liability is accrued based on the estimated lump-sum future payments.
2. Year-end necessary payment method - liability is accrued as if all employees were to leave at the end of the period.
3. Present value method - the present value of the liability computed based of either method 1 or 2 above is accrued.

Past service costs can be amortised.

In the UK there are two main types of pension schemes : Defined Benefit Pension Plans (actuarial expertise is relied on to determine the appropriate level of contributions required to fund the plan, the accounting objective is satisfied by providing for periodic pension costs that are approximately a level percentage of the current and expected future pensionable earnings taking into consideration current

actuarial assumptions. SSAP 24 stipulates that variations from regular costs due to experience adjustments, changes in actuarial methods and assumptions should be spread over the remaining service lives of current employees). Defined Contribution Plans (future benefits payable to employees are determined by accumulated value of contributions paid in to a scheme, hence the employer charges to each accounting period the contributions made for that period).

US regulations require that pension costs should be calculated using either the unit credit method or the projected unit credit method. Amortisation of prior service costs should be made over the remaining service life of plan participants. IAS 19 endorses the use of either the accrued benefit method or the projected benefit method for the determination of the cost of pensions and retirement benefits. The use of the "pay as you go" and "terminal funding" methods are specifically prohibited. Regarding the treatment of past service costs, experience adjustments and changes in actuarial assumptions, companies are given the options of either recognising them in current income as they arise or systematically over a period approximating the remaining working lives of the participating employees.

Table 8.11 Disclosure of policy on pensions and retirement benefits (PRB)

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	45 (65.7)	26 (35.6)	13 (14.6)	5 (5.6)	3 (3.3)	92 (22.6)
Yes	25 (34.3)	47 (64.4)	76 (85.4)	84 (94.4)	87 (96.7)	319 (77.4)
Column Total	70 (17.0)	73 (17.0)	89 (21.7)	89 (21.7)	90 (21.9)	411 (100.0)
Chi-Square = 118.37621; D.F. = 4; Sig. = .0000						

As can be seen from tables 8.11, 8.12 and 8.13 results of the tests on all the three items connected with pensions and retirement benefits costs strongly indicate that there are significant differences between the practices of companies from the five countries with respect to their accounting treatment of pensions and retirement benefit costs.

Table 8.12 Determination of cost of Pensions and Retirement Benefits

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Accrued benefit	9 (36.0)	1 (5.0)	11 (30.6)	3 (3.9)	13 (14.9)	37 (15.7)
Projected benefit	12 (48.0)	10 (50.0)	11 (30.6)	70 (92.1)	73 (83.9)	176 (72.1)
Other	4 (16.0)	9 (45.0)	14 (38.9)	3 (3.9)	1 (1.1)	31 (12.7)
Column Total	25 (10.2)	20 (8.2)	36 (14.8)	76 (31.1)	87 (35.7)	244 (100.0)

Chi Square = 88.12268; D.F. = 8; Sig. = .0000; I index = 0.4882

Table 8.12 shows that the I index score for the basis for determining the cost of pensions and retirement benefits to be 0.4882. However, the score for the method of treating past service costs and experience adjustments was derived as 0.8501. This suggests a wide gap in the extent of harmony in practice between these two aspects of the accounting treatment of pensions and retirement benefit costs.

Table 8.13 Recognition of past service cost/experience adjustments

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Over a period	14 (87.5)	2 (66.7)	51 (98.1)	82 (100.0)	62 (91.2)	211 (95.5)
In current income	2 (12.5)	1 (33.3)	1 (1.9)	0 (0.0)	6 (8.8)	10 (4.5)
Column Total	16 (7.2)	3 (1.4)	52 (23.5)	82 (37.1)	68 (30.8)	221 (100.0)

Chi Square = 15.72836; D.F. = 4; Sig. = .0034; I index = 0.8501

Accounting for Long-term Contracts

Accounting regulations in all the five countries and the requirements of IAS 11, permit the use of either the completed contract or the percentage of completion methods of accounting for revenues from long-term contracts. However, before the percentage of completion method can be used, some preconditions are usually stipulated. For instance, French regulations require that the following conditions must be fulfilled:

1. It must be possible to determine in quantitative and accounting terms the exact condition of the work in progress,
2. The contractee must have consented to the quality of work already done,
3. It must be feasible to calculate the overall profit on the contract with reasonable degree of certainty.

Table 8.14 Disclosure of policy on long-term contracts

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	61 (88.6)	71 (97.3)	85 (94.4)	76 (84.4)	70 (77.8)	363 (88.1)
Yes	9 (11.4)	2 (2.7)	5 (5.6)	14 (15.6)	20 (22.2)	50 (11.9)
Column Total	70 (16.9)	73 (17.7)	90 (21.8)	90 (21.8)	90 (21.8)	413 (100.0)

Chi-Square = 19.65733; D.F. = 4; Sig. = .0006

Table 8.15 Method of accounting for long-term contracts

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Completed contract (CC)	1 (11.1)	1 (50.0)	1 (20.0)	1 (7.1)	0 (0.0)	4 (8.0)
Percentage of Completion (PC)	6 (66.7)	1 (50.0)	2 (40.0)	13 (92.9)	20 (100.0)	42 (84.0)
CC & PC	2 (22.2)	0 (0.0)	2 (40.0)	0 (0.0)	0 (0.0)	4 (8.0)
Column Total	9 (18.0)	2 (4.0)	5 (10.0)	14 (28.0)	20 (40.0)	50 (100.0)

Chi-Square = 21.07710; D.F. = 8; Sig. = .0069; I index = 0.5933

Evidence based on tables 8.14 and 8.15 suggest that there are significant differences between the countries both on level of disclosures and methods of accounting for long-term contracts.

The I index score of 0.5933 (table 8.15) derived for the method of treating long-term contracts is slightly below the average for the section and thus suggests that of the topics treated in this section, the issue of accounting for long-term contracts is among the least harmonised between companies from the five countries studied.

Accounting for Government Grants

There are two types of government grants and assistance under the French system - operating grants (Subventions d'exploitation): grants made to companies to help them create new employment and promote research. These should be included in income when they are received, except if the grant is use to fund capitalised research expenditures, then its recognition can be deferred. The other type of grant is Investment grants (Subventions d'investissement), which are given to enable companies finance the acquisition of fixed assets. Such grants may either be included in extraordinary and exceptional items or recorded as a separate component of shareholders' equity in the statutory accounts or as a noncurrent liability in the

consolidated accounts and written back to income to match the depreciation charged on the related fixed assets.

In Germany, there is no provision as yet governing the issue of accounting for government grants and assistance. However, conventional practice is to include grants relating to capital expenditures directly in income if the grants are not subject to income tax or netted against the cost of the related asset where the grant is subject to taxation. As for grants relating to current expenditures, they are recognised in income of the period when the relevant expenses are incurred.

In Japan, UK, the USA and with IAS 20, the basic guideline for dealing with grants is that grants of a current nature should be taken to the income of the period when the related transaction is expected to occur, while capital grants should be recognised over the expected life of the asset or event they are intended to compensate. However, there are slight variations in how this should be attained. The Japanese requirement is that the amount of capital grants should be deducted from the cost of the related asset and depreciation is then calculated based on net cost. In the UK, SSAP (4) stipulates that grants relating to fixed assets should be credited to revenue over the assets' expected useful life. This is similar to the AICPA guidelines on accounting for capital grants.

Table 8.16 Disclosure of policy on government grants

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	61 (87.1)	64 (87.7)	90 (100.0)	73 (82.0)	90 (100.0)	378 (91.7)
Yes	9 (12.9)	9 (12.3)	0 (0.0)	16 (18.0)	0 (0.0)	34 (8.3)
Column Total	70 (17.0)	73 (17.7)	90 (21.8)	89 (21.6)	90 (21.8)	412 (100.0)
Chi Square = 30.87026; D.F. = 4; Sig. = .0000						

Table 8.17 Method of treating government grants

	France (%)	Germany (%)	UK (%)	Row Total (%)
In current income	1 (16.7)	2 (50.0)	1 (5.9)	4 (14.8)
Over a period	5 (83.3)	2 (50.0)	16 (94.1)	23 (85.2)
Column Total	6 (22.2)	4 (14.8)	17 (63.0)	27 (100.0)
Chi-Square = 5.01503; D.F. = 2; Sig. = .0815; I index = .6300				

Tests based on table 8.16 suggest that there are significant differences in the level of

disclosures of policy on government grants between the five countries. On the other hand, tests of the method of accounting for government grants, which was restricted to France, Germany and UK, due to non-disclosure of policy by both Japanese and US companies, indicate that there are no significant differences between the three countries (see table 8.17). On the other hand, the I index score of 0.6300 which is below the average for the section, suggests that this topic ranks among the least harmonised of all the topics treated in this chapter. However, the generally low rates of disclosure on this issue means that these findings should be treated with some caution.

Conclusions Section 8A.1

In all, seventeen tests of significance were conducted in this section. Thirteen yielded significant results, while four, namely: treatment of extra-ordinary and exceptional items (table 8.7), treatment of research expenditures (table 8.9), treatment of development expenditures (table 8.10) and the treatment of government grants (table 8.17) gave rise to non-significant results. It is interesting to notice that all of the disclosure based tests yielded significant results. This therefore suggests that while it can be said without much qualification that there are still significant differences between the five countries in the levels of disclosures of accounting policy on the topics discussed in this section, the tests based on *the accounting policies themselves* provide a mixed pattern.

Summary of Chi-Square values

Topics	Chi Square Values	Significance
1. Disclosure of policy on borrowing costs	76.34562	.0000*
2. Method of accounting for borrowing costs	73.01476	.0000*
3. Disclosure of deferred tax accounting policy	73.82213	.0000*
4. Basis of providing for deferred taxes	254.04846	.0000*
5. Method of treating deferred taxes	107.39633	.0000*
6. Disclosure of policy on extra-ord/excep items	144.64238	.0000*
7. Treatment of extra-ord/exceptional items	3.50550	.4770
8. Disclosure of policy on R & D expenditures	82.49089	.0000*
9. Treatment of research expenditures	2.20751	.6977
10. Treatment of development expenditures	3.00328	.5573
11. Disclosure of policy on PRB	118.37621	.0000*
12. Determination of cost of PRB	88.12268	.0000*
13. Past service costs/experience adjustments	15.72836	.0034*
14. Disclosure of policy on long-term contracts	19.65733	.0006*
15. Method of accounting for long-term contracts	21.07710	.0069*
16. Disclosure of policy on government grants	30.87026	.0000*
17. Method of treating government grants	5.01503	.0815

Table 8.18

* Denotes significant result.

As can be seen from table 8.18, the average score for all the topics treated in this section is 0.6425. This however conceals the gulf between the index scores for the different topics. The I index scores ranged from 0.2321 derived on the topic of the "basis of providing for deferred taxes", to 0.9950 for the "method of treating extraordinary and exceptional items". This wide gap suggests that in 1990/91 there were large variations in the levels of international harmonisation existing between the five countries on the topics discussed in this chapter.

Table 8.19 **Summary of I index values**

Topics	1990/91
1. Method of accounting for borrowing costs	0.3843
2. Basis for providing for deferred taxes	0.2321
3. Method of treating deferred taxes	0.3953
4. Accounting for extra ordinary and exceptional items	0.9950
5. Treatment of research expenditures	0.9465
6. Treatment of development expenditures	0.9098
7. Basis for determining the cost of pensions and retirement benefit costs	0.4882
8. Method of treating past service costs/experience adjustments	0.8501
9. Method of accounting for long term contracts	0.5933
10. Method of treating government grants	0.6300
 Average I index score	 0.6425

SECTION 8A.2: AGGREGATE COMPARISONS OF THE IMPACT OF LISTING STATUS ON ACCOUNTING MEASUREMENT AND ASSOCIATED DISCLOSURE PRACTICES

Table 8.20 shows that of the seventeen tests of significance carried out under this section only two disclosure based tests (disclosure of policy on R&D; and on pensions and retirement benefits) yielded significant results. Based on these findings, it is reasonable to conclude that with regard to the topics treated in this chapter, the accounting practices of multi-listed and domestic listed companies do not differ significantly.

Summary of Chi-Square values

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Disclosure of policy on borrowing costs	48.9	51.1	0.19380	.6598
2. Method of accounting for borrowing costs			2.87417	.0900
3. Disclosure of deferred tax accounting policy	79.1	77.1	0.23643	.6268
4. Basis of providing for deferred taxes			4.49450	.1057
5. Method of treating deferred taxes			1.05975	.3033
6. Disclosure of policy on extra ord/excep items	59.1	51.6	2.34429	.1257
7. Treatment of extra ord/exceptional items			0.00000	1.0000
8. Disclosure of policy on R & D expenditures	37.8	50.5	6.77586	.0092*
9. Treatment of research expenditures			2.41842	.1199
10. Treatment of development expenditures			1.78181	.1819
11. Disclosure of policy on FRB	71.7	84.0	8.80558	.0030*
12. Determination of cost of FRB			3.65002	.1612
13. Past service costs/experience adjustments			0.00000	1.0000
14. Disclosure of policy on long term contracts	10.7	13.3	0.67811	.4102
15. Method of accounting for long term contracts			1.09524	.5783
16. Disclosure of policy on government grants	8.9	7.5	0.26522	.6066
17. Method of treating government grants			0.00000	1.0000

Table 8.20

* Denotes significant result.

The conclusions drawn from the findings of this section is not surprising given that most of the topics discussed do not have too many accepted alternative methods of treating them, and secondly, there is not much difference between the regulations of most of the countries on almost all the topics (except possibly deferred taxes and pensions). It is however, unexpected to observe (table 8.20) that on three out of the seven disclosure related items the domestic listed companies achieved higher disclosure ratings than the multi-listed companies. It is hard to identify any plausible reason for this.

SECTION 8A.3: IMPACT OF LISTING STATUS ON ACCOUNTING PRACTICES ON INDIVIDUAL COUNTRY BASIS

SECTION 8A.3.1: FRANCE

In this section, fifteen tests were conducted (table 8.21). No test was carried out in relation to extra-ordinary and exceptional items as all the companies accounted for all such transactions in the income of the period when they arose. Four of the tests (all dealing with disclosure of policies) yielded significant results. No test of policy or method of accounting for any of the topics established the existence of any significant differences between the practices of French domestic listed and multi-listed

companies.

Summary of Chi-Square values

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Disclosure of policy on borrowing costs	22.2	52.0	6.45966	.0110*
2. Method of accounting for borrowing costs			0.95572	.3283
3. Disclosure of deferred tax accounting policy	82.2	76.0	0.38889	.5329
4. Basis of providing for deferred taxes			2.73848	.2543
5. Method of treating deferred taxes			0.00000	1.0000
6. Disclosure of policy on extra-ord/excep items	80.0	52.0	6.00000	.0143*
7. Disclosure of policy on R & D expenditures	31.1	60.0	5.52752	.0187*
8. Treatment of R & D expenditures			0.00000	1.0000
9. Disclosure of policy on FRB	22.2	56.0	8.13489	.0043*
10. Determination of cost of FRB			0.34722	.8406
11. Past service costs/experience adjustments			0.00000	1.0000
12. Disclosure of policy on long-term contracts	11.1	12.0	0.00000	1.0000
13. Method of accounting for long-term contracts			0.75000	.6873
14. Disclosure of policy on government grants	8.9	20.0	0.91803	.3380
15. Method of treating government grants			0.00000	1.0000

Table 8.21

* Denotes significant result.

These findings suggest that with respect to the topics treated in this section, there appears to be some relationship between listing status and the level of disclosures of accounting policies, with a higher proportion of multi-listed companies disclosing their policies than the domestic ones. However, on the accounting policies adopted by the companies, listing status was not shown to be an important factor affecting the accounting policy choices of French companies. Broadly speaking, the above findings are in line with the pattern observed in the preceding section and are not particularly surprising.

SECTION 8A.3.2: GERMANY

In all, tests were carried out on thirteen items. It was not possible to conduct tests on method of treating deferred taxes (all the companies used liability method and; on methods of treating R & D expenditures and long-term contracts due to non disclosure. Out of the thirteen tests carried out in this section only three yielded significant results. As was the case with the last section, all three were disclosure based tests, namely: disclosure of policy for deferred tax; disclosure of policy on R & D and; disclosure of policy on pensions and retirement benefits costs. Based on these findings, it is fair to state that domestic listed and multi-listed German companies do not differ much in their accounting measurement and associated disclosure practices

especially as it relates to the topics surveyed in this section.

Summary of Chi-Square values

Topics	Domestic (%)	Multi (%)	Chi-Square	Significance
1. Disclosure of policy on borrowing costs	8.9	25.0	2.35503	.1249
2. Method of accounting for borrowing costs				.1333
3. Disclosure of deferred tax accounting policy	28.9	67.9	10.64588	.0011*
4. Basis of providing for deferred taxes				.2857
5. Disclosure of policy on extra ord/excep items	80.0	60.7	3.22745	.0724
6. Treatment of extra-ord/exceptional items			0.00000	1.0000
7. Disclosure of policy on R & D expenditures	0.0	14.3	4.32262	.0376*
8. Disclosure of policy on PRB	53.3	82.1	6.24733	.0124*
9. Determination of cost of PRB			5.45455	.0654
10. Past service costs/experience adjustments			0.00000	1.0000
11. Disclosure of policy on long-term contracts	4.4	0.0	0.15514	.6937
12. Disclosure of policy on government grants	13.3	10.7	0.00000	1.0000
13. Method of treating government grants			0.00000	1.0000

Table 8.22

* Denotes significant result.

There is a recurrence of the pattern witnessed in connection with the French based analysis. As has been explained earlier on, these findings are to a large extent explained by the existence of a very limited number of options regarding many of the topics, coupled with similarities in regulations on these topics in most of the countries. The only surprising thing about the findings of this subsection is that table 8. 22 above shows that the domestic listed companies achieved higher rates of disclosure of policy on four out of the seven disclosure based topics.

SECTION 8A.3.3: JAPAN

In all, fourteen tests were carried out under this section. No tests were conducted for the method of treating extra-ordinary and exceptional items since all the companies used one method and for government grants due to non disclosure of policies by all Japanese companies in the sample. Two out of the fourteen tests yielded significant results, that is, tests of disclosure of deferred tax policy, and determination of the cost of pensions and retirement benefits. It would appear therefore from these results that there is little or no association between listing status and the accounting practices of the Japanese companies surveyed especially with regard to the topics discussed in this chapter.

Summary of Chi-Square values

Topics	Domestic (%)	Multi (%)	Chi Square Values	Significance
1. Disclosure of policy on borrowing costs	55.6	42.2	1.60079	.2058
2. Method of accounting for borrowing costs			1.65359	.1985
3. Disclosure of deferred tax accounting policy	86.7	64.4	6.10604	.0142*
4. Basis of providing for deferred taxes			4.71429	.0947
5. Method of treating deferred taxes			0.00000	1.0000
6. Disclosure of policy on extra-ord/excep items	13.3	24.4	1.81305	.1781
7. Disclosure of policy on R & D expenditures	51.1	46.7	0.17787	.6732
8. Treatment of R & D expenditures			1.24500	.2645
9. Disclosure of policy on PRB	88.6	82.2	0.73380	.3917
10. Determination of cost of PRB			10.03191	.0066*
11. Past service costs/experience adjustments			0.02472	.8751
12. Disclosure of policy on long-term contracts	4.4	6.7	0.00000	1.0000
13. Method of accounting for long-term contracts			5.00000	.0821
14. Disclosure of policy on government grants	0.0	0.0		

Table 8.23

* Denotes significant result.

To a large extent, this section repeats the patterns which have been witnessed so far. The significant result derived on the topic of method of determining the cost of pensions and retirement benefit costs is not unexpected given that the Opinion No 2 of the Japanese Business Accounting Deliberation Council (BADC), which deals with this issue is flexible and that Japanese regulation differs substantially with both IAS 19 and the regulations in some other major countries like the UK and the US. These provided a necessary condition for the significant differences observed between the practices of domestic listed and multi-listed Japanese companies on this particular topic. However, turning to disclosure aspects, it is surprising to observe from table 8.23 that the domestic listed companies scored higher disclosure ratings than multi-listed companies on four, and tied on one, out of the seven disclosure based items. It is not easy to think of any reason for this pattern which has become common place among the countries discussed so far.

SECTION 8A.3.4: UNITED KINGDOM

In this section, fifteen tests of significance were conducted to assess whether or not there are significant differences between the accounting measurement and associated disclosure practices of UK domestic and multi-listed companies. Out of the fifteen tests carried out under this section, only one (disclosure of policy on borrowing costs table 8.24), gave rise to a significant result. It was not possible to conduct tests on two topics: extra-ordinary and exceptional items, and treatment of past service costs and

experience adjustments since all the responding UK companies used the same policies for each of the topics. Based on the overall findings for this section, it is fair to conclude that there is little or no difference between the practices of UK domestic listed and multi-listed companies.

Summary of Chi-Square values

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Disclosure of policy on borrowing costs	86.7	60.0	8.18182	.0042*
2. Method of accounting for borrowing costs			3.22556	.0725
3. Disclosure of deferred tax accounting policy	97.8	91.1	0.84706	.3574
4. Basis of providing for deferred taxes			0.58762	.4433
5. Method of treating deferred taxes			0.00000	1.0000
6. Disclosure of policy on extra-ord/excep items	95.6	93.3	0.00000	1.0000
7. Disclosure of policy on R & D expenditures	75.6	75.6	0.00000	1.0000
8. Treatment of research expenditures			0.00000	1.0000
9. Treatment of development expenditures			0.00000	1.0000
10. Disclosure of policy on FRB	100.0	88.9	3.29632	.0694
11. Determination of cost of FRB			4.59933	.1003
12. Disclosure of policy on long term contracts	15.6	15.6	0.00000	1.0000
13. Method of accounting for long-term contracts			0.00000	1.0000
14. Disclosure of policy on government grants	22.2	13.6	1.11219	.2916
15. Method of treating government grants				.4118

Table 8.24

* Denotes significant result.

These findings do not represent a significant departure from the findings in the preceding sections. Given the nature of the topics and the similarities in the regulatory requirements of many of the countries on most of the topics, these findings are not unexpected and so do not warrant any detailed explanations. It is however pertinent to observe that the intriguing pattern of domestic listed companies achieving higher disclosure ratings on more topics than their multi-listed companies can also be observed from table 8.24.

SECTION 8A.3.5: UNITED STATES OF AMERICA

Twelve tests were carried out in this section, with only one (disclosure of deferred tax policy table 8.25) yielding significant result. It was not possible to conduct any tests on the method of treating extra-ordinary and exceptional items, long term contracts, as all the US companies used the same policies for each of these topics. On the hand, no test was conducted on the method of accounting for government grants due to non disclosure of policies by all the US companies. These findings would seem to suggest

that with respect to the topics covered in this chapter, there are no substantial variations in the accounting practices adopted by domestic listed and multi-listed companies originating from the United States of America.

Summary of Chi-Square values

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Disclosure of policy on borrowing costs	71.1	66.7	0.20737	.6488
2. Method of accounting for borrowing costs			0.22102	.6383
3. Disclosure of deferred tax accounting policy	100.0	82.2	6.72256	.0095*
4. Basis of providing for deferred taxes			1.58646	.4524
5. Method of treating deferred taxes			0.01064	.9179
6. Disclosure of policy on extra-ord/excep items	26.7	31.1	0.21635	.6418
7. Disclosure of policy on R & D expenditures	31.1	46.7	2.29091	.1301
8. Treatment of R & expenditures			0.17001	.6801
9. Disclosure of policy on PRB	95.6	97.8	0.00000	1.0000
10. Determination of cost of PRB			1.69474	.4285
11. Past service costs/experience adjustments			0.00000	1.0000
12. Disclosure of policy on long-term contracts	17.8	26.7	1.02857	.3105
13. Disclosure of policy on government grants	0.0	0.0		

Table 8.25

* Denotes significant result.

The findings from this section conclude the pattern which has been observed starting from the aggregate tests. As was said of the UK based tests, these findings are not entirely unexpected. The only slight deviation from the other countries is that the US multi-listed companies achieved higher rates of disclosure on more topics (4), than their domestic listed counterparts. This is more in line with normal expectations.

SUMMARY: SECTION 8A.3

From the table it can be observed that France had the most number of significant results(4), followed by Germany (3), then Japan (2), and finally the UK and US with one significant result each. This ranking represents a radical deviation from that derived in chapter 7 where the UK was shown to have the most number of significant results while France had the least. These rankings suggest that with respect to the topics discussed in this chapter, the greatest variation in practice between multi-listed companies and domestic listed companies was observed in the accounting measurement and associated disclosure practices of France, Germany, Japan and the UK and the US in that order.

Table 8.26 Summary of Findings Section 8A.3

	France	Germany	Japan	UK	US
1. Significant results	4	3	2	1	1
2. Non Significant results	11	10	12	14	11
3. Tests not conducted	1	3	2	2	4
Total number of items	16	16	16	17	16

Overall, the findings of the tests on the individual countries, in the main, accords with findings based on the aggregated tests. The major conclusion to be drawn from both categories of tests is that with respect to the topics discussed in this chapter, there is little or no difference between the accounting measurement and associated disclosure practices of domestic listed and multi-listed companies from France, Germany, Japan, UK and the USA. The main reason given for this is that the topics treated in this chapter offer a limited number of options coupled with the fact that there is not much variation between international practice and domestic regulations in most of the countries regarding many of the topics discussed.

PART 8B

SECTION 8B.1: COMPARISON OF ACCOUNTING PRACTICES - FRANCE, GERMANY, JAPAN, UNITED KINGDOM AND THE UNITED STATES IN 1970/71

Accounting for Borrowing Costs

There has not been any significant changes in the accounting regulation relating to borrowing costs in the five countries. Just as is currently the case, there was no requirement in any of the countries constraining companies to either expense or amortise borrowing costs connected with long-term projects.

Table 8.27 Disclosure of policy on borrowing costs

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	24 (96.0)	40 (95.2)	26 (48.1)	16 (19.5)	22 (24.4)	128 (43.7)
Yes	1 (4.0)	2 (4.8)	28 (51.9)	66 (80.5)	68 (75.6)	165 (56.3)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)
Chi-Square = 106.64216: D.F. = 4: Sig. = .0000						

Both the test of disclosure of policy on borrowing costs and that of method of treating borrowing costs tend to suggest that there were significant differences in the practices adopted by companies from the countries studied during the 1970/71 fiscal year. However, the I index score of 0.9426 derived on the method of accounting for borrowing costs is above the sectional average and suggest a high level of harmony in the practices of the companies during this period. However, the very low level of disclosures on this topic by French and German companies (see table 8.28) is a major limitation of these findings which ought to be recognised.

Table 8.28 Method of accounting for borrowing costs

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Expensed	0 (0.0)	2 (100.0)	28 (100.0)	63 (95.5)	53 (77.9)	146 (88.5)
Amortised	1 (100.0)	0 (0.0)	0 (0.0)	3 (4.5)	15 (22.1)	19 (11.5)
Column Total	1 (0.6)	2 (1.2)	28 (17.0)	66 (40.0)	68 (41.2)	165 (100.0)
Chi-Square = 22.15401: D.F. = 4: Sig. = .0002: I index = 0.9426						

Accounting for Deferred Taxes

In France, Germany and Japan there was no authoritative pronouncement on the issue of deferred tax accounting during the 1970/71 fiscal period. In the UK the Recommendation No. 27 of the ICAEW endorsed the use of the partial provision basis and the liability method of accounting for deferred taxes. On the other hand APB Opinion No. 11 (p. 169), required US companies to adopt the full provision basis and the deferral method of deferred tax accounting.

Table 8.29 Disclosure of deferred tax policy

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	25 (100.0)	42 (100.0)	49 (90.7)	45 (54.9)	33 (37.1)	194 (66.4)
Yes	0 (0.0)	0 (0.0)	5 (9.3)	37 (45.1)	56 (62.9)	98 (33.6)
Column Total	25 (8.6)	42 (14.4)	54 (18.5)	82 (28.1)	89 (30.5)	292 (100.0)
Chi-Square = 87.46883; D.F. = 4; Sig. = .0000						

All the three tests connected with deferred taxes, that is, tests of disclosure of policy (table 8.29), basis of providing for deferred taxes (table 8.30) and method of treating deferred taxes (table 8.31), all strongly suggest that during the 1970/71 financial year, there were significant differences in the deferred tax accounting practices of companies from the five countries covered by this study.

Table 8.30 Basis for providing for deferred tax

	Japan (%)	UK (%)	US (%)	Row Total (%)
Flow through	0 (0.0)	1 (3.2)	1 (1.8)	2 (2.3)
Full provision	1 (100.0)	19 (61.3)	54 (96.4)	74 (84.1)
Partial provision	0 (0.0)	11 (35.5)	1 (1.8)	12 (13.6)
Column Total	1 (1.1)	31 (35.2)	56 (63.6)	88 (100.0)
Chi-Square = 19.91995; D.F. = 4; Sig. = .0005; I index = 0.7732				

Table 8.31 Method of treating deferred tax

	Japan (%)	UK (%)	US (%)	Row Total (%)
deferral method	1 (50.0)	3 (23.1)	10 (83.3)	14 (51.9)
liability method	1 (50.0)	10 (76.9)	2 (16.7)	13 (48.1)
Column Total	2 (7.4)	13 (48.1)	12 (44.4)	27 (100.0)
Chi-Square 9.07798; D.F. = 2; Sig. 0107; I index = 0.4005				

An I index score of 0.7732 was derived on the "basis of providing for deferred taxes" (table 8.30), while on the issue of the "method of treating deferred tax" an index score of 0.4005 was derived (table 8.31). The average index score for these two items of 0.5869 is below the average score for the section (0.7143), thereby suggesting that deferred tax accounting practices was one of the least harmonised of all the topics considered in this chapter during the 1970/71 financial year. This was mainly due to

the relatively low score derived for the "method of treating deferred taxes".

Accounting for Extra-ordinary and Exceptional Items

Regulations in all five countries during this period supported the inclusion of extra-ordinary and exceptional items in income as is currently the case.

Table 8.32 Disclosure of policy on extra-ordinary and exceptional items

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	3 (12.0)	3 (7.1)	27 (50.0)	49 (59.8)	64 (71.9)	146 (50.0)
Yes	22 (88.0)	39 (92.9)	27 (50.0)	33 (40.2)	25 (28.1)	146 (50.0)
Column Total	25 (8.6)	42 (14.4)	54 (18.5)	82 (28.1)	89 (30.5)	292 (100.0)

Chi-Square = 65.50898; D.F. = 4; Sig. = .0000

Tests based on tables 8.32 and 8.33 indicate that there were significant differences between the practices of companies from the five countries regarding disclosure of policy and method of treating extra-ordinary and exceptional items during the 1970/71 fiscal period. However, the I index score of 0.9401 derived for the "treatment of extra-ordinary and exceptional items" (table 8.33) is far above the sectional average and therefore suggests that the level of harmonisation on this topic to be one of the highest of all the topics covered in this chapter in 1970/71 financial year.

Table 8.33 Treatment of extra-ordinary and exceptional items

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
In current income	22 (100.0)	39 (100.0)	27 (100.0)	25 (78.1)	25 (100.0)	138 (95.2)
Taken to reserves	0 (0.0)	0 (0.0)	0 (0.0)	7 (21.9)	0 (0.0)	7 (4.8)
Column Total	22 (15.2)	39 (26.9)	27 (18.6)	32 (22.1)	25 (17.2)	145 (100.0)

Chi-Square = 25.97260; D.F. = 4; Sig. = .0000; I index = 0.9401

Accounting for R & D Expenditures

During this period there were no authoritative guidelines in the UK, the USA, and France prohibiting either the amortisation or immediate write-off of R & D expenses. The Japanese Commercial Code required Japanese companies to amortise R & D expenses over a maximum period of 5 years. However, German accounting regulation

forbade the capitalisation and amortisation of R & D expenditures.

Tests of the disclosure of policy (table 8.34), treatment of research expenses (table 8.35) and treatment of development expenses (table 8.36) all strongly suggest that there were significant differences between the practices of the companies from the countries studied during the 1970/71 financial year. Notice, however, that tests of method of treating research and development expenditures were restricted to Germany, Japan, UK and the USA only since no French company disclosed its policy on this issue during this period.

Table 8.34 Disclosure of policy on R & D expenditures

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	25 (100.0)	36 (85.7)	30 (56.6)	73 (89.0)	55 (61.8)	219 (75.3)
Yes	0 (0.0)	6 (14.3)	23 (43.4)	9 (11.0)	34 (38.2)	72 (24.7)
Column Total	25 (8.6)	42 (14.4)	53 (18.2)	82 (28.2)	89 (30.6)	291 (100.0)
Chi-Square = 37.59524; D.F. = 4; Sig. = .0000						

Table 8.35 Treatment of research expenditures

	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Expensed	1 (16.7)	2 (9.1)	7 (87.5)	19 (59.4)	29 (42.6)
Capitalised	5 (83.3)	20 (90.9)	1 (12.5)	13 (40.6)	39 (57.4)
Column Total	6 (8.8)	22 (32.4)	8 (11.8)	32 (47.1)	68 (100.0)
Chi-Square = 22.02466; D.F. = 3; Sig. = .0001; I index = 0.3592					

The I Index score for the "treatment of research expenditures" is 0.3592, while that for the "treatment of development expenditure" is 0.4145, this gives an average score of 0.3869 which is well below the average for this section. *These findings imply that the accounting treatment of R & D expenditures was one of the least harmonised during the 1970/71 financial year.*

Table 8.36 Treatment of development expenditure

	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Expensed	1 (16.7)	2 (9.1)	7 (87.5)	19 (59.4)	29 (42.6)
Capitalised	5 (83.3)	20 (90.9)	1 (12.5)	13 (40.6)	39 (57.4)
Column Total	6 (8.8)	22 (32.4)	8 (11.8)	32 (47.1)	68 (100.0)

Chi-Square = 20.54032; D.F. = 3; Sig. = .0001; X index = 0.4145

Accounting for Pensions and Retirement Benefits Costs

In France during this period, pensions and contributions to pension funds are to be deducted from revenue when they are actually paid to the recipient. If however, the pension is funded by payments to external organisations independent of the company, then the charges can be deducted as the transfer of funds take place. On the other hand, the German requirement is that pension costs should be determined actuarially. However, no particular actuarial method is upheld or prohibited. In the USA, pension costs are also required to be determined using actuarial methods. Both the unit credit method and the projected benefit cost methods are allowed. The terminal funding and pay as you go methods are specifically disallowed. Past service costs should be charged to operations during the current and future periods benefited.

Table 8.37 Disclosure of policy on PRB

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	25 (100.0)	15 (35.7)	15 (27.8)	80 (97.6)	25 (27.8)	160 (54.6)
Yes	0 (0.0)	27 (64.3)	39 (72.2)	2 (2.4)	65 (72.2)	133 (45.4)
Column Total	25 (8.5)	42 (14.3)	54 (18.4)	82 (28.0)	90 (30.7)	293 (100.0)

Chi-Square = 129.68130; D.F. = 4; Sig. = .0000

Though the test of disclosure of policy on PRB (table 8.37) strongly indicates that there were significant differences between the disclosure levels of companies from the various countries, tests of the method of determining cost of pensions and retirement benefit costs (table 8.38) and recognition of past service costs and experience adjustments (table 8.39) suggest that there were no significant differences between the countries during this period.

Table 8.38 Determination of cost of Pensions and Retirement Benefits

	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Accrued benefit	1 (100.0)	3 (100.0)	0 (0.0)	51 (86.4)	55 (85.9)
Projected benefit	0 (0.0)	0 (0.0)	1 (100.0)	6 (10.2)	7 (10.9)
Others	0 (0.0)	0 (0.0)	0 (0.0)	2 (7.8)	2 (3.1)
Column Total	1 (1.6)	3 (4.7)	1 (1.6)	59 (92.2)	64 (100.0)

Chi-Square = 8.84420: D.F. = 6: Sig. = .1825: I index = 0.9524

The I index score for the basis of "determination of pensions and retirement benefit costs" is 0.9524, while that for "recognition of past service cost/experience adjustments" is 0.9439. Both scores are far above the sectional average. Though this should mean that a high level of harmony was attained on this topic, these findings are however seriously weakened by the very low rates of disclosure by the companies during the 1970/71 financial year.

Table 8.39 Recognition of past service cost/experience adjustments

	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
Over a period	0 (0.0)	1 (100.0)	1 (100.0)	37 (84.1)	39 (83.0)
In current income	1 (100.0)	0 (0.0)	0 (0.0)	7 (15.9)	8 (17.0)
Column Total	1 (2.1)	1 (2.1)	1 (2.1)	44 (93.6)	47 (100.0)

Chi-Square = 5.32379: D.F. = 3: Sig. = .1496: I index = 0.9439

Accounting for Long-term contracts

During 1970/71, in all the countries companies were free to use either the percentage of completion or the completed contract methods of accounting for revenues from long-term contracts.

Table 8.40 Disclosure of policy on long-term contracts

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	25 (100.0)	41 (100.0)	54 (100.0)	79 (96.3)	85 (94.4)	284 (97.3)
Yes	0 (0.0)	0 (0.0)	0 (0.0)	3 (3.7)	5 (5.6)	8 (2.7)
Column Total	25 (8.6)	42 (14.0)	54 (18.5)	82 (28.1)	90 (30.8)	292 (100.0)

Chi Square = 6.31808: D.F. = 4: Sig. = .1766

The test of disclosure of policy on long-term contracts (table 8.40) suggests that there were no significant differences in the disclosure levels of the five countries on this issue during the 1970/71 financial year. Also the test of the method of accounting for revenues from long-term contracts (table 8.41) which was limited to only the UK and the USA due to non disclosure by companies from the other countries, suggest that there were no significant differences between the practices of the UK and US companies. This test is however, constrained by the very low disclosure rates encountered on this topic.

Table 8.41 **Method of accounting for long-term contracts**

	UK	(%)	US	(%)	Row Total (%)
Completed Contract	1	(33.3)	0	(0.0)	1 (12.5)
Percentage of completion	2	(66.7)	5	(100.0)	7 (87.5)
Column Total	3	(37.5)	5	(62.5)	8 (100.0)

Fisher's Exact Test: Sig = .37500; I index = 0.6670

The I index score of 0.6670 derived in connection with accounting for revenues from long-term contracts is below the average for this section. However, much should not be made of this score since it was based on all two of the countries and also in recognition of the fact that only eight companies from the two countries disclosed their policies on this topic.

Accounting for Government Grants

In Germany grants can be taken to income when received or deducted from the cost of the fixed assets to which they relate. In France, the US and Japan there were no authoritative pronouncements dealing with this issue during the 1970/71 fiscal period. Regarding the UK, there were three accepted methods of accounting for government grants during this period:

- a.) grants can be applied to the reduction of purchase price of the asset they are intended for;
- b.) grants can be shown as a deferred credit pending transfer to profit and loss account at a rate similar to that on which the depreciation for the relevant asset is charged; and
- c.) grants can be credited immediately to reserves.

While the Institute of Chartered Accountants in England and Wales preferred methods (a) and (b) above, the Institute of Chartered Accountants of Scotland favoured the use of method (c).

Table 8.42 Disclosure of policy on government grant

	France (%)	Germany (%)	Japan (%)	UK (%)	US (%)	Row Total (%)
No	25 (100.0)	36 (87.8)	54 (100.0)	22 (26.8)	90 (100.0)	227 (77.7)
Yes	0 (0.0)	5 (12.2)	0 (0.0)	60 (73.2)	0 (0.0)	65 (22.3)
Column Total	25 (8.6)	41 (14.0)	54 (18.5)	82 (28.1)	90 (30.8)	292 (100.0)

Chi-Square = 173.60811; D.F. = 4; Sig. = .0000

Tests based on table 8.41 suggest that there were significant differences in the levels of disclosure of policy on government grants between the five countries in 1970/71 financial year. However, the test of the method of accounting for government grants (table 8.43) suggests that there were no significant differences between the practices of companies from Germany and the United Kingdom (the only two countries whose companies disclosed their policies on this issue for 1970/71).

Table 8.43 Method of treating government grants

	Germany (%)	UK (%)	Row Total (%)
In current income	1 (25.0)	0 (0.0)	1 (1.7)
Over a period	3 (75.0)	56 (100.0)	59 (98.3)
Column Total	4 (6.7)	56 (93.3)	60 (100.0)

Chi-Square = 3.06901; D.F. = 1; Sig. = .0798; I index = 0.7500

The I index score for the "method of treating government grants" (table 8.43) is 0.7500. The fact that this test was limited to only two countries (Germany and UK) due to non disclosure of policy by companies from the other countries is worthy of note.

Conclusions - Section 8B.1

Comparison of Chi-Square Results

Five of the seventeen tests of significance conducted under this section yielded non-significant results. The five include: determination of the cost basis for recording pensions and retirement benefits (table 8.38); method of treating past service costs (table 8.39); disclosure of policy on long-term contracts (table 8.40); method of accounting for long-term contracts (table 8.41) and; method of treating government grants (table 8.42). Tests based on the remaining twelve practices yielded significant results. Overall, the findings based on this section suggest that in 1970/71 there were significant differences in the accounting measurement and associated disclosure practices of the five countries on a majority of the topics.

Table 8.44 Summary of Chi-Square values

Topics	Chi Square	Significance
1. Disclosure of policy on borrowing costs	106.64216	.0000*
2. Method of accounting for borrowing costs	22.15401	.0002*
3. Disclosure of deferred tax accounting policy	87.46883	.0000*
4. Basis of providing for deferred taxes	19.91995	.0005*
5. Method of treating deferred taxes	9.07798	.0107*
6. Disclosure of policy on extra-ord/excep items	65.50898	.0000*
7. Treatment of extra-ord/exceptional items	25.97260	.0000*
8. Disclosure of policy on R & D expenditures	37.59524	.0000*
9. Treatment of research expenditures	22.02466	.0001*
10. Treatment of development expenditures	20.54032	.0001*
11. Disclosure of policy on PRB	129.68130	.0000*
12. Determination of cost of PRB	8.84420	.1825
13. Past service costs/experience adjustments	5.32379	.1496
14. Disclosure of policy on long-term contracts	6.31808	.1766
15. Method of accounting for long-term contracts	2.4100	.3750
16. Disclosure of policy on government grants	173.60811	.0000*
17. Method of treating government grants	3.06901	.0798

Table 8.44

* Denotes significant result.

Comparison of Index scores: 1970/71 and 1990/91

In connection with the I index analysis, table 8.45 below indicates that for 1970/71, the I index scores ranged from 0.3592 for the method of treating research expenditures, to 0.9524 for the basis for determining the cost of pensions and retirement benefit costs, while the average I index score or all the practices was 0.7143.

Table 8.45 **Summary of I index values**

Topics	1970/71	1990/91	Change
1. Method of accounting for borrowing costs	0.9426	0.3843	-0.5583
2. Basis for providing for deferred taxes	0.7732	0.2321	-0.5411
3. Method of treating deferred taxes	0.4005	0.3953	0.0052
4. Accounting for extra-ordinary and exceptional items	0.9401	0.9950	+0.0549
5. Treatment of research expenditures	0.3592	0.9465	+0.5873
6. Treatment of development expenditures	0.4145	0.9098	+0.4953
7. Determination of the cost of PRB	0.9524	0.4882	-0.4642
8. Treatment of past service costs/experience adjustments	0.9439	0.8501	-0.0938
9. Method of accounting for long-term contracts	0.6670	0.5933	-0.0737
10. Method of treating government grants	0.7500	0.6300	-0.1200
Average I index score	0.7143	0.6425	-0.0718

The I index scores displayed in table 8.45 are both surprising and interesting in many respects. The average index score for the 1970/71 financial year of 0.7143 is not only higher than the average score of 0.6425 for 1990/91 financial year by a margin of 0.0718 (7.18%), the table above also shows that on seven of the topics, the index scores for 1970/71 were higher than those of 1990/91 financial year. This therefore means that all together, it does appear that there was a higher level of de facto harmony between the five countries in 1970/71 than was the case in 1990/91 on the topics treated in this chapter. This is very contrary to what one would expect in the light of the harmonisation efforts undertaken regionally and globally between these two periods. It is pertinent to caution however, that the extremely low rates of disclosures on some of the topics like long-term contracts and government grants especially during the 1970/71 financial year is a major limitation of these findings.

SECTION 8B.2: AGGREGATE COMPARISONS OF ACCOUNTING PRACTICES IN 1970/71 AND 1990/91

Seventeen tests of significance were conducted under this section to test whether there are significant differences between the practices adopted by the companies in 1970/71 and 1990/91 financial years, out of which four yielded non-significant results (disclosure of policy on borrowing costs and on extra-ordinary and exceptional items and; methods of treating long-term contracts and government grants). Therefore, it is reasonable to conclude that based on these findings from the aggregate tests, that significant differences exist between the accounting measurement and associated disclosure practices of companies from France, Germany, Japan, UK, and the USA

during the two time periods on a majority of the issues considered in this section.

Summary of Chi-Square values

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of policy on borrowing costs	56.3	56.7	+ 0.4	0.00694	.9336
2. Method of accounting for borrowing costs				72.44708	.0000*
3. Disclosure of deferred tax accounting policy	33.6	80.2	+46.6	129.75885	.0000*
4. Basis of providing for deferred taxes				64.08412	.0000*
5. Method of treating deferred taxes				4.46505	.0346*
6. Disclosure of policy on extra-ord/excep items	50.0	55.3	+ 5.3	1.64174	.2001
7. Treatment of extra-ord/exceptional items				5.89929	.0151*
8. Disclosure of policy on R & D expenditures	24.7	47.1	+22.4	31.68825	.0000*
9. Treatment of research expenditures				67.36523	.0000*
10. Treatment of development expenditures				62.14574	.0000*
11. Disclosure of policy on FRB	45.4	85.2	+39.8	102.13914	.0000*
12. Determination of cost of FRB				119.19675	.0000*
13. Past service costs/experience adjustments				7.10954	.0077*
14. Disclosure of policy on long-term contracts	2.7	13.3	+10.6	22.11803	.0000*
15. Method of accounting for long-term contracts				2.20465	.3321
16. Disclosure of policy on government grants	22.3	8.6	-13.7	21.01664	.0000*
17. Method of treating government grants				3.15789	.0756

Table 8.46

* Denotes significant result.

The significant results derived on most of the topics is not unexpected in view of the fact that on a number of the issues for example, deferred taxes, some of the countries (France, Germany and Japan) did not have authoritative guidelines and rules on these subjects. On some other topics, for instance, pensions and retirement benefit costs, there have been changes in the relevant provisions between the two periods in countries such as France (see section 8A.1 and 8B.1). Furthermore, most (6 out of 7) of the disclosure issues indicate that as is expected, the 1990/91 disclosure levels surpassed those of 1970/71. The only exception was disclosure of policy for the accounting treatment of government grants, which as table 8.44 above shows fell from 22.3 percent in 1970/71 to 8.6 percent in 1990/91. This fall is mainly accounted for by the UK where levels of disclosure of policy on government grants fell from 73.2 percent in 1970/71 to 18.0 percent in 1990/91 (tables 8.16 and 8.42). Apart from this slight deviation, the trend of the other disclosure based findings are in line with normal expectations.

**SECTION 8B.3 : COMPARISON OF ACCOUNTING PRACTICES 1970/71
AND 1990/91 ON A COUNTRY BY COUNTRY BASIS**

SECTION 8B.3.1: FRANCE

Overall, tests were conducted on only eight items, out of which five items (all disclosure based) yielded significant results (8.47). It was not possible to carry out tests on the method of accounting for extra-ordinary and exceptional items since all the companies adopted the same method of reflecting such transactions in income as they arose. Also, on the following topics: deferred taxation, research and development expenditure, pensions and retirement benefits, long-term contracts and government grants no tests were conducted since no French company in the sample disclosed its policies on these issues for 1970/71.

Summary of Chi-Square values

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of policy on borrowing costs	4 0	36 0	+32.0	8 00000	.0047*
2. Method of accounting for borrowing costs				0 00000	1 0000
3. Disclosure of deferred tax accounting policy	0.0	80 0	+80 0	33.33333	0000*
4. Disclosure of policy on extra-ord/excep items	88 0	64 0	-24 0	3 94737	0469*
5. Disclosure of policy on R & D expenditures	0.0	40 0	+40.0	12 50000	0004*
6. Disclosure of policy on PPE	0.0	28 0	+28.0	5 98007	.0145*
7. Disclosure of policy on long-term contracts	0.0	8 0	+ 8.0	0 52083	4705
8. Disclosure of policy on government grants	0.0	16.0	+16.0	2 44565	.1179

Table 8.47

* Denotes significant result

On the topics covered in this section, the low level of disclosures by French companies of relevant policies in the 1970/71 financial year posed a serious problem and affected the number of tests and the scope for testing for differences in the practices between 1970/71 and 1990/91. What is clear, however, is the fact that over the two periods more French companies are disclosing their accounting policies. As for the methods of accounting for the different items covered under this section there does not appear to exist sufficient evidence to enable one reach any general conclusions.

SECTION 8B.3.2: GERMANY

Eleven tests of statistical significance were conducted under this section. Three of the tests yielded significant results, that is, tests of disclosure of policy for treating borrowing costs, disclosure of deferred tax accounting policy and the basis for determining the cost of pensions and retirement benefits. Tests were not conducted on the following topics: deferred taxation and long-term contracts due to non disclosure of policy and; on extra-ordinary and exceptional items because all the responding German companies adopted the same method. Based on the overall evidence from this section it can be argued that there is not much variation between the accounting measurement and associated disclosure practices of German companies in 1970/71 and 1990/91.

Summary of Chi-Square values

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of policy on borrowing costs	4.8	21.4	+16.6	5.12578	.0236
2. Method of accounting for borrowing costs				0.00000	1.0000
3. Disclosure of deferred tax accounting policy	0.0	35.7	+35.7	18.26087	.0000
4. Disclosure of policy on extra-ord/excep items	92.9	78.6	-14.3	3.50000	.0614
5. Disclosure of policy on R & D expenditures	14.3	2.4	-11.9	2.49351	.1100
6. Treatment of R & D expenditures					.2857
7. Disclosure of policy on FRB	64.3	73.8	+ 9.5	0.89125	.3451
8. Determination of cost of FRB				6.46154	.0395
9. Past service costs/experience adjustments				0.00000	1.0000
10. Disclosure of policy on long-term contracts	0.0	0.0	0.0		
11. Disclosure of policy on government grants	12.2	11.9	- 0.3	0.00000	1.0000
12. Method of treating government grants					.48571

Table 8.48

* Denotes significant result.

The findings of this section is perhaps explained by the fact that German regulations on many of the topics have not changed much over the two periods. Though the issue of the treatment of past service costs and experience adjustments was subject to some regulatory review between 1970/71 and 1990/91 (before 1986 companies were allowed to either amortise such costs or expense them as incurred, but after 1986, companies were required to expense and not amortise such costs), table 8. 39, shows that even during the 1970/71 no German company was making use of the amortisation option. Hence, the change in regulation did not have any effect whatsoever on the practice of German companies relating to this topic. It is however, surprising to see from table 8.48, that the 1970/71 disclosure levels were higher than those of 1990/91

on three out of the seven disclosure related topics.

SECTION 8B.3.3: JAPAN

Under this section twelve tests of significance were carried out. It was not possible to conduct tests of the methods of treating extra-ordinary and exceptional items since all the responding companies in both years recognised all such transactions in income as they arose. Tests were also not conducted on long-term contracts and government grants due to non disclosure of policies. Three out of the twelve topics tested (disclosure of policy on deferred taxes; disclosure of policy on extra-ordinary and exceptional items and; treatment of research and development expenditures) yielded significant results. As was the case with Germany in the preceding subsection, these findings would tend to suggest that there have not been much variation in the accounting measurement and associated disclosure practices of the Japanese companies studied during the two time periods covered by this study.

Summary of Chi-Square values

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of policy on borrowing costs	51.9	46.3	+ 5.6	0.33345	.5636
2. Method of accounting for borrowing costs				0.00328	.9544
3. Disclosure of deferred tax accounting policy	9.3	75.9	+66.6	49.07714	.0000*
4. Basis of providing for deferred taxes				2.63799	.2674
5. Method of treating deferred taxes					.3454
6. Disclosure of policy on extra-ord/excep items	50.0	16.7	-33.3	13.50000	.0002*
7. Disclosure of policy on R & D expenditures	43.4	53.7	+14.3	1.13761	.2862
8. Treatment of R & D expenditures				32.79366	.0000*
9. Disclosure of policy on FRB	72.2	86.8	+14.6	3.47652	.0622
10. Determination of cost of FRB				5.36667	.0683
11. Past service costs/experience adjustments				0.00000	1.0000
12. Disclosure of policy on long term contracts	0.0	7.4	+ 7.4	2.33654	.1264
13. Disclosure of policy on government grants	0.0	0.0	0.0		

Table 8.49

* Denotes significant result

The findings of this section, to a large extent merely reflect the fact that there has not been any significant changes in Japanese regulations concerning many of the topics discussed in this section. The significant difference found in the practices of Japanese companies on the topic of research and development expenditures can be attributed to the fact that whereas in 1970/71 the amortisation of R & D costs over a five year period was actively encouraged by regulation, during the 1990/91 financial year, the

immediate expensing of R & D costs has become the favoured alternative as conditions were imposed which items of R & D expenditures must meet before they can be capitalised and amortised. Consequently, tables 8.9 and 8.35, highlight these shifts in regulatory emphasis by showing that while 90.9 percent of all responding Japanese companies amortised R & D costs in 1970/71, by 1990/91 the proportion of companies adopting the amortisation option had fallen to 6.8 percent. It would thus appear that regulatory factors have played a predominant role in shaping the accounting measurement and associated disclosure practices of Japanese companies on the topics treated in this section over the two periods of time studied.

SECTION 8B.3.4: UNITED KINGDOM

In all, sixteen tests were conducted in this section. Results from ten of the tests support the view point that there are significant differences between the practices adopted by the UK companies in 1970/71 and 1990/91 (see table 8.50). Hence the evidence supports the conclusion that, there have been substantial variations in the accounting measurement and associated disclosure practices of UK companies during the two time intervals embraced by this study on a majority of the topics discussed in this chapter.

Summary of Chi-Square values

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of policy on borrowing costs	80.5	74.4	- 6.1	0.87253	.3503
2. Method of accounting for borrowing costs				29.38499	.0000*
3. Disclosure of deferred tax accounting policy	45.1	93.9	+48.8	46.03509	.0000*
4. Basis of providing for deferred taxes				52.28181	.0000*
5. Method of treating deferred taxes				6.61792	.0011*
6. Disclosure of policy on extra ord/excep items	40.2	95.1	+54.9	56.45079	.0000*
7. Treatment of extra-ord/exceptional items				14.73587	.0001*
8. Disclosure of policy on R & D expenditures	11.0	76.8	+65.8	72.19565	.0000*
9. Treatment of research expenditures				0.09783	.7545
10. Treatment of development expenditures				1.44866	.2287
11. Disclosure of policy on PRB	2.4	95.1	+92.7	139.96358	.0000*
12. Determination of cost of PRB				.07804	.9617
13. Disclosure of policy on long term contracts	3.7	15.9	+12.2	6.92568	.0085*
14. Method of accounting for long term contracts					.3500
15. Disclosure of policy on government grants	73.2	19.8	-53.4	46.72219	.0000*
16. Method of treating government grants				.45272	.5010

Table 8.50

* Denotes significant result.

Of all the countries discussed so far in section 8B.3, tests of UK companies have

yielded the highest number of significant results. This is surprising given that since the accounting traditions of the UK is generally thought to have been more established than those of France, Germany and Japan even before 1970/71, one should have expected more changes in the accounting practices of companies from these other countries over the two time periods than was revealed by tests from the preceding three subsections.

However, the significant differences found with respect to the UK on a majority of the items, to a large extent might be explained by the advent of authoritative pronouncements on many of the topics covered in this chapter in the form of SSAPs. For instance during the intervening period the following SSAPs were issued dealing with the different topics discussed in this section: SSAP 4 (accounting for government grants); SSAP 6 (accounting for extra-ordinary items and prior year adjustments); SSAP 9 (stocks and long-term contracts); SSAP 15 (deferred taxation); SSAP 13 (research and development expenditures) and; SSAP 24 (pensions and retirement benefit costs).

These SSAPs affected the practices of the companies even in those instances where there were no substantial changes in the pre SSAPs conventions and the pronouncements of a SSAP. For instance, on the issue of deferred taxation, though Opinion No 27 of the ICAEW recommended the use of the partial provision basis and the liability method similar to the provisions of SSAP 15, tables 8.4, 8.5, 8.30 and 8.31 show that in 1970/71, the proportion of responding UK companies that used the partial provision basis and the liability method of accounting for deferred taxes to be 35.5 percent and 76.9 percent respectively. However, after the coming into effect of SSAPs, by 1990/91, the proportions have risen to 97.6 percent and 98.7 percent respectively. Hence, the SSAPs, because of the higher authority they commanded, to a large extent appear to have helped bring about the significant changes which have been observed in the accounting measurement and associated disclosure practices of UK companies both in this chapter and in chapter 7.

SECTION 8B.3.5: UNITED STATES OF AMERICA

Out of the twelve tests of significance conducted in this section, seven yielded significant results while five yielded non significant results (see table 8.51). It was not possible to conduct any tests on extra-ordinary and exceptional items and long term contracts because all the US companies adopted the same policies for each of the two topics. Also, no test was conducted on the subject of government grants since no US

company disclosed its policy on this topic for both 1970/71 and 1990/91. Overall, the findings from this section suggests that the practices of US companies regarding a number of the topics treated under this section have altered to a considerable extent over the two periods of time.

Summary of Chi-Square values

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi-Square	Sig
1. Disclosure of policy on borrowing costs	75.6	68.9	- 6.7	0.99692	.3181
2. Method of accounting for borrowing costs				61.83993	.0000*
3. Disclosure of deferred tax accounting policy	62.9	91.1	+28.2	20.13749	.0000*
4. Basis of providing for deferred taxes				18.72617	.0001*
5. Method of treating deferred taxes				1.36861	.2421
6. Disclosure of policy on extra-ord/except items	28.1	28.9	+ 0.8	0.01402	.9057
7. Disclosure of policy on R & D expenditures	38.2	40.0	+ 1.8	0.00891	.9248
8. Treatment of R & D expenditures				9.81791	.0017*
9. Disclosure of policy on PRB	72.2	96.7	+25.4	20.46992	.0000*
10. Determination of cost of PRB				77.18771	.0000*
11. Past service costs/experience adjustments				1.30722	.2529
12. Disclosure of policy on long term contracts	5.6	22.2	+16.6	10.45161	.0012*
13. Disclosure of policy on government grants	0.0	0.0	0.0		

Table 8.51

* Denotes significant result.

Next to the UK, the US ranks as the country with the second highest number of significant results of the countries and topics treated in section 8B.3. The US findings to a large extent may also be accounted for by changes in regulations. Like the UK the structure for regulating financial reporting in the US has undergone some considerable transformations in the period between 1970/71 and 1990/91. Similarly, some of the accounting pronouncements (in the form of the Opinions of the Accounting Principles Board) which were in existence in 1970/71 have been supplanted by some of the Statements of Financial Accounting Standards (SFASs) issued by the FASB (eg APB Opinion 11 by SFAS (96)).

The topic of R & D costs provides some further proof. Whereas in 1970/71 59.4 percent of the companies expensed R & D costs while 40.6 percent capitalised such costs, by 1990/91, the proportions have changed to 91.7 percent and 8.3 percent respectively (see table 8.9 and 8.35). This shift should not be unexpected when it is remembered that in 1970/71 US accounting convention encouraged both the amortisation and immediate write-off of R & D costs. However, SFASs (2) and (86) which came into force later than 1970 requires the immediate write-off of R & D expenditure except in the case of R & D expenses incurred in relation to the

development of computer software.

However, it is fair to point out that not all the observed changes are accounted for by regulatory changes. For instance on the topic of pensions and retirement benefits (PRB), tables 8.12 and 8.38 show a substantial shift from the use of the accrued benefit actuarial method (adopted by 86.4% of the companies in 1970/71), to the projected benefit method (used by 83.9% of the companies in 1990/91). This change is not easily accounted for by regulatory requirements since the existing rules do not prohibit the use of either of the two methods. Hence, it is not easy to identify the cause of the significant change in practice observed with regard to this topic. Perhaps, apart from this minor variation, many of the other changes observed in US practices over the two periods are accounted for to a large extent by regulatory factors as have been demonstrated above.

SUMMARY OF FINDINGS SECTION 8B.3

Based on the number of significant results derived (table 8.52), the UK with ten significant results appear to have witnessed the most change. This is followed by the US with seven significant results, then France with five and the Germany and Japan with three significant results each.

Table 8.52 Summary of findings: Section 8B.3

	France	Germany	Japan	UK	US
1. Significant results	5	3	3	10	7
2. Non Significant results	3	8	9	6	5
3. Topics not tested	8	5	4	1	4
	-----	-----	-----	-----	-----
Total number of items	16	16	16	17	16
	-----	-----	-----	-----	-----

The overall results based on the individual country study suggests that while that have been substantial changes in the level of disclosures of accounting policies on the topics treated in this chapter, the accounting methods themselves have not varied much during 1970/71 and 1990/91. It was also observed that in many cases the changes witnessed in the accounting measurement and associated disclosure practices of the companies are as a result of changes in regulation in the period between 1970/71 and 1990/91 financial years. However, some observed changes like that on the topic of pensions and retirement benefit costs in the USA could not be accounted for easily by

regulatory changes since there was none over the two periods.

Concluding Remarks on Chapter 8

It can be observed from table 8.53 that the aggregate tests of inter-country differences for 1990/91 and the tests of differences between 1970/71 and 1990/91 gave rise to the highest number of significant results (13 each). This was followed the tests of inter-country differences for 1970/71 financial year with 12 significant results. As was the case with the topics treated in chapters 6 and 7, aggregate tests based on listing status gave rise to the least number of significant results (2).

Table 8.53 Summary of aggregate test results

	Country Differences		Listing Status	1970/71 and 1990/91 Comparisons
	1970/71	1990/91		
Significant results	12	13	2	13
Non significant results	5	4	15	4
	----	--	-	-----
Total	17	17	17	17
	-----	-----	- -	-----

Analysis based on the I index shows that on average, there has been a decrease of about 0.0718, in the level of harmony existing in the accounting measurement and associated disclosure practices of companies from the five countries as between 1970/71 and 1990/91. Furthermore, it was observed that the I index score for 1970/71 were higher than those for 1990/91 on seven out of the ten items for which the I indices were computed. This indicates a fall in the level of harmony existing on these topics. On the whole, the I index findings for this chapter deviate very widely from normal expectations given all the steps that have been taken to facilitate the harmonisation of accounting practices internationally. It was, however, pointed out that the very low rates of disclosure on some of the topics for example long-term contracts and government grants, particularly during 1970/71, is a major limitation of these findings. In the next chapter, the policy implications of these findings will be explored in some more detail.

CHAPTER NINE

SUMMARY AND CONCLUSIONS

SECTION 9.0: INTRODUCTION

The main purpose of this chapter is to outline the salient aspects of the thesis. Consequently, section 9.1 summarises the key issues and findings of the preceding eight chapters. This is followed by a brief presentation of the major findings of the empirical work and their policy implications. Next follows the limitations of this study and some suggestions for further research and, finally, concluding remarks based on the overall findings and a brief assessment of the prospects for international accounting harmonisation.

SECTION 9.1: SUMMARY OF CONCLUSIONS OF PRIOR CHAPTERS

Chapter one provided an introductory framework for the thesis. Hence it was observed in chapter one that the internationalisation of financial markets, integration of national economies, the phenomenon of multinationality of companies, among other factors, have led to a situation where both companies and individual investors are no longer limited in their fund raising and investment activities to their home countries. This situation it was observed, brings to the fore the issue of international differences in accounting practices which underlie the numbers on which these cross-national financing and investing decisions are based. In recognition of this need, various measures have been taken such as the formation of the International Accounting Standards Committee (IASC) in 1973 to address this problem. Against this background, it was argued in chapter one that the time is now ripe to assess the extent to which there are still differences in the accounting measurement and associated disclosure practices of companies from some key countries of the world. The chapter went on to highlight the research design and concluded with a brief outline of the rest of the chapters.

In chapter two, an indepth review of the aims and activities of the key organisations involved in international accounting harmonisation was proffered. Notable bodies reviewed included: the International Accounting Standards Committee (IASC), the

International Organisation of Securities Commissions (IOSCO), The United Nations Organisations (UNO), the Organisation for Economic Co-operation and Development (OECD), The European Community (EC), and so on. It was observed that there is the likelihood of conflict of interest, arising from the disparate objectives of these various bodies. For instance, the regional harmonisation activities of the EC might obstruct the IASC's efforts at global harmonisation. The need was stressed for some co-ordination of the goals, objectives and activities of these various bodies to avoid them working at cross purposes to each other.

Chapter three considered some conceptual issues relevant to the current attempts at international accounting harmonisation. It discussed issues such as the desirability of international harmonisation of accounting practices; the factors that work for and against attempts at harmonisation; the appropriate body and mechanism for setting and enforcing international accounting regulations or standards; and the perceived costs and benefits of harmonisation. Other topics addressed in this chapter included the issue of entities to which global accounting standards should apply; beneficiaries from the current international accounting standards setting framework; the appropriate mechanism for funding the international harmonisation process and, finally, the feasibility of global harmonisation of accounting practices using the existing framework that is centred on the IASC. From this chapter, it was noticed that there is hardly any consensus on any of these basic and conceptual aspects of the international accounting harmonisation process. In conclusion, it was observed that there was a need for these topics to be adequately addressed in order to ensure that the international accounting harmonisation process is based on sound conceptual foundations.

In chapter four, diverse empirical research relevant to international accounting harmonisation was reviewed. The review was subdivided into five categories. The first category reviewed consisted of international surveys of accounting practices in selected countries such as the Price Waterhouse surveys of 1973, 1975 and 1979. These surveys indicate that the accounting practices of the countries covered differ in many respects. The second category of work reviewed concerned studies that attempted to classify countries based on known or anticipated features of the accounting, business and social environment, for example, Nair and Frank (1980). It was observed that the classifications produced usually differed from one study to the other, depending on the countries, topics used, research methodology and so on. Consequently, none of the studies reviewed has been universally accepted as representing a complete and accurate classification of countries based on their

accounting practices. The third category of research reviewed concerned studies that attempted to measure the extent and levels of harmony in the accounting practices of some countries of interest [eg van der Tas (1992); Emenyonu and Gray (1992)]. It was observed from these studies that there are varying degrees of international accounting harmony, depending on the countries and the topics addressed. The fourth category was termed, for the purposes of this work as quantitative impact studies. These studies strived to measure in quantitative terms the likely impact of accounting diversity on the reported profits and assets of companies from various countries [eg Weetman and Gray (1990 and 1991)]. So far, evidence from quantitative impact studies suggest that differences in the accounting practices of various countries lead to substantial differences in the reported profits and asset values of companies internationally. Finally, the behavioural effect studies were reviewed. These seek to ascertain the extent to which international accounting differences influence the actions of key players in the international market place (eg Choi and Levich (1991)]. It was found from these studies that international accounting differences appear to influence to a considerable extent the behaviour of various participants in the international financial markets.

Chapter five which is concerned with methodological issues highlighted the seventeen vital accounting measurement practices selected for study, the justification for their selection and the hypotheses based on the selected accounting measurement practices. This was followed by a discussion of the country and company selection criteria. The chapter shows France, Germany, Japan, UK and the USA as being the most suitable choice of countries for the study given the objectives of the research. On company selection, the chapter discussed the criteria for the selection of the 413 companies whose financial statements were surveyed. It was also pointed out that for the 1970/71 financial year due to extreme difficulty of getting the financial statements of companies dating that far back, the sample was restricted to the 293 companies whose financial statements were available for both 1990/91 and 1970/71. Hence, altogether 706 (413 + 293) annual reports were processed. The chapter also highlighted some of the problems encountered in dealing with some of the financial statements published in French, German and Japanese. The methods adopted to surmount these problems were presented with some advice for other researchers intending to undertake research along these lines. Other topics treated in this chapter included an elaborate discussion of the statistical tools of analyses used for analysing the survey data, namely, the non parametric chi-square test, the Fisher exact test and the I index. It was also argued in chapter 5, that given the categorical nature of the data and the research questions addressed, the techniques selected were seen to be the most appropriate statistical

tools.

Chapter six was devoted to the presentation of empirical tests and the discussion of accounting for business combinations; goodwill; and foreign currency translations. Chapter seven covered accounting for inventories; property, plant and equipment; depreciation; and investments. Finally, chapter eight was concerned with the presentation and discussion of empirical findings on accounting for borrowing costs; deferred taxes; extra-ordinary and exceptional items; research and development expenditures; pensions and retirement benefit costs; long-term contracts; and government grants. A summary of the major findings from tests presented in chapters six, seven and eight is outlined in the next section.

SECTION 9.2: SUMMARY OF MAJOR RESEARCH FINDINGS AND THEIR POLICY IMPLICATIONS

The summary and discussions of the major findings of this study is presented within the context of the three main research questions reiterated in chapter six, namely:

1. are there significant differences in the accounting measurement and associated disclosure practices of companies from the five countries covered in this survey (France, Germany, Japan, United Kingdom and the United States of America) during 1990/91 ?
2. do multi-listed and domestic listed companies differ in their practices on the usage and disclosure of accounting policies relating to measurement practices as at 1990/91 ?
- 3a. to what extent did the accounting measurement and associated disclosure practices of companies from the five countries differ in 1970/71 ?
- 3b. are there significant differences between the accounting measurement and associated disclosure practices of the companies as between 1970/71 and 1990/91?

Summary of findings: inter-country comparisons - 1990/91

Question 1 above concerning the extent to which there are substantial differences in the accounting measurement and associated disclosure practices of companies from France, Germany, Japan, UK and the USA, during the 1990/91 financial year was

addressed by sections 6A.1, 7A.1, and 8A.1 of the thesis. In all, forty six tests (see table 9.1) were conducted in order to ascertain whether there were significant differences in the accounting practices of companies from the five countries studied for 1990/91 in the context of the major initiatives by the IASC and other bodies to reduce international accounting diversity.

Table 9.1 Summary of aggregate test results

	Country Differences		Listing Status	1970/71 and 1990/91 Comparisons
	1970/71	1990/91		
Significant results	30	39	12	36
Non significant results	6	7	34	10
	-----	-----	-----	-----
Total	46	46	46	46
	-----	-----	-----	-----

Thirty nine of the tests gave results supporting the viewpoint that there are still significant differences in the accounting measurement and associated disclosure practices of the various countries. Based on the combined evidence from the three empirical chapters, the study concludes that significant differences in the accounting practices of companies from France, Germany, Japan, United Kingdom and the United States of America still exist in spite of the major efforts that have been made by the IASC and other bodies to harmonise accounting practices internationally. It was argued that observed differences in the accounting measurement and associated disclosure practices of companies from these countries are explained mainly by differences in the accounting regulations of these countries on many of the topics studied.

Summary of findings: the impact of listing status on the accounting measurement and associated disclosure practices of companies

Discussions based on aggregate tests

Tests carried out in sections 6A.2, 7A.2, and 8A.2, sought to find answers to research question 2 above regarding whether or not the accounting measurement and associated disclosure practices of multi-listed companies differ significantly from those of domestic listed companies. In that respect, 46 tests of significance (see table 9.1) were conducted, out of which test results of 34 items suggest that there are no significant differences between the accounting measurement and associated disclosure practices of the multi-listed and domestic listed companies surveyed. It would appear

from these findings, therefore, that there is only a limited association between listing status and the accounting measurement and associated disclosure practices of the companies studied.

Discussions based on tests of individual countries

Further analyses was undertaken on a country by country basis (sections 6A.3, 7A.3, and 8A.3), to ascertain the extent to which the accounting measurement and associated disclosure practices of domestic listed and multi-listed companies within each country differ. Table 9.2 below shows that altogether 226 topics were considered for all the five countries, out of which it was only possible to conduct tests of statistical significance on 187 items. It was not possible to carry out tests on the other 39 topics mainly because all the companies adopted the same method on each of these topics.

Of the 187 topics tested, only tests on 38 topics (mainly disclosure based) yielded significant results, that is, supporting the viewpoint that there is some association between listing status and the accounting measurement and associated disclosure practices of the companies. On a majority of the issues (149), the results were not found to be significant. It was therefore concluded based on these findings that on a country by country basis, there was also little or no association between listing status and the accounting measurement and associated disclosure practices of the companies.

Some explanations were advanced for these findings on the grounds that on some of the topics such as the basis for recording items of property, plant and equipment, regulations in some countries, for example, Germany, Japan and the USA require rigid adherence to the cost basis. Consequently, there is no scope for the practices of companies within such an environment to vary irrespective of their listing status. On some other topics where the domestic regulatory guidelines allow for alternative methods, there were little or no differences between internationally acceptable methods (in the form of IASs), and the domestic guidelines. Hence, there was no basis for any differentiation in the accounting practices of multi-listed companies who would otherwise be more responsive to internationally accepted methods, and the domestic listed companies who, as should be expected, are mainly subject to domestic regulations.

Table 9.2 **Impact of listing: Tests on individual countries**

	France	Germany	Japan	UK	US	Total
1. Significant results	6	9	12	6	5	38
2. Non Significant results	32	30	28	29	30	149
3. Tests not conducted	7	6	5	11	10	39
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Total number of items	45	45	45	46	45	226
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A closer look at the performances of individual countries (table 9.2) indicate that tests of the impact of listing status on the accounting measurement and associated disclosure practices of companies from Japan yielded the highest number of significant results (12). This was followed by Germany with 9 significant results, then France and the UK with 6 each and the USA with only five significant results. It was noted in the discussion following the presentations of findings for each country that the extent to which significant results were obtained regarding each country was mainly dependent on the number of options allowed on a particular topic by domestic regulation, and the extent to which there is variation between international and domestic regulatory guidelines for those topics where many options are permitted.

Summary of findings: Inter-Country Comparisons 1970/71

Sections 6B.1, 7B.1, and 8B.1 were designed to furnish answers to research question 3a above regarding the extent to which the accounting measurement and associated disclosure practices of companies from the five countries differ in the 1970/71 financial year. In a bid to accomplish this task, forty six tests of significance were carried out (see table 9.1). The results of 38 items suggested that there were significant differences in the accounting measurement and associated disclosure practices of companies from the five countries in 1970/71 financial year, while only 8 of the tests supported the contrary viewpoint. Evidence from sections 6B.1, 7B.1, and 8B.1 leads us to conclude that, just as was the case with the 1990/91 financial year, there were a substantial number of significant variations in the accounting measurement and associated disclosure practices of companies from France, Germany, Japan, the United Kingdom and the United States of America in 1970/71. These findings are not surprising given that in 1970/71 (as is still the case) these countries had different financial reporting regulatory guidelines, which in many cases differed from one country to another on a good number of the topics treated.

Summary of findings: 1970/71 and 1990/91 comparisons

Aggregate Tests

Answers to the last research question (3b) relating to whether or not there are significant differences between the accounting measurement and associated disclosure practices adopted by the companies as between 1970/71 and 1990/91 financial years, were provided by tests presented in sections 6B.2, 7B.2, and 8B.2. In all, forty six tests were conducted in the three sections. Findings based on 36 items (see table 9.1) indicated that there are significant differences in the accounting measurement and associated disclosure practices adopted by companies from the five countries as between 1970/71 and 1990/91. On 10 of the issues, however, no significant differences were observed. Therefore, it would appear from these tests that there is substantial support for the viewpoint that there have been significant changes as between 1970/71 and 1990/91 in respect of the accounting measurement and associated disclosure practices of the companies surveyed. These findings are also not surprising since there is hardly any country that has not reviewed its regulation on one or more aspects of the topics discussed. Some other factors that might explain the differences in the accounting measurement and associated disclosure of the companies over the two periods include the harmonisation activities of the IASC and the EC; general socio-economic conditions such as level of inflation and; pressures from international capital markets which have become more integrated and sophisticated during the period between 1970/71 and 1990/91.

Individual country tests

In addition to the aggregate tests, tests were also conducted to determine on an individual country basis the extent to which there are differences in the accounting measurement and associated disclosure practices of companies from each of the countries as between the 1970/71 and 1990/91 financial years. The summary of these tests which is presented in table 9.3 show that in all, 185 tests were conducted, out of which 97 tests gave rise to significant results, while the remaining 88 tests yielded non-significant results. Based on these tests, it is clear that significant differences were observed in a majority of cases.

Table 9.3 Comparison of 1970/71 and 1990/91: individual country basis

	France	Germany	Japan	UK	US	Total
1. Significant results	17	17	18	28	16	97
2. Non Significant results	10	21	20	16	22	88
3. Topics not tested	18	7	7	2	7	41
	-----	-----	-----	-----	-----	-----
Total number of items	45	45	45	46	45	226
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On a country by country basis, the UK with 28 significant results appears to have witnessed the most change in accounting measurement and associated disclosure practices over the period. Most of these changes were explained by changes in regulation and the regulatory framework for financial reporting in the UK, especially the advent of the Accounting Standards Committee with SSAP's which were more authoritative than the erstwhile Opinions of the ICAEW. After the UK comes Japan with 18 significant results, then France and Germany with 17 significant results each and finally, the USA with only 16 significant results. Generally, most of the observed changes were due to changes in regulation.

Summary of findings: I index score analysis

Turning now to the I index based analyses, for the 1990/91 financial year, it can be seen from table 9.4 that the I index score values ranged from the lowest score of 0.2295 derived in connection with the "method of accounting for depreciation", to the highest score of 0.9950 for the "method of treating extra-ordinary and exceptional items". The overall average score for the 26 index scores was derived as 0.6903.

These scores mean that depreciation accounting is the least harmonised of all the topics treated while the accounting treatment of extra-ordinary and exceptional items is the item on which the highest level of harmony was attained during the 1990/91 financial year. The average score of 0.6903 suggests that on the whole there was a 69.03 percent level of harmony in relation to the topics treated for the 1990/91 financial year. As acknowledged earlier in chapter five, there is as yet no benchmark for determining what constitutes an acceptable level of harmony. This means that the significance of the I index score values is a matter of judgment to be resolved by the parties interested in the international harmonisation process.

For the 1970/71 financial year the lowest I index score for all the topics (table 9.4) was 0.2323 derived in connection with the method of accounting for exchange differences,

while the highest score of 0.9524 was computed for the basis for determining the cost of pensions and retirement benefits. The average I index score for all the topics in the 1970/71 financial year was 0.6230. This means that overall there was a 62.3 percent level of harmony in all the topics during the 1970/71 financial year.

A closer examination of table 9.4 reveals that on fourteen of the twenty six items the level of harmony in 1990/91 was found to be higher than the level of harmony in 1970/71. Three of the topics that gave rise to the most positive change are: consolidations (83.06%), research expenditures (58.73%), and treatment of exchange differences (58.13%). The substantial increases in the level of harmony found in connection with these topics, is perhaps explained by the increased regulatory attention that have been given to them both nationally, regionally (eg EC Seventh Directive on Consolidations) and globally between 1970/71 and 1990/91.

Table of I Index Values

	1970/71	1990/91	Change	Change %
1. Consolidation method	0.0963	0.9269	+0.8306	+83.06
2. Investments in Associates	0.7784	0.9376	+0.1592	+15.92
3. Treatment of goodwill	0.6865	0.5441	-0.1424	-14.24
4. Rate for translating Income Statement of Subsidiaries	0.5417	0.7039	+0.1622	+16.22
5. Treatment of Translation Differences	0.5377	0.5063	-0.0314	-3.14
6. Treatment of Exchange Differences	0.2323	0.8136	+0.5813	+58.13
7. Method used to assign cost to inventories	0.3853	0.2825	-0.1028	-10.28
8. Measurement basis for recording inventories	0.6781	0.7564	+0.0783	+7.83
9. Definition of market value	0.6164	0.6990	+0.0826	+8.26
10. Cost basis for recording property, plant and equipment	0.7629	0.7906	+0.0277	+2.77
11. Gains/losses on disposal of property, plant and equipment	0.7093	0.9777	+0.2684	+26.84
12. Method of accounting for depreciation	0.3294	0.2295	-0.0999	-9.99
13. Method of valuing long term investments	0.8471	0.6088	-0.2383	-23.83
14. Gains/losses on disposal on long term investments	0.5803	0.9889	+0.4086	+40.86
15. Method of valuing current investments	0.5731	0.7662	+0.1931	+19.31
16. Gains/losses on disposal of current investments	0.6999	0.9914	+0.2915	+29.15
17. Method of accounting for borrowing costs	0.9426	0.3843	-0.5583	-55.83
18. Basis for providing for deferred taxes	0.7732	0.2321	-0.5411	-54.11
19. Method of treating deferred taxes	0.4005	0.3953	-0.0052	-0.52
20. Accounting for extra ordinary and exceptional items	0.9401	0.9950	+0.0549	+5.49
21. Treatment of research expenditures	0.3592	0.9465	+0.5873	+58.73
22. Treatment of development expenditures	0.4145	0.9098	+0.4953	+49.53
23. Determination of the cost of PPE	0.9524	0.4882	-0.4642	-46.42
24. Treatment of past service costs/experience adjustments	0.9439	0.8501	-0.0938	-9.38
25. Method of accounting for long term contracts	0.6670	0.5933	-0.0737	-7.37
26. Method of treating government grants	0.7500	0.6300	-0.1200	-12.00
Average I index score	0.6230	0.6903	+0.0673	+6.73

Table 9.4

On the other hand, the level of harmony on twelve items was found to be higher in 1970/71 than the level in 1990/91. The three topics with the highest rate of decrease in harmony levels are as follows: borrowing costs (55.83%), basis for providing for deferred taxes (54.11%) and, determination of the cost of pensions and retirement benefit costs (46.42). The high rate of fall in the harmony level of borrowing costs is mainly explained by the gradual movement by companies from all the countries away from the predominant practice in 1970/71 of expensing borrowing costs to the option of amortising such costs. This movement appears to be driven by factors other than regulation (eg, perhaps desire for optimistic profit figures sooner rather than later) as no significant regulatory reviews have been undertaken in any of the countries on this issue. The relatively lower than normal levels of harmony found in connection with the other two items (deferred taxes and pensions and retirement benefits) is perhaps explained by the fact that in 1970/71 Japan, Germany and France did not have any authoritative guidelines on these issues. Consequently companies from these countries that addressed these issues tended to be influenced by practices in some other countries like the US which already had guidelines for dealing with these topics. However, during the 1990/91 fiscal period, almost every country has developed its own guidelines, which in many cases allow for many options regarding these two topics in particular. These developments, it appears, created the necessary conditions for the radical fall in the levels of harmony observed with regard to these two topics.

Notwithstanding the discussion in the preceding paragraph when the overall average figure for 1970/71 (62.3%) is compared with the overall average score for 1990/91 (69.03%) this result tends to suggest that there has been a general increase in the level of harmonisation of accounting practice of 6.73 percent between the five countries over the period. What is not clear, however, is the precise factors responsible for the observed increase in levels of harmonisation. Some plausible explanatory factors might include: the development of international financial markets; the activities of international regulators such as the IASC and the EC and; economic factors such as the trend of general price levels, among others.

Policy Implications of Findings

Of all the tests of statistical significance conducted, those between countries (sections 6A.1, 7A.1, 8A.1, 6B.2, 7B.2 and 8B.2) provided the most significant results. This means that although the I index scores suggest some improvement in the levels of harmonisation between the countries over the 20 year period surveyed, some substantial differences still exist in the practices of companies from the five countries

and so responsible for continuing international accounting diversity.

This is not surprising given that the existing framework for effective accounting regulation is structured at the national level. Hence efforts at international accounting harmonisation must involve and have at its core accounting regulators in all of the countries involved. This is the greatest drawback of the present IASC structure in that it excludes from its governing board a number of regulators from some countries such as the FASB in the USA, and the ASB in the UK, quite apart from government agencies in France and Germany.

These findings would seem to justify a revision of the current mechanism for setting and enforcing international accounting standards. If the goal of achieving an acceptable degree of harmony in international accounting practice is to be attained it may be that the task could be better accomplished by an international regulatory body that embraces all types of regulators rather than those from private sector bodies alone.

Furthermore, table 9.4 highlights the fact that the levels of harmony existing in the 1990/91 financial year vary widely depending on the issue concerned. On some issues such as: extra-ordinary and exceptional items (99.50%); gains/losses on current investments (99.14%) and long term investments (98.89%); gains and losses on the disposal of property, plant and equipment (97.77%); research expenditures (94.65%) and; investments in associates (93.76%), near unanimity in practice has already been attained by companies from France, Germany, Japan, UK and the USA. However, on some other issues the levels of harmony are relatively very low, suggesting that the IASC and others interested in the international harmonisation process ought to focus more on these areas. Among those with exceptionally low levels of harmony and so in need of more attention are: the method of accounting for depreciation (22.95%); the basis for providing for deferred taxes (23.21%); the method used to assign costs to inventory (28.25%); the method of accounting for borrowing costs (38.43%); and the method of treating deferred taxes (39.53%).

SECTION 9.3: LIMITATIONS OF THE STUDY

This study encountered some problems and limitations which have to be acknowledged at this point. The first major limitation was that of differences in language. For many of the companies from France, Germany and Japan the English

language versions of their annual reports were used for the study, while for some others the French, German and Japanese language annual reports were used. It was, however, observed from the annual reports of some of the companies that sent both the original versions and the English language versions of their annual reports, that there were no big variations between the extent of disclosure and accounting policies adopted for both sets of accounts. In fact, for some companies such as the German company IWKA and others the English language annual reports were the exact translations of the domestic language financial statements.

The next major limitation was the small sample size in the case of some of the issues such as accounting for long-term contracts and government grants. This was especially so for the 1970/71 financial year and was more acute in the case of France, Germany and Japan. However, to lessen the extent of this problem the Fisher exact test was used in place of the non-parametric chi-square test whenever the sample size fell below fifteen for 2x2 contingency tables.

Another limitation that is noteworthy relates to the difficulty of ascertaining whether non-disclosure on any particular issue was due to non-applicability or failure to disclose. For instance, for those companies failing to disclose their policy for treating government grants, even after carefully reading through the annual report and financial statements, some times it was difficult to establish whether they actually received grants but failed to disclose how the grants were accounted for or just that no grants were received at all for the financial year. In such cases, a judgement was made to treat this as failure to disclose the relevant accounting policy, although it might be the case that indeed the topic in question might not be applicable to that particular company.

Finally, the study was limited to just two time periods, did not cover all possible accounting measurement items and was based on a sample of companies from the five countries. It is, therefore, important to note that any attempts to apply the findings of this study outside these boundaries should be done with care.

SECTION 9.4: SUGGESTIONS FOR FURTHER RESEARCH

There is considerable scope for further research relating to the topic of international accounting harmonisation. Firstly, this study was limited to two time periods. There is a need for further research that will include more periods in order to give a more complete picture of the extent and trend of accounting harmonisation over time. This

kind of research is needed because harmonisation is a dynamic process. Persons interested in the international harmonisation process will need to know not just the levels of harmony that existed at some point in the distant past but also about the present and ongoing levels of harmony.

Further, the current study focussed only on listed companies. It would be interesting to see what the outcome would be for a study that combines non-listed, domestic listed and multi-listed companies. Gray (1980, p.74), suggests that the accounting profit measurement practices of companies dominated by equity investors with shares tradable in an active secondary market are likely to be more optimistic in comparison with other companies such as unlisted companies and companies financed mainly by banks and outside creditors. A sample that includes non-listed companies will provide an opportunity to test empirically both within and between countries, whether non-listed companies indeed tend to prefer profit deflating accounting policies, while the listed companies prefer profit inflating accounting policies. However, the problem with including non-listed companies is that of securing access to their financial reports. But if this obstacle is surmounted, such a study would promise to be more all embracing than the present study that excluded non-listed companies.

The present study was mainly concerned with the impact of country of origin, year of accounts and listing status on accounting practices. There is room for further research that seeks to ascertain the extent to which factors such as size, industrial segment, and multinationality explain diversity in the accounting practices of companies internationally. This is important because, if it can be established that companies within different size ranges, or from different industrial segments adopt similar accounting measurement and associated disclosure practices, it might then be best to structure global harmonisation programme along these lines, instead of the current arrangements that propose the use of the same accounting policies for all companies irrespective of size and type of operations.

Finally, this research was restricted to five countries at more or less the same stage and level of economic development. A study that includes many more countries also promises to be interesting and rewarding. The collapse of communism and the subsequent introduction of a western type capitalist system in many countries of the erstwhile communist bloc countries of the Soviet Union, Eastern Europe, China, among others, have created a pressing need for international accounting harmonisation studies that include these countries. Also, the newly industrialising countries (NICs) of Asia such as South Korea, Taiwan, and others are increasingly becoming more

attractive to international investors. There, is therefore, the need too for international harmonisation studies that embrace these countries. Among other things, such studies that combine countries at different stages of economic development will shed more light on the likely effect of stages of economic development on accounting measurement and associated disclosure practices.

SECTION 9.5: CONCLUDING REMARKS

Overall, findings based on this study suggest that while some progress appears to have been made in the harmonisation of the accounting measurement and associated disclosure practices of companies from France, Germany, Japan, UK, and the USA, much still needs to be done to improve the level of accounting harmony internationally. On the whole, the modest improvement in the level of accounting harmony observed might suggest that the prospects for international harmonisation are perhaps brighter than is usually thought. However, whether these seeming bright prospects will be actualised depend on two major factors. Firstly, the current mechanism for setting and enforcing international accounting standards and guidelines needs to be revised or modified to enhance the enforcement authority of agencies involved in the international harmonisation process. Secondly, the continuation of the current trend towards increased openness of markets and deregulation of capital markets. These constitute the *raison d'être* of the whole international harmonisation process. Hence, if countries should once again resort to protectionism and strictly national regulation of capital markets such that the international flow of capital, goods and services becomes greatly diminished, so also will the prospects for improvement in the level of international accounting harmonisation.

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APPENDIX ONE

INTERNATIONAL MEASUREMENT AND ASSOCIATED
DISCLOSURE PRACTICES

COMPANY REPORTS QUESTIONNAIRE

Name of Company:

Main line(s) of business(es):.....

Country of origin:

Turnover:

Domestic turnover:.....

Foreign turnover:

Total Assets :.....

Net Assets:.....

Total Profit before tax:.....

Net Profit:

Profit attributable to domestic operations.....

Profit attributable to foreign operations.....

Earnings Per Share (EPS):.....

Listings Information:

.....

Year of Accounts:.....

Financial Year interval:.....

GAAP Basis:.....

External Auditors:.....

1. Inventory valuation.

A. Was policy disclosed? ... (Yes) ... (No) ... (N/A) ...
Comment.....

B. (i) which method is used to assign cost to inventories?

- (a) FIFO (b) LIFO (c) Weighted Average (d) Base Stock
- (e) others

(ii) which measurement basis is used for recording inventory values?

- (a) Cost (b) market value (c) lower of cost or market value (d) others.....

(iii) Market value is interpreted as :
(a) Net Realisable Value (b) Replacement Cost.

2. Measurement of property, plant and equipment.

(A) Was policy disclosed?... (Yes) ... (No) (N/A)
Comments:.....

(B) property, plant and equipment are carried on the books at:

- (a) original cost (b) current replacement cost
- (c) net realisable value (d) others.....

(C) Is Supplementary information provided using alternative bases?

- (a) Yes (b) No.....
- Comments:.....

(D) Gains or losses arising from the disposal or retirement of property, plant and equipment which is carried at cost is:

- (a) recognised in the income of the current period
- (b) taken to shareholders' interests
- (c) others.....

(E) An increase in the net carrying amount arising on revaluation of property, plant and equipment is:

- (a) recognised in the income of the current period
- (b) taken to shareholders' interests
- (c) others.....

(F) A decrease in the net carrying amount arising on revaluation of property, plant and equipment is:

- (a) charged to income of the current period
- (b) taken to shareholders' interests
- (c) others.....

- (G) On the disposal of a previously revalued item of property, plant and equipment, the difference between net disposal proceeds and net carrying amount is:
- (a) recognised in the income of the current period
 - (b) taken to shareholders' interests
 - (c) others.....

3. Exchange rate for use in translating income statement items of foreign entities.

(A). Was policy disclosed? .. (Yes)... (No)....(N/A)....
 Comment:.....

(B). (i) Income statements of foreign subsidiaries are translated at: (a) average rates (b) closing rates (c) historic rates (d) others.....

(ii) Is supplementary information provided, using other bases? (a) Yes..... (NO) ..
 Comment:.....

4. Treatment of differences on income statement items translated at other than the closing rate.

(A). Was policy disclosed?.....(Yes)....(No)...(N/A)
 Comment:.....

(B). Differences on income statement items translated at other than closing rate are: (a) taken to reserves (b) treated as part of current year's income (c) others.....

5. Treatment of exchange differences arising from parent companies foreign operations.

(A). Was policy disclosed?.....(Yes)....(No)...(N/A).
 Comment:.....

(B) Transactions involving foreign currencies are recorded in the reporting currency of the company by applying to the foreign currency amount:

- (a) actual exchange rates existing at the dates of the transactions
- (b) average exchange rate for the financial year
- (c) the closing exchange rate
- (d) others

(C). Exchange differences arising from parent companies foreign operations are:

- (a) recognised in income of the current period unless hedged.
- (b) Recognised as part of the cost of an asset when they result from a severe devaluation against which there is no practical means of hedging.
- (c) Deferred and recognised in income of current and future periods.
- (d) Others.....

6. Accounting for business combinations.

(A). Was policy disclosed?.....(Yes)...(No)...(N/A)..
Comment:.....

(B). (i) Business combinations are accounted for using:
(a) purchase method for acquisitions
(b) pooling of interests for mergers
(c) purchase method for mergers
(d) Combination of (b) and (c) above
(e) others.....

(ii) Is Supplementary information provided, using alternative bases?

(a) Yes..... (b) No

Comments :

(C) An investment in an associate should be accounted for in the consolidated financial statements using:

(a) equity method
(b) cost method
(c) others

7. Treatment of goodwill.

(A). Was policy disclosed?....(Yes)....(No).....(N/A)..
Comment:.....

(B). (i) Positive goodwill is: (a) recognised as an asset and amortised (b) written of immediately against current income (c) written off immediately against reserves (d) others

(ii)if [8(i)a] is applicable,the amortisation period is:

(a) 1-5years (b) 6-10years (c) 11-15years
(d) 16-20 years (e) 21-40 years (f) over 40years.
.....

(iii) Is the amount of goodwill capitalised, amortised or written off disclosed?

(a) Yes..... (b) No.....

Comments :.....

8. Recognition of borrowing costs.

(A). Was policy disclosed?.....(Yes)....(No)...(N/A)...
Comment:.....

(B). Borrowing costs are: (a) expensed immediately
(b) recognised as part of the cost of an asset if it takes a substantial period of time to get it ready for its intended use or sale (c) others.....
.....

(C) Is the amount of borrowing costs capitalised disclosed?

(a) Yes..... (b) No.....

9. Measurement of long-term investments.

(A). Was policy disclosed?....(Yes)....(No)... (N/A)...
Comment:.....

(B). (i) Long-term investments are measured at:
(a) cost..... (b) revalued amounts.....
(c) expected future cash flows (d) others.....

(ii) Is supplementary information provided, using
alternative bases?

(a) Yes..... (b) No

Comments:.....

(C) Differences arising from carrying a long-term
investment other than at cost are:

(a) taken to the income of the current periods
(b) deferred and apportioned to the income of the current
and future periods

(c) taken to shareholders' interests

(d) others.....

(D) On the disposal of a long-term investment, the
difference between the net disposal proceeds and the
carrying amount is:

(a) recognised in the income of the current period

(b) taken to shareholders' interests

(c) others

10. Measurement of current investments.

(A). Was policy disclosed?....(Yes)....(No).... (N/A)...
Comment:.....

(B).(i) Current investments are:

(a) measured at market value

(b) measured at lower of cost and market value on an
individual basis

(c) measured at the lower of cost and market value on a
portfolio basis

(d) others.....

(ii) Is supplementary information provided, using
alternative bases?

(a) Yes..... (b) (No)....

Comments:.....

(C) On the disposal of a current investment the
difference between the net disposal proceeds and the
carrying amount is:

(a) recognised in the income of the current period

(b) taken to shareholders' interests

(c) others.....

11. Treatment of Deferred Taxes on income.

(A). Policy disclosed?.....(Yes)....(No).....(N/A)..
Comments:.....

(B) The basis for providing for deferred tax is:
(a) Flow through basis..... (b) Full Provision basis...
(c) Partial provision basis

(C). Deferred tax is treated using:
(a) deferral method (b) liability method
(c) others.....

(D) Is supplementary information using alternative bases disclosed?
(a) Yes..... (b) No.....

12. Treatment of Extraordinary / Exceptional items.

(A). Was policy disclosed?.....(Yes)....(No)...(N/A)...
Comment:.....

(B) (i) Extraordinary items are:
(a) recognised as income of the current period and included in the calculation of earnings per share
(b) not included in calculating EPS
(c) taken to reserves or retained earnings
(d) others.....

(ii) Exceptional items are:
(a) recognised as income of the current period
(b) taken to reserves or retained earnings
(c) others.....

13. Treatment of R & D expenditures

(A). Was policy disclosed?.....(Yes).....(No)...(N/A)....
Comment:.....

(B) (i) Research expenditures are:
(a) expensed immediately
(b) Recognised as assets and amortised over a period of time
(c) others.....

if (b) above, over how many years?.....

(ii) Development expenditure are:
(a) expensed immediately
(b) Recognised as assets and amortised over a period of time
(c) others.....

if (b) above, over how many years?.....

(C) Is the amount of R & D capitalised, amortised or written off disclosed?
(a) Yes..... (b) No.....
.....

14. Treatment of pensions and retirement benefit costs.

(A). Was policy disclosed?.....(Yes)...(No)...(N/A)..
Comment:.....

(B) (i) The cost of retirement benefits are determined using:
(a) Accrued benefit valuation methods
(b) Projected benefit valuation methods
(c) pay as you go (d) Others

(ii) Past service costs, experience adjustments and the effects of changes in actuarial assumptions, are recognised :

(a) systematically over a period approximating the average of the expected remaining working lives of participating employees.

(b) in the income statement of the current period as they arise

(c) Others.....

(C) Is the amount of pension costs charged disclosed?

(a) Yes..... (b) No.....
.....

15. Depreciation of fixed assets.

(A) Was policy disclosed?....(Yes)....(No)....(N/A)....
Comment:.....

(B)(i) Fixed assets are depreciated using:
(a) straight line method (b) declining balance method
(c) a combination of[(a) and (b)]
(d) others.....

(ii) Average depreciable period for plant , machinery and other equipment is :

(iii) Average depreciable period for buildings is :.....
.....

(C) Is any special depreciation charged for tax purposes disclosed?

(a) Yes..... (b) No.....
.....

16. Long term Contracts.

(A). Was policy disclosed?(Yes)....(No).....(N/A)..
Comment:.....

- (B) Revenue from long term contracts is recognised according to:
- (a) the completed contract method
 - (b) the percentage of completion method
 - (c) others.....
- (C) Is the amount of any profit accrued on long-term contracts disclosed?
- (a) Yes..... (b).....

17. Government Grants

- (A) Was policy disclosed?(Yes)(No)(N/A)
- (B) Government grants including non-monetary grant at fair values are:
- (a) recognised in the income of the period when it is received
 - (b) recognised as income over the periods necessary to match them with the related costs which they are intended to compensate
 - (c) credited directly to shareholders' interests
 - (d) others.....

APPENDIX TWO

THE BUSINESS AND ACCOUNTING REGULATORY ENVIRONMENT OF FRANCE, GERMANY, JAPAN, THE UNITED KINGDOM AND THE UNITED STATES

Introduction.

It has been argued that the accounting practices of companies from any country are best understood within the context of the environment in which the company operates [Mueller (1968), Perera (1989), Radebaugh (1975), Jaggi (1975),]. In other words, accounting methods and numbers in themselves do not convey the whole story about the financial position of a company. For instance the fact that the P/E ratios of Japanese companies are usually much higher than those of their counterparts based in other countries is not a sufficient basis on its own to form opinions about the state of Japanese companies. An examination of the underlying structure of Japanese business might lead to a better usage of Japanese P/E ratios. Consequently, this chapter presents a broad view of the business and accounting regulatory environments of the five countries covered in study. This is intended to act as a basis for appreciating some detailed aspects of their profit measurement practices and disclosures thereof.

FRANCE

General Business Environment

France is an industrial economy with a Gross National Product of about US \$1009 billion. Various types of business organisations play significant roles in sustaining this magnitude of economic activity. The major forms of business organisations in France can be classed as Societe Anonyme (SA's), similar to the British Public Limited companies or Societe _ responsabilite Limitee (SARL) equivalent to Private Limited companies. In addition, France has a lot of small and medium sized businesses ranging from sole proprietorships to various forms of partnerships.

Traditionally, a significant proportion of the funds needed by French firms for industrial and commercial purposes come from the banks and the state (Nobes and

Parker, 1991, p.12). Consequently, businesses have tended to rely more on the state and banks than on the stock markets. A glance at table 1 highlights the fact that compared to the UK, far less French companies make use of the stock exchanges for raising capital.

However, in recent years the French government has been encouraging an expansion in the scope and activities of the stock exchanges. The Paris bourse, outside of the International Stock Exchange in London, is the most active among other EC stock exchanges. The other stock exchanges in France are located in Bordeaux, Lille, Marseille, Nancy, and Nantes. These stock exchanges have little or no influence over the financial reporting process in France.

Accounting Regulatory Environment

Even before the advent of the EC Directives of accounting significance, France had a public oriented approach to accounting regulation. Accounting Standards were usually encoded into the Plan Comptable - National Chart of Accounts. The first official Plan Comptable came into being in 1947 following its approval by the French Ministry of National Economy. This initial plan was revised and the revised version became operational ten years later in 1957. The latest revision was approved in 1982 and implemented by firms as from 1984.

It is appropriate to mention that the 1947 Plan Comptable was not the first French Plan Comptable. There was the 1942 Plan Comptable produced by Commission Interministérielle du Plan Comptable (Accounting Planning Committee), established by a government decree in 1941. The main objective of the plan was to enable government to gather data for planning and controlling the economy by standardising financial reporting formats. This objective to more or the same extent has been retained by subsequent accounting plans. However, the 1942 Plan Comptable which was never approved by the government was criticised "for its lack of logic and its complexity, and for being overly oriented toward the determination of financial results for external purposes, and of product costs for internal and external pricing of products." (Fortin, 1991, p.7). Given the lack of governmental endorsement and the criticisms levelled against the 1942 Plan, it was bound to be shortlived, and so it was.

The next attempt was made by a private sector body, the Accounting Section of the National Committee of French Organisation (CNOF). The CNOF committee published the Rational Accounting Plan in 1944 which in the committee's view was

intended to overcome the complexities and other objections raised about the 1942 Plan. In spite of its virtues (Fortin, 1991, p.10), the CNOF Plan which also lacked governmental endorsement, never got nation-wide support and was superseded by the 1947 Plan Comptable - the first official French accounting plan.

Broadly speaking the 1947 Accounting plan set out valuation and measurement rules, model financial statements, definitions of accounting rules and important accounting terms and instructions for operating the accounting system. It was meant to apply to state organisations engaged in industry and commerce. The 1957 Plan extended these provisions to qualifying companies in the private sector.

The 1982 Plan differs from the 1957 Plan in some ways and introduced some new concepts like the True and Fair view concept into French accounting. This has fuelled speculation that the main reason for the revision was to enable the incorporation of the provisions of the EC Fourth Directive into French Accounting. However Melliani [1988]1 identifies two other key reasons for the revision, namely gaps and inadequacies of the 1957 Plan due to the changing economic environment and the need to obtain precise and homogeneous data at both micro and macro levels of the economy. Whatever the reasons for the revision the new Plan is not expected to realistically alter French accounting practice very severely.

Organisations of Relevance to Accounting

Though accounting standards are issued by the government and so have the force of law, it will help our understanding of the accounting regulatory environment to review the activities of the following bodies: The Commission des Operations de Bourse (COB); The Professional Institute (L'Ordre National des Experts Comptables); the National Council of Accountancy (Conseil National de la Comptabilité) and the statutory auditors (Commissaires aux Comptes).

COB

The COB established in 1968 is charged with the task of supervising all the stock exchanges in France. In the process of carrying out this duty, the COB ensures that investors are protected and are given adequate and reliable information. Hence, companies that want to avail themselves of the benefits of raising capital in any of the stock exchanges in France, must submit details of their operations, structures and other vital information to the COB.

Officially the influence of the COB on the accounting practices of companies is limited to quoted companies. Though the fundamental accounting rule book is the National Accounting Plan (Plan Comptable), quoted corporations and other companies seeking to raise funds in the capital markets are subject to more detailed and restrictive requirements monitored by the COB. The COB's interest in accounting also extends to the aspect of campaigning to ensure "the acceptability of French annual accounts to the international capital markets" (Standish, 1991, p.172).

L'Ordre des Experts Comptables et des Comptables Agrées (OECCA) - The professional Institute

This is the major professional association of French accountants. It was founded in 1942. However, prior to 1942, there were many local professional accounting groups in France who were prevented by individualistic attitudes from forming a national body [Filius (1987, p.138) and Lafferty (1973)]. Total membership as of 1990 stood at over 12,000 individuals and 3,800 company or partnership members. As from 1945, the OECCA and its members were given the monopoly of all public accounting work with the exception of statutory audits. Initially, membership of the OECCA was exclusive to French citizens. However, in the spirit of the EC integration programme, EC nationals may now be admitted to the OECCA on the strength of their equivalent national qualifications after a short oral examination.

The OECCA from time to time issues statements on recommended principles of accounting and other aspects of accounting practice. However, these statements lack the force of law. This does not necessarily mean that the OECCA statements are altogether useless. After all the government in its accounting regulation mechanism is expected to use some members of the OECCA or even factor their recommendations into the Plan Comptable.

The OECCA is a founding member and a current board member of the International Accounting Standards Committee. However, in view of the heavy governmental influence over financial reporting in France, the OECCA has little room for promoting the acceptance of IAS in France. OECCA is also a member of the International Federation of Accountants and the Fédération des Experts Comptables Européens.

Compagnie Nationale des Commissaires aux Comptes (CNCC) - The body of Statutory Auditors

This is the umbrella organisation embracing all recognised statutory auditors. By French law, statutory auditors must be appointed for all firms with capital in excess of F300,000, the equivalent of about £30,000. Only registered members of the CNCC may be so appointed. Membership of the CNCC involves meeting stipulated educational and working experience requirements and the passing of the relevant qualifying examinations. The current membership of the CNCC is over 9000. Some members, however, hold dual membership of both the CNCC and the OECCA.

The CNCC influences accounting regulation and practice in a number of ways. It can make submissions to the Ministry of Justice on accounting issues when invited to do so. Even without invitation, the CNCC can submit its views as they relate to proposed accounting regulations. Within the profession, the CNCC from time to time publishes recommendations on standard auditing and accounting practice for the observance of members.

The statutory auditors attempt to ensure that the strict dictates of the law are complied with. On the other hand, the OECCA members are more involved with opinion audits - usually required by the COB or larger French companies in need of international financing. The different orientations are underlined by the fact that whereas the CNCC is subject to supervision by the Ministry of Justice, the Ministry of Finance supervises the OECCA.

Conseil National de la Comptabilité (CNC)

This is the major body responsible for the development of accounting rules. The members of the council are drawn from the civil service, prominent members of the accounting profession, industry, commerce, labour unions and other individuals who possess a high level of competence in accounting. The government controls the CNC.

The National Council of Accountancy (CNC) was set up in 1945 to do the ground work necessary for the promulgation and implementation of the 1947 National Plan Comptable (National Accounting Plan). In this capacity, the CNC sees to the development of national charts of accounts. It also issues statements and recommendations on how the accounting plan should be applied. Its pronouncements in so far as they are not modified by later regulatory pronouncements are a source of

accounting doctrine. Additionally, the CNC can act as a consultative forum for ensuring that accounting research and evaluation is not retarded.

In the international scene, France belongs to the International Federation of Accountants, the International Accounting Standards Committee (IASC) and the European Community. Of all these groupings, the international body with the greatest potential to affect financial reporting and regulation in France is the European Community. This is due to the fact that EC Directives have the force of law once they have been endorsed by the French parliament and government. However, the EC harmonisation effort does not appear to pose any serious threat to the existing regulatory framework of accounting in France. This is mainly due to the fact that the EC requirement of incorporating accounting rules into the statute book has always been a feature of French accounting regulation.

GERMANY

General Business Environment

Germany is an industrial economy. With a Gross National Product of over US \$1.2 trillion, Germany ranks as the third largest market economy in the world after the United States of America and Japan. Like most other industrial economies the economy of Germany is heavily dependent on the activities of German companies and corporations, some of which are world leaders in their industries - notably Daimler Benz to name but one.

Two major forms of firms can be identified. The private Company, with the German name of Gesellschaft mit beschränkter Haftung, GmbH for short. The GmbH can be formed by one single shareholder and there is no upper limit on the number of shareholders the GmbH can have. The GmbH must have a share capital of at least DM 50,000, equivalent to about £20,000.

The other major form of business organisation is the corporation (Aktiengesellschaft-AG). The AG's are the only forms of business, whose shares can be traded on any German stock exchange. AG's must have share capital of at least DM 100,000 the equivalent of £36,000. In addition to the AGs and GmbHs there are also various categories of partnerships and sole proprietorships.

Generally speaking, Germany has an advanced and sophisticated financial system comprising of banks, stock exchanges, insurance companies and various other forms of financial institutions. Banks exercise significant influence in the German financial system. Writing on this theme, AlNajjar and Volz (1991), comment that: "Two significant features of the German economy are the power, and to some extent, the control that the major banks exert on the financial system of the country, as well as their influence. Unlike those of the Anglo-American system, banks in Germany provide a complete range of financial services. The banks, rather than individual investment companies, conduct most stock exchange dealings and provide a substantial part of the national industry's capital needs". Furthermore, Lafferty (1975, p. 42) highlight the fact that the supervisory boards of major German companies include voting representatives from banks.

Germany has eight stock exchanges located in Frankfurt, Düsseldorf, Munich, Hamburg, Berlin, Stuttgart, Hannover, and Bremen. Frankfurt is the leading stock exchange accounting for over 70 percent of total national turnover of stocks (Peat Marwick, 1988, p.41). With effect from July 1, 1986, all the eight stock exchanges united to form the Federation of German Stock Exchanges.

Accounting Regulatory Environment

German accounting is regulated by the Government. The principal instruments used for such regulation are: the Stock Corporation Law of 1965 (Aktiengesetz, AktG), the commercial Code (Handelsgesetzbuch, HGB), the General Tax Law (Abgabenordnung, AO), and the Income Tax Law (Einkommensteuergesetz, EStG). The introduction of new accounting rules might follow from decisions of upper courts, parliamentary approval of new draft bills, pronouncements of the Institute of Auditors, or the influence of international accounting standards, for instance the Fourth and Seventh Directives of the EC. Therefore, generally accepted Accounting Principles in Germany can be regarded as the sum total of all these statutory provisions plus relevant court decisions and interpretations of the laws.

The German Commercial Code requires all businesses to keep proper accounting records for the protection of creditors and shareholders. AG's and GmbH's are subject to the additional requirement of ensuring that their accounts provide "as true a view of the association's financial position and of its operating results as is possible pursuant to the valuation regulations" [Orsini, McAllister, and Parikh (1986, p. GER-6)].

German accounting is reputed for its rigidity and inflexibility with a high degree of similarity between financial accounting and taxation. The two major tax laws that govern accounting and financial reporting are the income tax directives (EStR) and the income tax law (EStG). These tax laws contain detailed measurement valuation rules and booking procedures which companies to whom they apply must comply with. AlNajjar and Volz (1991, p.106), have described the influence of tax laws on accounting and financial reporting in Germany as significant.

Organisations of Relevance to Accounting

The two major professional groups are the Institute of Auditors (Institut der Wirtschaftsprüfer, IdW) and the Chamber of Auditors (WirtschaftsprüferKammer). The Chamber of Auditors is concerned with the organisation and practice of the accounting and auditing profession. On the other hand, the IdW deals more with issues relating to technicalities of accounting. Hence though the German law forms the bed-rock of accounting legislation, the IdW can give statements to interpret the law by filling in any gaps or loopholes in the law.

Becoming a chartered accountant (Wirtschaftsprüfer) is a very daunting task. The prerequisite is the obtaining of an academic degree in business administration, economics, law, engineering or agriculture. This is followed by five years working experience, at least four of which must be in auditing after which a qualifying examination must be passed. In view of this high standard the total membership of the IdW stood at the comparatively low figure of 6,267 in 1990 (European Accountant, February, 1991, p.11). Maybe, due to this factor, Germany resuscitated a second tier auditing body (Vereidigte Buchprüfer) in the late 1980's to handle the audit of private companies.

On the international stage, Germany through the IdW, is a founding member and a current board member of the International Accounting Standards Committee. Germany also holds the memberships of the International Federation of Accountants and the European Community. As is the case with France and other member nations of the EC, membership of the EC is more likely to significantly influence German accounting than membership of any other international organisation.

JAPAN

General Business Environment

Japan with a Gross national Product (GNP) of US \$2920 billion, is the second largest economy in the world after the United States of America. It is not hyperbole to describe the Japanese economic success as a miracle. After the second world war, the Japanese economy was in complete ruins. However over a period of fifty years Japan has managed to rise out of the ashes of the war to build a world class economy, with several Japanese companies and banks featuring high on the annual Fortune magazine listings of the largest companies in the world.

The Japanese financial system is well developed. The Tokyo Stock Exchange which lists over 2000 companies has grown to become one of the biggest stock exchanges in the world. Outside the Tokyo stock exchange, the next two most important stock exchanges are located in Osaka and Nagoya. Japan has other smaller stock exchanges in Kyoto, Hiroshima, Fukuoka, Niigata and Sapporo. A great majority of the stocks listed on the stock exchanges in Japan are Japanese stocks. However, since 1975 when the first foreign stock was listed on the Japanese stock market, the number has been increasing gradually. In 1989 the number of foreign listed stocks in the Tokyo Stock Exchange stood at 112, while the total of the domestic companies listed on all Japanese stock exchanges amounted to 2,019 in 1989 and 2,071 in 1990 (International Finance Corporation (1991, p. 55).

Japanese banks have also been keeping pace with the rate of Japanese economic advances. It is becoming customary for seven or more Japanese banks to be found in the list of the world's ten largest banks. In spite of the size of the Japanese stock exchanges, banks still play a predominant role in the financing of Japanese companies.

Accounting Regulatory Environment

Corporate financial reporting in Japan is regulated by three important statutes, namely:

1. The Commercial Code
2. The Securities and Exchange Law (SEL)
3. The income tax laws

The Financial Accounting Standards for Business Enterprises, issued by the Business Accounting Deliberation Council (BADC), constitute generally accepted accounting principles and provide authoritative support and interpretative guidelines to the above

three listed statutes (Hirose, (1987, p.31).

The Commercial Code

The Japanese Commercial Code which was enacted in 1890 was patterned after the German Commercial Code. However, the Code has undergone several revisions, one of the most prominent revisions been made in 1950 introducing Anglo-American law perspective (Hirose (1987, p.35)). The Commercial Code is intended to apply to all public limited companies (Kabushiki Kaishas). Public limited companies or the US equivalent of corporations are the most predominant form of business organisation in Japan and number over a million. The Commercial Code is primarily concerned with the protection of the interests of creditors. With respect to corporate financial reporting, the Commercial Code consists of three major parts, namely:

1. A section on Accounting for Companies
2. A section covering general provisions
3. A section describing ordinances of the Ministry of Justice such as Regulation concerning Balance Sheet, Income Statement, Business Report and Supporting Schedules of Public Limited Companies [Kozuma (1987,p.38,39).

The Commercial Code requires companies to appoint statutory auditors who need not be Certified Public Accountants to report on the financial statements prepared in accordance with the Code (Campbell, 1985,p.11). The statutory auditor or examiner must not be a director or an employee of the company. The main objective of this exercise is to audit the performance of the directors. In this wise Toba (1987, p.81), states that the statutory auditor "acts as an agent of the shareholders, he is essentially concerned with the directors' honesty. It is important to note , among other things that detecting improper conduct including embezzlement, misappropriation or illegal acts rest with the statutory auditor". It is therefore obvious that the objectives of this audit is different from the objective of the independent audit function in the Anglo-American context. It also varies from the internal audit function in that internal auditors in a typical American or UK company are employees of the company and report to the management and not the shareholders.

Securities and Exchange Law

The Japanese Securities and Exchange Law enacted in 1948 is patterned after the US Securities Act of 1933 and 1934. The Law which is oriented towards the protection of investors, applies to listed companies, companies that have raised more than a certain

amount of funds in the issue market, and companies whose shares are traded over the counter. The accounting regulations of the Securities and Exchange Law focus on disclosure requirements in the new issue and secondary securities market and the form and content of financial statements of those companies under its jurisdiction (Kozuma (1987, p.39)).

The Securities and Exchange Law stipulates that financial statements prepared according to its provisions must be reported on by either an audit corporation or by a Certified Public Accountant. This is very similar to the external audit function in the Anglo-American environment in that the main objective of this audit, unlike the statutory audit, is to enable the auditor to express an opinion as to whether the financial statements present fairly the financial position of the company and also whether the financial statements have been prepared in accordance with generally accepted accounting principles.

The Income Tax Laws

Japanese financial reporting has been described as being heavily influenced by tax considerations (Goto (1987, p.59)). This is due to the manner the Corporation Tax Law interacts with the Commercial Code and the Securities and Exchange Law. Unlike, the other two significant statutes, the Corporation Tax Law is intended to ensure equity in taxation. Consequently, companies that are subject to the Securities and Exchange Law are expected to determine their taxable income according to the dictates of the Corporation Tax Law. At the same time, the Corporation Tax Law computes taxable income in conjunction with the Commercial Code (Goto (1987, p.)).

Goto (1987, p. 59, 60), outlines the main reason why tax considerations influence Japanese financial reporting heavily. The Corporation Tax Law has provisions that makes possible the adjustment of income determined under the Commercial Code to taxable income. The Commercial Code gives a wide latitude for choice with regard to many measurement items, for example depreciation. To avoid widely varying practices on these issues, the Corporation Tax Law stipulates the particular standard(s) that companies must adopt. Therefore, the business accounting of most companies proceeds within the bounds set these standards stipulated by the Corporation Tax Law. Goto (1987, p.61) comments that it is for this reason that Japanese business accounting is considered the same as tax accounting.

Financial Accounting Standards for Business Enterprises

In addition to these statutory regulations, Japan has Financial accounting standards which in their contemporary forms were first issued in 1949 by the Investigation Committee on Business Accounting Systems, the predecessor of the Business Accounting Deliberation Council - the body now in charge of issuing the Financial Accounting Standards for Business Enterprises. The standards are basically a summary of the generally accepted accounting conventions in Japan. Additionally, they provide authoritative support to and interpretation of the accounting regulatory statutes. Consequently, all enterprises are expected to comply with the provisions of the standards. Audit corporations are also expected to comply with the standards in conducting their audits. Hence, the standards even though they lack the force of law play a very important role in the preparation of financial statements by companies and in the expression of auditors' opinions (Hirose, (1987,p.35).

Important Financial Reporting Bodies

This section discusses the structure and operations of some bodies that are significant to the financial reporting environment of Japan, namely: The Government, The Business Accounting Deliberation Council, Japan Institute of Certified Public Accountants,

The Government

As was indicated earlier, laws and statutes play a dominant role in the regulation of Japanese financial reporting through the instrument of the Commercial Code, the Securities and Exchange Law, and Income Tax Laws. The Japanese Ministry of Justice is responsible for the administration of the Commercial Code which is applicable to over one million large, medium and small corporations. Another arm of the government which plays a key role in the financial regulatory process is the Ministry of Finance. The Ministry of Finance is in charge of administering the Securities and Exchange Law. All listed companies and companies whose stocks are traded over the counter are required to report in accordance with the Securities and Exchange Law. Secondly, the Ministry of Finance funds and appoints the members of the Business Accounting Deliberation Council (BADC) - the only body with the mandate to set accounting standards in Japan. Based on the foregoing it can be observed that the government acting through the agencies of the Ministries of Justice and Finance plays a dominant role in Japanese financial reporting.

The Business Accounting Deliberation Council (BADC)

The BADC is the only body with the authority to issue accounting standards in Japan. The body which is under the direction of the Ministry of Finance draws members from different segments of the business community and other groups with some significant interest in accounting matters. Typically the council is composed of representatives from: academia, the Federation of Economic Organisations (Keidanren), banks, non banking companies, the Japanese Institute of Certified Public Accountants, Stock Exchange, the Securities Analysts Association, financial journalists, Ministry of Justice, Securities Dealers Association, the Japan Federation of Tax Accountants Association and the National Association of Small and Medium Enterprises (Hirose (1987, p.31).

The main function of the BADC is to examine and deliberate on issues that are important to financial reporting. This then gives rise to the establishment of relevant accounting and auditing standards. The council is also responsible for the standardisation of the cost accounting systems and the improvement of corporate financial reporting. As a result, the council is organised into four sections. Section 1 sees to the setting of accounting standards and the improvement of financial reporting systems. Section 2 is in charge of accounting education. Section 3 oversees the establishment of auditing standards. Finally, section 4 has the responsibility for setting cost accounting standards. The outcome of the deliberations of the council is subject to the approval of the Minister of Finance (Hirōse 1987, p.33).

Japan Institute of Certified Public Accountants

The main body of professional accountants in Japan is the Japan Institute of Certified Public Accountants (JICPA). The Act establishing the JICPA was promulgated in 1948 as a result of the post war American Influence. To become a CPA in Japan requires that one sit and pass three stages of examination administered by the Japanese Ministry of Finance. The first stage is intended to test candidates' general literary ability, and so graduates can obtain exemption from the whole of this stage. This is not the case with any of the subsequent stages. If a candidate is successful at the stage two level he/she is then expected to act as assistant to CPAs for three years. After three years his/her performance records are forwarded to the Ministry of Finance. If the performance is deemed satisfactory, the candidate is then allowed to sit for the third and final stage of the CPA examinations. Given the length of time and stringent

conditions for attaining CPA status, it is not very surprising that the total membership of the JICPA is less than twelve thousand [Nobes and Parker (1991, p. 4)].

The JICPA influences corporate financial reporting in Japan in several ways. Firstly, under the CPA Law, the JICPA has the mandate to "effectively exercise guidance over, communicate with, and supervise members to uphold professional standards and improve and advance the profession" (Yabuki (1987, p.190)). By exercising control over its members the JICPA has a beneficial impact on the quality of accountants and the practice of accounting in Japan.

Secondly, the JICPA is fairly represented on the Business Accounting Deliberation Council - the only body responsible for setting accounting standards in Japan. Through this representation, the JICPA is in a position to influence financial accounting standards issued by the BADC. In a more indirect way it also influences the direction of Japanese financial reporting through the issuance of guidelines, interpretative statements, proposals for reforms, findings of investigations and research it commissions, and its publications - the Accounting Journal (monthly) and the JICPA News.

In the international arena, the JICPA is a founding member and a current board member of the International Accounting Standards Committee. It also participates in the steering committees of the IASC that are charged with doing the ground work necessary for the issue of International Accounting Standards. Furthermore, the JICPA is a council member of the International Federation of Accountants (IFAC). It is also an executive member of the Confederation of Asian and Pacific Accountants.

UNITED KINGDOM

General Business Environment

The UK is an industrial economy, with GNP that stands at over US \$ 834 billion. The economy of the UK is highly dependent on the activities of business organisations. Broadly speaking, the categories of business organisation are companies (public and private), partnerships and sole proprietorships. In terms of economic significance companies exert a lot of influence on the whole economy.

The UK has a well developed capital market. In terms of volume of transactions the

London Stock Exchange ranks the third largest in the world after Tokyo and the New York Stock Exchanges respectively. In banking and other financial services, the UK is also a leading nation with London as one of the pre-eminent international financial centres.

The sophistication of the UK's capital market and more precisely that of the stock exchanges encourages a more active investor participation in providing finance for quoted firms. This in turn has led to an orientation and pattern of corporate financial reporting practices that emphasises the investor more than any other interested parties.

The Accounting Regulatory Environment

The regulation of financial reporting in the United Kingdom can rightly be described as a mixed-approach. The law, especially the Companies Act, provides the broad framework while the professional accounting bodies, the stock exchange, auditors and other related independent bodies through their recommendations, statements, professional judgment and standards, attempt to bridge the gap between the broad framework set down by the law and the detailed methods required to make the law operational. In theory, the pronouncements of this body of experts lack the force of law. However, in a legal dispute, failure to abide by them might influence the judge in deciding against the party in question.

Major Bodies Involved in Accounting Regulation

The following bodies play one role or another in regulating financial reporting in the UK:

1. The Government.
2. Accounting Standards Committee / Accounting Standards Board
3. The member bodies of the Consultative Committee of Accountancy Bodies.
4. The Stock Exchange.

The Government

Traditionally, the UK government does not take active part in regulating accounting practices. Government intervention comes in the nature of broad outlines such as stipulating that accounts of certain categories of companies must be audited within some time period. Or the provision that accounts must give a true and fair view of the state and operations of the reporting entity. Usually these broad provisions are included in the Companies Act of 1985 as amended.

Recently, legal provisions are beginning to deal with accounting issues in more detail. This is a natural corollary of Britain's membership of the European Community. In keeping with the stipulation of the Treaty of Rome, Britain is expected to incorporate provisions of the various directives into its national laws. By so doing, the provisions of the major accounting Directives, the Fourth and Seventh Directives will become law. In this wise, Taylor and Turley (1986, p.27) observe that: "To a large extent the increasing statutory control present in the Companies Act, 1981, was forced on the UK through the membership of the EC and the duty to enact the Fourth Directive on Company Law." However, in spite of this changing scenario, they still maintain, that: "The underlying philosophy which characterises the approach to accounting regulation in the UK remains that the law should establish the broad framework and the accounting profession should develop detailed procedures and rules which assist in the practical implementation of that framework in a business environment which is constantly changing."

In 1989, the UK government took a more active role in the financial regulation process by promulgating paragraph 4 of Schedule 7, amending Schedule 9 to the Companies Act 1985, requiring companies to state whether their accounts "have been prepared in accordance with applicable accounting standards and particulars of any material departure from those standards and the reasons for it." Section 19 of the Companies Act 1989, authorised the Secretary of State for Trade and Commerce to prescribe the appropriate body to set the 'applicable accounting standards' required by the above quotation. This function was delegated to the Accounting Standards Board - a body composed mainly of persons from the private sector after the American FASB model.

Under this current arrangement, the traditional arrangement whereby the government gives the broad outlines while leaving the experts to determine the detailed methods and procedures of accounting to be allowed or disallowed is to a large extent retained. Following from this, it can reasonably be predicted that accounting regulation in the

UK can hardly get to the stage where the state will start enacting laws bordering on detailed charts of accounts for companies to abide by as is the case in France.

The Accounting Standards Committee (ASC)

The Accounting Standards Steering Committee (ASSC) the precursor to the ASC was set up by the Institute of Chartered Accountants in England and Wales in January 1970 [Underdown and Taylor, (1986, p. 42)]. The main reason for setting up the ASSC was to advance accounting standards. The Scottish and Irish Institutes joined the ASSC shortly after its formation. The Chartered Association of Certified Accountants and the Chartered Institute of Management Accountants (then Institute of Cost and Management Accountants) followed suit in 1971. The ASSC was reconstituted to embrace all the six members of the Consultative Committee of Accountancy Bodies in 1976 after the Chartered Institute of Public Finance and Accountancy (then Institute of Public Finance and Accountancy) joined. Consequently, the name was subsequently changed to the Accounting Standards Committee (ASC).

The ASC was responsible for preparing and developing accounting standards in the UK up until 1990. It, however, lacked the power to issue any standards. The issuance of standards was done through the individual members of the CCAB. This arrangement might be criticised on the ground that it robbed the ASC of any independence and authority in the standard issuance process. However, the main advantage lay in the fact that when once the individual member bodies of the CCAB adopted and issued a statement of standard accounting practice (SSAP), they had an obligation to compel their members to abide by the SSAP.

The Accounting Standards Board

In order to overcome some of the obvious weaknesses of the ASC mechanism such as the lack of authority to issue and enforce standards on its own, the Consultative Committee of Accounting Bodies established a committee in 1988 under the chairmanship of Sir Ron Dearing, to review and make recommendations for the improvement of the financial regulatory framework of the United Kingdom. The report of the committee often referred to as the Dearing Report led to the establishment of the Accounting Standards Board.

On August 1, 1990, the Accounting Standards Board took over the standards setting

functions of the Accounting Standards Committee. However, unlike the ASC, the ASB was given the responsibility as well as authority by the Secretary of State for Trade and Commerce for making, amending and withdrawing accounting standards on its own right.

The ASB has nine voting members. Additionally, two non-voting advisers and two non-voting observers are also entitled to sit in during the board's meetings. Appointments to the ASB as well as its funding is the responsibility of the Financial Reporting Council (FRC). This is similar to the functions of the Financial Accounting Foundation responsible for the administration of the Financial Accounting Standards Board (FASB), of the USA. Currently, the FRC itself has 24 members and observers drawn from the accountancy profession, industry and commerce, stock exchange, and others having a reasonable interest in financial reporting. Another novel feature of the current UK financial reporting regulatory process is the Financial Reporting Review Panel (FRRP). The main task of this panel is the execution of the provisions contained in the 1989 Companies Act requiring the compulsory revision of defective accounts.

So far, the ASB has issued three *Financial Reporting Standards (FRS)*:

FRS 1 - Cash Flow Statements (September 1, 1991)

FRS 2 - Accounting for Subsidiary Undertakings (July 1991).

FRS 3 - Reporting Financial Performance

The ASB has also published discussion papers on:

1. Accounting for Capital Instruments (December 1991); and Exposure Drafts on:
 1. The Structure of Financial Statements - Reporting of Financial Performance;
 2. Interim Statement: Consolidated Accounts;
 3. Statement of Principles;
 4. Foreword to Accounting Standards.

At its first meeting the ASB agreed to adopt the existing 22 Statements of Standard Accounting Practice issued by the ASC. However, the Board also undertook to review these SSAPs individually as appropriate opportunities arise.

Member Bodies of the CCAB

Another influential body in the financial reporting climate of the United Kingdom is the Consultative Committee of Accounting Bodies (CCAB). The CCAB is an umbrella organisation which embraces the six major accounting bodies in the United Kingdom, namely:

1. The Institute of Chartered Accountants in England and Wales.
2. The Institute of Chartered Accountants in Scotland.
3. The Irish Institute.
4. The Chartered Association of Certified Accountants.
5. The Chartered Institute of Management Accountants.
6. The Chartered Institute of Public Finance and Accountancy

During the days of the ASC, all six combined to support and promote the work of the ASC. They provided the bulk of the financing needed for the ASC to function. Their approval was vital for the issuance and general acceptability of SSAP's prepared by the ASC. It is also pertinent to reiterate that the ASB itself which is now in charge of standard setting and issuance in the UK was established as a result of the work of the Dearing Committee set up by the CCAB.

Furthermore, in this regime of increased government legislation of accounting in the UK, occasioned by the EC directives, these bodies strive to express their views to the EC institutions via their membership of the Groupe d'Etudes, an association comprising representatives of the major accountancy bodies in the EC [Taylor and Turley (1986, p.23)]. Still on the international scene members of the CCAB such as the Institute of Chartered Accountants in England and Wales are founding members and current board members of the International Accounting Standards Committee, and the International Federation of Accountants.

The Stock Exchange

The Stock Exchange is involved in accounting regulation through its definitive statements concerning quoted companies and those which seek to raise funds from the exchange. Many of such rules are coded in the Admission of Shares to Listing issued by the Exchange in 1972. Broadly speaking the Stock Exchange statements deals with such issues as requiring companies to provide information on a company's trading record for the preceding five years in the prospectus to be accompanied by an accountant's report.

Indirectly, the Stock Exchange can also influence accounting regulation. There have been instances when a stock exchange provision or requirement had to be adopted by the accounting regulators as a desired practice. For example, as far back as 1939, the Stock Exchange required listed companies to publish consolidated accounts; it was only in 1948 that the legal provisions requiring group accounts was enacted [Taylor

and Turley (1986, p.24)]. In the same vein, the Stock Exchange required the disclosure of turnover in 1966 while this requirement was introduced in the Companies Act one year later. It would not be completely true to assume that each of these occurrences were not influenced one way or another by the Stock Exchange's pronouncements.

THE UNITED STATES OF AMERICA

General Economic and Business Environment

At the end of the 1990 fiscal year the Gross national Product of the USA stood at US \$5,465 billion. This makes the USA the largest economy in the world. Private enterprise and initiative is actively encouraged. As a result, various forms of business organisations can be found in the USA. Numerically, the most common types of business organisations are partnerships and sole proprietorships. However, the biggest individual business entities are usually the corporations - the equivalent of the public limited company in the United Kingdom.

The USA has a very active financial system that facilitates the mobilisation and provision of the capital business needs for investment purposes. Banks, stock exchanges and other financial institutions play vital roles in the operation of the American financial system. Some of the leading banks in the world like Citibank originate from America. However, the influence of banks over other corporations in the economy is not as predominant as what obtains in some other countries like Germany.

American stock exchanges which are among the biggest in the world are very vital for the efficient functioning of the financial system. The largest of such exchanges is undoubtedly the New York Stock Exchange. After the New York Stock Exchange comes the American Stock Exchange (ASE), which is also located in New York. The other smaller exchanges are located in Boston, Philadelphia, Chicago and San Francisco. Unlisted stocks are often traded through the over-the-counter facilities provided by the National Association of Securities Dealers (NASD). These various exchanges have separate listing requirements with the New York Stock Exchange possessing the most stringent conditions for listing.

Financial Reporting Regulatory Environment

Basically, the regulation of corporate financial reporting in the USA is mainly a private sector affair. Hence, the regulation of company financial reporting have always tended to take the form of principles or standards issued by the accounting profession. Between 1939 and 1959, the Accounting Research Bulletins (ARB), issued by the Committee of Accounting Procedure of the American Institute of Certified Accountants (AICPA) served as the recognised statements of standard accounting practice by which companies were expected to abide in the preparation of their financial statements. Between 1959 and 1973, the ARBs were superseded by the Opinions of the Accounting Principles Board (APB) of the AICPA. From 1973 to the present date, the Financial Accounting Standards Board (FASB), which issues the Statements of Financial Accounting Standards and interpretations thereof, occupies the centre stage of the American standard setting arrangement.

Financial Reporting Regulatory Bodies

The two most influential constituencies in the US standard setting scene are: the Securities and Exchange Commission and the accounting profession. More detailed discussions bordering on these two groups now follows.

The Securities and Exchange Commission

Though the SEC by the law establishing it has broad powers to set accounting guidelines or standards for companies registered with it, it has elected instead to work with and through the accounting profession (OECD 1980, p.172). The Securities and Exchange Commission (SEC) was established by the Securities Act of 1933 and the Securities Exchange Act of 1934. The principal objectives of this Act are to:

1. Provide investors with financial and other information concerning securities offered for public sale; and
2. Prohibit misrepresentation, deceit, and other fraudulent acts and practices in the general sale of securities.

The accounting functions of the SEC derive mainly from the first objective of the Act establishing it.

The SEC is governed by a board of five members appointed by the President of the United States. It is to this board that the function of ensuring that all the companies that are registered with the SEC comply with the accounting and auditing requirements

of SEC belong. The broad outline of these requirements are contained in SEC Regulation S-X (which regulates the form and content of the financial statements required to be filed with the SEC) and Regulation S-K (which regulates the content of the non-financial statements portion of filings with the SEC).

There are no statutory requirements on companies to issue audited financial statements. However, those companies who choose to be SEC registered are bound to comply with the accounting and audit requirements of SEC. Some companies that are not registered by the SEC and so not under any statutory obligations to prepare audited financial statements still audit their financial statements, for reasons bordering on the desire of these companies to have their financial statements acceptable to the wider business community. In that sense SEC requirements acts as a model which companies that want to be taken seriously strive to meet. Therefore, the financial reporting impact and influence of the SEC extends beyond the companies that are registered with it.

As indicated earlier, the SEC has in most cases refrained from setting detailed accounting standards, leaving this function to the accounting profession. However, on occasions the SEC has taken a more active role either by revisions and modifications of the Regulation S-X, or through the issue of a Financial Reporting Release (formerly Accounting Series Release (ASR)). One such occasion was in 1978 when the Financial Accounting Standard Board issued SFAS 19 which endorsed the "successful efforts method" for oil and gas exploration accounting. The SEC intervened and overruled the FASB position by endorsing the "full cost method" instead. It is fair, however, to mention that such instances have been very few and far between.

The Financial Accounting Standards Board (FASB)

The FASB was established in 1973 following criticisms of the structure and mode of operation of the Accounting Principles Board (a Committee of the AICPA), which in itself succeeded the Committee on Accounting Procedure (yet another Committee of the AICPA) in 1959. The main philosophy underlying the setting up of the FASB was the need to have a body which is independent of the domineering influence of any one or more constituencies in the economy. The earlier standard setting bodies that were committees of the AICPA were criticised for being merely puppets of the Big accounting firms and their clients (Nobes, 1988, p.15).

The constitution establishing the FASB provided that appointments to its Board, and

the raising of money for its operations be undertaken by a trust - the Financial Accounting Foundation (FAF). At the initial stages the members of the FAF were appointed by interested groups such as the SEC and the AICPA, but with time the FAF became self operating. The board of the FASB itself is composed of seven full time members who need not necessarily be accountants.

The FASB has carried out its duties mainly through the issuance of Statements of Financial Accounting Standards (SFAS). Between 1973 when it was established and now (October 1992), the FASB has issued over 100 SFAS. This rate of turnout is impressive when it is compared with other standard setting bodies in other countries like the Business Accounting Deliberation Council Japan or the defunct Accounting Standards Committee of the UK or even with its predecessor bodies.

American Institute of Certified Public Accountants

The AICPA is the umbrella organisation to which all qualified accountants in the USA belong. Nationally the membership of the AICPA stands at over 293,000. Prior to 1973 the AICPA through its Committee on Accounting Procedures (1939-1959) and the Accounting Principles Board (1959-1973), was dominantly and directly involved in the setting of accounting standards. Since 1973, following the inauguration of the FASB, the AICPA has assumed a more remote role in the standard setting process.

However, that is not to suggest that the influence of the AICPA over the financial reporting regulatory environment has been extinguished. The FASB was set up as a result of the report of two committees set up by the AICPA - the Wheat Committee on Establishing Financial Accounting Standards and the Trueblood Committee on the objectives of financial reporting. Consequently, the AICPA undertakes to support the work of the FASB. For instance, Rule 302 of the AICPA's Code of Professional Ethics stipulates that "A member shall not express an opinion that financial statements are presented in conformity with generally accepted accounting principles if such statements contain any departure from an accounting principle promulgated by the body designated by the Council to establish such principles...". That body is the FASB which on its own lacks the power to enforce its statements. By supporting the FASB in such a manner the AICPA gives some "teeth" to the standards promulgated by the FASB. This is a very vital role since the standards setting function of the FASB is just an aspect of the financial reporting regulation process. Without the Support of bodies like the AICPA, the FASB will be impotent with respect to enforcing the standards it issues.

In the international scene, the AICPA is a founding member and a current member of the board of the International Accounting Standards Committee. It is also on the board of the International Federation of Accountants.

Comparative Discussion of the Environment of Financial Reporting in France, Germany, Japan, UK, and USA

In this section, comparisons between the environment of financial reporting in the five countries covered in this study is presented. The comparisons will centre around the following factors which have been identified by several writers (for example Nobes and Parker (1991), Mueller (1968), Choi and Mueller (1984)), as contributing to differences in accounting practices: legal systems, main providers of capital for business, size and influence of the accounting profession, relationship between tax and financial accounting, attitude of government to business ownership, and Inflation.

Legal System

Two predominant types of legal systems exist in most parts of the advanced western countries - the Common law system and the Romanic code law system. The common law system is characterised by reliance "upon a limited amount of statute law, which is then interpreted by courts, which build up large amounts of case law to supplement the statutes (Nobes and Parker, 1991, p.11). On the other hand, the Code law system is distinguished by rigid and detailed rules that leave very little room for individual discretion and judgment. The relevance of these different legal forms is that in countries with code law systems "company law or commercial codes need to establish rules in detail for accounting and financial reporting" (Nobes and Parker, 1991, p.12), while common law system countries will tend towards leaving room for expert judgments in accounting and financial reporting.

France, Germany, and Japan have been described as code law countries, while the UK and USA have been described as common law countries (Nobes and Parker, 1991, p.12). However, Japan occupies a hybrid position. Especially in the sphere of financial reporting regulation. Japanese financial reporting combines aspects of the features of the code law and common law systems in that apart from the Commercial Code (of Japan) and the Japanese income tax laws that influence accounting a great deal, the standards set by the Business Accounting Deliberation Council (BADC), and the interpretations of accounting rules given by bodies of

professional accountants carry a lot of weight. The hybrid position Japan occupies can be attributed to German influence (Before 1945), and later American influence (1945 and after), over Japan's financial reporting (Campbell, 1985)

Main Providers of Capital for Enterprise

It should be expected that the nature of the main providers of capital for companies in any country will affect that country's financial reporting orientation. For instance, in a country where sole proprietors own most of the business, there will not appear to be much need for elaborate disclosures directed at the general public. Similarly, if banks and governments play dominant roles in the financing of companies in a country, the case for detailed disclosure for the benefit of outside investors is weakened considerably, as banks and governments are generally presumed to have the ability to approach companies directly to get whatever information they need.

Apart from affecting the level of disclosures, the nature of the main providers of finance for companies is also likely to exert some influence over the valuation and measurement practices adopted by companies. If a company is heavily financed by debt or other forms of fixed interest instruments, it is rational to expect the interests of creditors to influence the company to use profit deflating methods to avoid the declaration of excessive dividends and payments of over generous bonuses to employees, a situation which can prevent the company from meeting future interest obligations and retirement of the debt to the detriment of the fixed interest creditors.

Judging by this criterion, there are some observable differences in what obtains in the five countries. Banks play a very dominant role in the financing and even administration of businesses in France, Germany and Japan. Hence financial reporting in these countries tends to be more oriented towards creditors, unlike the UK and USA where individual and institutional investors who are the major sources of finance for businesses are deemed to be the most important groups for corporate financial reporting purposes.

In table 1 below the number of domestic companies listed on the stock exchanges of each of the five countries is presented. Given the size of the economies of Japan, Germany and France relative to that of the UK, the number of companies from these three countries quoted on their respective stock exchanges are lower in comparison to that of the UK. This appears to lend further credence to the point that banks rather than stock exchanges play a more dominant role as sources of financing for companies

from these three countries.

Number of Listed Domestic Companies

	1985 (%)	1986 (%)	1987 (%)	1988 (%)	1989 (%)	1990 (%)
France	489 (4)	482 (3)	650 (5)	646 (5)	668 (5)	873 (7)
Germany	472 (4)	492 (4)	507 (4)	609 (5)	628 (5)	649 (6)
Japan	1829 (14)	1866 (14)	1912 (16)	1967 (17)	2019 (17)	2071 (17)
UK	2116 (17)	2106 (16)	2135 (17)	2034 (17)	2015 (17)	2006 (17)
US	8022 (62)	8403 (63)	7181 (58)	6680 (56)	6727 (56)	6342 (53)
Total	12928 (100)	13349 (100)	12385 (100)	11976 (100)	12021 (100)	11941 (100)

Table 1.

Source: International Finance Corporation (1991).

Relationship Between Taxation and Accounting

Another factor which can significantly influence the financial reporting practices of a country is the relationship which exists between tax accounting and financial accounting. In countries like Japan and Germany, as much as possible, the tax profit should be the same as the financial reporting profit. For some other countries like the USA and the UK, in the interest of reflecting fairly the operations of the business, certain methods of accrual accounting might be allowed for financial reporting, while profit for tax purposes is determined using substantially different bases.

Consequently, issues like deferred taxation which is quite a significant issue in the Anglo-American financial reporting environment is a very minor problem, that is, if it exists at all in countries like Germany. Secondly, if the financial regulatory framework of a country requires that the tax profit and the accounting profit should be the same, it should be expected that under such a scenario, companies from that country will to the maximum extent possible, resort to conservative and income deflating accounting methods in order to minimise tax payments.

Attitude Towards Inflation

In a hyperinflationary environment, adherence to the historic cost convention leads to accounting numbers that are for practical purposes meaningless. However, even in countries that have low inflation rates such as Germany and Japan, a case can be made for the adjustment of strict historic cost based values to reflect the effect of price changes that are known to exist. Some countries take this view (for example the USA and the UK), and so give room for revaluations of asset values and some forms of

recognition of the effect of rising prices. For some other countries like Germany and Japan, historic costs are adhered to very rigidly due to the fear that permitting the use of methods that make room for price change adjustments might actually fuel inflation. Hence, inflation and the attitudes of different countries towards it can influence financial reporting.

Influence of the Accounting Profession

Influence can be exercised through the use of sheer numbers or magnitude. It can also be exercised through the possession of special knowledge or some unique gifts or abilities that commands the respect of the wider community. And, of course, conferred or delegated power or authority are other effective means of exercising influence.

Number of Accountants in the countries studied

	Name of Body	1990
France	Ordre des Experts Comptables et Comptables Agréés	12,104
Germany	Institut der Wirtschaftsprüfer	6,267
Japan	Japanese Institute of Certified Public Accountants	11,000
UK	Institute of Chartered Accountant in England and Wales	94,941
	Chartered Association of Certified Accountants	22,885
	Institute of Chartered Accountants of Scotland	12,345
	Institute of Chartered Accountants in Ireland	6,909
USA	American Institute of Certified Public Accountants	293,000

Table 2

Sources: European Accountant, February 1991, p.11 and Nobes and Parker, 1991, p.4.

In relation to both the absolute number of accountants and the relative sizes of the economies of the five countries, the USA and the UK have higher numbers of professionally qualified accountants than France, Germany and Japan. The lower relative number of accountants especially in Japan and Germany might be as a direct result of the rigour and excessive standards of performance required of would-be accountants in these countries.

This high standard and the fact that there are few qualified accountants in these countries might also act to increase the respect and prestige which those few that manage to cross the hurdles attract (Arpan and Radebaugh (1985, p. 18) and Gehardy

(1991), p. 24). It can be argued if that be the case, that what these accounting bodies from Japan and Germany lack in numbers, they can make up for in prestige and so are still in a position to influence the financial reporting process in their countries significantly.

Real life experience tends to suggest that professional accountants in the USA and the UK exercise more influence over the financial reporting process than their counterparts in France, Germany and Japan. It is possible, however, that this is as a result of factors outwith the control of the professional accounting bodies in each of the five countries. It would appear that the different legal orientations of these countries is the main explanatory variable for the differences in influences of their various professional accounting bodies, rather than what the accountants themselves did or failed to do. Earlier it was pointed out that the French CNOF's (A private sector organisation), attempt at standard setting was nipped in the bud partly due to traditional French intolerance and dislike for accounting rule making by such private sector bodies.

Attitude of Government to Business Ownership

A government that does not wholeheartedly support private initiative and involvement in all aspects of business, all things being equal, will also tend to prefer maintaining a tight control over the promulgation of accounting rules and guidelines. At the extreme, this gives rise to the introduction of charts of accounts as in France. On the other hand, a government that actively encourages free enterprise such as the government of the USA is more likely to exercise as little control as possible over the financial reporting regulatory process.

Of the five countries studied, different degrees of governmental involvement in business and direction of the economy as a whole can be observed. In France, the government tends to play a key role in business activities, often owning major companies such as Electricite de France (EDF), to mention but one. Japan promotes private initiative but under the watchful eyes and direction of the Finance Ministry and the Ministry of International Trade and Investment (MITI). On the other hand, governmental intrusions into business operations are frowned upon in the USA and the UK. The laissez faire attitude to accounting regulation found in the USA and the UK might be a reflection of the government's laissez faire attitude to involvement in business.

APPENDIX THREE

AGGREGATE ANALYSIS OF THE IMPACT OF LISTING STATUS ON BUSINESS COMBINATION AND FOREIGN CURRENCY TRANSLATION PRACTICES

Topics	Domestic (A)	Multi (A)	Chi Square Values	Significance
1 Consolidation Practices			6.26205	0123*
(a) Non-consolidated	19 (8.4)	5 (2.7)		
(b) Consolidated	206 (91.6)	183 (97.3)		
Total	225 (100.0)	188 (100.0)		
2 Business Combinations (disclosure of policy)			7.00347	0081*
(a) No	18 (8.0)	4 (2.1)		
(b) Yes	207 (92.0)	184 (97.9)		
Total	225 (100.0)	188 (100.0)		
3 Business Combinations (policy)			4.99214	.0255*
(a) Purchase method	196 (96.1)	160 (90.4)		
(b) Pooling on interests	8 (3.9)	17 (9.6)		
Total	204 (100.0)	177 (100.0)		
4 Accounting for Associates (policy)			3.23006	.0723
(a) Equity Method	162 (92.6)	159 (97.0)		
(b) Cost Method	13 (7.4)	5 (3.0)		
Total	175 (100.0)	164 (100.0)		
5 Goodwill (disclosure of policy)			4.40267	0359*
(a) No	63 (28.0)	36 (19.1)		
(b) Yes	162 (72.0)	152 (80.9)		
Total	225 (100.0)	188 (100.0)		
6 Goodwill (policy)			0.22098	6383
(a) Capitalised	95 (60.1)	91 (62.8)		
(b) Written off	63 (39.9)	54 (37.2)		
Total	158 (100.0)	145 (100.0)		
7 Goodwill (amortisation period)			5.41558	2473
(a) 1-5 years	20 (24.7)	14 (16.5)		
(b) 6-10 years	5 (6.2)	8 (9.4)		
(c) 11-15 years	8 (9.9)	5 (5.9)		
(d) 16-20 years	15 (18.5)	11 (12.9)		
(e) 21-40 years	33 (40.7)	47 (55.3)		
Total	81 (100.0)	85 (100.0)		

8. Foreign Income Statements (FIS) (disclosure)			3.31469	.0687
(a) No	76 (33.8)	48 (25.5)		
(b) Yes	149 (66.2)	140 (74.5)		
	-----	-----		
	225 (100.0)	188 (100.0)		
	---	---		
9. FIS: Translation Rate (policy)			6.11893	.0134*
(a) Average Rates	96 (70.6)	110 (83.3)		
(b) Closing Rates	40 (29.4)	22 (16.7)		
	-	-		
	136 (100.0)	132 (100.0)		
	-----	-----		
10 Translation Differences (disclosure)			17.57233	.0000*
(a) No	87 (38.7)	37 (19.7)		
(b) Yes	138 (61.3)	151 (80.3)		
	-----	-----		
	225 (100.0)	188 (100.0)		
	-----	-----		
11. Translation Differences (policy)			0.04749	.8275
(a) Taken to Reserves	85 (67.5)	98 (66.2)		
(b) Taken to Income	41 (32.5)	50 (33.8)		
	-----	-----		
	126 (100.0)	148 (100.0)		
	-----	-----		
12. Foreign Currency Transactions (disclosure)			10.24832	.0014*
(a) No	108 (48.0)	61 (32.4)		
(b) Yes	117 (52.0)	127 (67.6)		
	-----	-----		
	225 (100.0)	188 (100.0)		
	-----	-----		
13. Foreign Currency Transactions: Rates (policy)			6.45055	.0916
(a) Actual Rates	34 (31.8)	33 (37.1)		
(b) Average Rates	5 (4.7)	12 (13.5)		
(c) Closing Rates	38 (35.5)	25 (28.1)		
(d) Others	30 (28.0)	19 (21.3)		
	-----	-----		
	107 (100.0)	89 (100.0)		
	-----	-----		
14. Exchange Differences (policy)			8.29918	.0158*
(a) In Current Income	77 (73.3)	106 (88.3)		
(b) In Current and Future Income	10 (9.5)	5 (4.2)		
(c) Others	18 (17.1)	9 (7.5)		
	-----	-----		
	105 (100.0)	120 (100.0)		
	-----	-----		

Analysis of the Impact of Listing Status on Accounting Practices: Individual Country Comparisons

FRANCE

Topics	Domestic (%)	Multi (%)	Chi Square Values	Significance
1. Consolidations			.27861	.5976
(a) Consolidated	44 (97.8)	23 (92.0)		
(b) Non-consolidated	1 (2.2)	2 (8.0)		
	-----	-----		
	45 (100.0)	25 (100.0)		
	-----	-----		
2. Business Combinations (disclosure of policy)			.00589	.9388
(a) No	2 (4.4)	2 (8.0)		
(b) Yes	43 (95.6)	23 (92.0)		
	-----	-----		
	45 (100.0)	25 (100.0)		
	-----	-----		
3. Goodwill (disclosure of policy)			.00259	.9594
(a) No	7 (15.6)	3 (12.0)		
(b) Yes	38 (84.4)	22 (88.0)		
	-----	-----		
	45 (100.0)	25 (100.0)		
	-----	-----		
4. Goodwill (amortisation period)			4.84287	.3038
(a) 1-5 Years	0 (0.0)	1 (4.8)		
(b) 6-10 Years	4 (12.1)	2 (9.5)		
(c) 11-15 Years	4 (12.1)	1 (4.8)		
(d) 16-20 Years	10 (30.3)	3 (14.3)		
(e) 20-40 Years	15 (45.5)	14 (66.7)		
	-----	-----		
	33 (100.0)	21 (100.0)		
	-----	-----		
5. Foreign Income Statements (FIS) (disclosure)			.00000	1.0000
(a) No	8 (17.8)	4 (16.0)		
(b) Yes	37 (82.2)	21 (84.0)		
	-----	-----		
	45 (100.0)	25 (100.0)		
	-----	-----		
6. FIS: Translation Rate (policy)			.81477	.3667
(a) Average rate	30 (83.3)	20 (95.2)		
(b) Closing rates	6 (16.7)	1 (4.8)		
	-----	-----		
	36 (100.0)	21 (36.8)		
	-----	-----		

7. Translation Differences (disclosure)			1 00333	3165
(a) No	14 (31 1)	5 (20 0)		
(b) Yes	31 (68 9)	20 (80 0)		
	-	--		
	45 (100 0)	25 (100 0)		
8. Translation Differences (policy)			.00000	1 0000
(a) Taken to reserves	27 (87 1)	19 (90 5)		
(b) Taken to income	4 (12 9)	2 (9 5)		
	---	---		
	31 (100 0)	21 (100 0)		
9. Foreign Currency Transactions (disclosure)			5 23977	0221*
(a) No	29 (64 4)	9 (36 0)		
(b) Yes	16 (35 6)	16 (64 0)		
	-----	-----		
	45 (100 0)	25 (100 0)		
10. Foreign Currency Transactions Rates (policy)			6.11565	0470*
(a) Actual rate	4 (26 7)	10 (71 4)		
(b) Average rate	1 (6 7)	0 (0.0)		
(c) Closing rate	10 (66 7)	4 (28 6)		
	-----	-----		
	15 (100 0)	14 (100 0)		
11. Exchange Differences (policy)			4.02667	1335
(a) In current income	11 (68 8)	14 (87 5)		
(b) In current & future income	5 (31 3)	1 (6.3)		
(c) Others	0 (0 0)	1 (6 3)		
	--	--		
	16 (100 0)	16 (100 0)		
	---	---		

* Denotes significant results

GERMANY

Topics	Domestic (1)	Multi (1)	Chi-Square Values	Significance
1. Consolidations			.00131	.9711
(a) Consolidated	42 (93.3)	27 (96.4)		
(b) Non-consolidated	3 (6.7)	1 (3.6)		
	-----	-----		
	45 (100.0)	28 (100.0)		
	-----	-----		
2. Business Combinations (disclosure)			.62247	.4301
(a) No	3 (6.7)	0 (0.0)		
(b) Yes	42 (93.3)	28 (100.0)		
	-----	-----		
	45 (100.0)	28 (100.0)		
	-----	-----		
3. Business Combinations (policy)			7.29167	.0151*
(a) Purchase	35 (83.3)	15 (53.6)		
(b) Pooling	7 (16.7)	13 (46.4)		
	-----	-----		
	42 (100.0)	28 (100.0)		
	-----	-----		
4. Accounting for Associates (policy)			.00000	1.0000
(a) Equity method	35 (94.6)	25 (96.2)		
(b) Cost method	2 (5.4)	1 (3.8)		
	-----	-----		
	37 (100.0)	26 (100.0)		
	-----	-----		
5. Goodwill (disclosure of policy)			4.24466	.0394*
(a) No	12 (26.7)	2 (7.1)		
(b) Yes	33 (73.3)	26 (92.9)		
	-----	-----		
	45 (100.0)	28 (100.0)		
	-----	-----		
6. Goodwill (policy)			.41092	.5215
(a) Capitalised	17 (56.7)	12 (48.0)		
(b) Written off	13 (43.3)	13 (52.0)		
	-----	-----		
	30 (100.0)	25 (100.0)		
	-----	-----		
7. Goodwill (amortisation period)			6.74383	.1501
(a) 1-5 Years	7 (70.0)	2 (22.2)		
(b) 6-10 Years	0 (0.0)	2 (22.2)		
(c) 11-15 Years	3 (30.0)	3 (33.3)		
(d) 16-20 Years	0 (0.0)	1 (11.1)		
(e) 21-40 Years	0 (0.0)	1 (11.1)		
	-----	-----		
	10 (100.0)	9 (100.0)		
	-----	-----		
8. Foreign Income Statements (FIS) (disclosure)			1.86491	.1721
(a) No	10 (22.2)	2 (7.1)		
(b) Yes	35 (77.8)	26 (92.9)		
	-----	-----		
	45 (100.0)	28 (100.0)		
	-----	-----		

9. FIS Translation Rate (policy)			10.26218	0014*
(a) Average rates	12 (41 4)	21 (84 0)		
(b) Closing rates	17 (58 6)	4 (16 0)		
	29 (100 0)	25 (100 0)		
	-	-		
10. Translation Differences (disclosure)	62 2	89 3	6.35558	.0117*
(a) No	17 (37 8)	3 (10.7)		
(b) Yes	28 (62 2)	25 (89 3)		
	45 (100 0)	28 (100 0)		
	--	--		
11 Translation Differences (policy)			1.01986	.3126
(a) Taken to reserve	8 (29 6)	4 (17 4)		
(b) Taken to income	19 (70 4)	19 (82 6)		
	27 (100 0)	23 (100 0)		
	-	-		
12 Foreign Currency Transactions (disclosure)	40 0	92 9	20.13956	.0000*
(a) No	27 (60 0)	2 (7 1)		
(b) Yes	18 (40 0)	26 (92 9)		
	45 (100 0)	28 (100 0)		
	--	--		
13 Foreign Currency Transactions Rates (policy)			2.46325	.4820
(a) Actual rates	8 (44 4)	14 (53 8)		
(b) Average rates	0 (0 0)	1 (3 8)		
(c) Closing rates	1 (5 6)	0 (0.0)		
(d) Others	9 (50 0)	11 (42 3)		
	18 (100)	26 (100.0)		
	--	--		
14. Exchange Differences (policy)			2.20769	.3316
(a) In current income	15 (93 8)	24 (96 0)		
(b) In current and future income	1 (6 3)	0 (0.0)		
(c) Others	0 (0 0)	1 (4 0)		
	16 (100 0)	25 (100 0)		
	--	--		

* Denotes significant results

JAPAN

Topics	Domestic (%)	Multi (%)	Chi-Square Values	Significance
1. Consolidations	73.3	95.6	8.45865	.0036*
(a) Consolidated	33 (73.3)	43 (95.6)		
(b) Non-consolidated	12 (26.7)	2 (4.4)		
	-----	-----		
	45 (100.0)	45 (100.0)		
	-----	-----		
2. Business Combinations (disclosure of policy)	80.0	95.6	5.07480	.0243*
(a) No	9 (20.0)	2 (4.4)		
(b) Yes	36 (80.0)	43 (95.6)		
	-----	-----		
	45 (100.0)	45 (100.0)		
	-----	-----		
3. Business Combinations (policy)			.00000	1.0000
(a) Purchase	34 (97.1)	39 (97.5)		
(b) Pooling	1 (2.9)	1 (2.5)		
	-----	-----		
	35 (100.0)	40 (100.0)		
	-----	-----		
4. Accounting for Associates (policy)			4.43400	.0352*
(a) Equity method	26 (76.5)	41 (95.3)		
(b) Cost method	8 (23.5)	2 (4.7)		
	-----	-----		
	34 (100.0)	43 (100.0)		
	-----	-----		
5. Goodwill (disclosure of policy)	53.3	62.2	.72874	.3933
(a) No	21 (46.7)	17 (37.8)		
(b) Yes	24 (53.3)	28 (62.2)		
	-----	-----		
	45 (100.0)	45 (100.0)		
	-----	-----		
6. Goodwill (policy)			.72692	.3939
(a) Capitalised	20 (76.9)	25 (89.3)		
(b) Written off	6 (23.1)	3 (10.7)		
	-----	-----		
	26 (100.0)	28 (100.0)		
	-----	-----		
7. Goodwill (amortisation period)			2.58692	.4598
(a) 1-5 Years	13 (68.4)	11 (45.8)		
(b) 6-10 Years	1 (5.3)	4 (16.7)		
(c) 11-15 Years	0 (0.0)	0 (0.0)		
(d) 16-20 Years	3 (15.8)	5 (20.8)		
(e) 21-40 Years	2 (10.5)	4 (16.7)		
	-----	-----		
	19 (100.0)	24 (100.0)		
	-----	-----		

8. Foreign Income Statements (FIS) (disclosure)			3.20000	0736
(a) No	19 (42 2)	11 (24 4)		
(b) Yes	26 (57 8)	34 (75 6)		
	----	-		
	45 (100 0)	45 (100 0)		
	--	---		
9. FIS Translation Rate (policy)			6.50395	0108*
(a) Average rates	10 (47 6)	23 (82 1)		
(b) Closing rates	11 (52 4)	5 (17.9)		
		-		
	21 (100 0)	28 (100 0)		
		-		
10 Translation Differences (disclosure)			5 18433	.0228*
(a) No	19 (42 2)	9 (20 0)		
(b) Yes	26 (57 8)	36 (80.0)		
	-	-		
	45 (100 0)	45 (100 0)		
	-----	---		
11 Translation Differences (policy)			5.50797	0189*
(a) Taken to reserves	5 (29 4)	23 (63.9)		
(b) Taken to income	12 (70 6)	13 (36.1)		

	17 (100.0)	36 (100 0)		
	-----	---		
12 Foreign Currency Transactions (disclosure)			1.66790	.1965
(a) No	7 (15 6)	12 (26.7)		
(b) Yes	38 (84 4)	33 (73 3)		
	----	-		
	45 (100 0)	45 (100 0)		
	-	-		
13 Foreign Currency Transactions Rates (policy)			23.76815	0000*
(a) Actual rates	18 (47 4)	4 (14 3)		
(b) Average rates	2 (5 3)	6 (21.4)		
(c) Closing rates	2 (5 3)	13 (46.4)		
(d) Others	16 (42 1)	5 (17.9)		
	----	-		
	38 (100 0)	28 (100 0)		
	-	-		
14. Exchange Differences (policy)			1.57550	4549
(a) In current income	23 (82 1)	29 (90 6)		
(b) In current and future income	1 (3 6)	0 (0 0)		
(c) Others	4 (14 3)	3 (9 4)		
	---	---		
	28 (100 0)	32 (100 0)		
	-	-		

* Denotes significant results

UNITED KINGDOM

<u>Topics</u>	<u>Domestic (%)</u>	<u>Multi (%)</u>	<u>Chi Square Value</u>	<u>Significance</u>
1. Consolidation accounting practice				
(a) Consolidated	45 (100.0)	45 (100.0)		
2. Business Combinations (disclosure of policy)				
(a) Yes	45 (100.0)	45 (100.0)		
3. Business Combinations (policy)			1.42693	2323
(a) Purchase	45 (100.0)	41 (93.2)		
(b) Pooling	0 (0.0)	3 (6.8)		
	-----	-----		
	45 (100.0)	44 (100.0)		
	-----	-----		
4. Accounting for Associates (policy)			.00000	1.0000
(a) Equity method	39 (95.1)	41 (95.3)		
(b) Cost method	2 (4.9)	2 (4.7)		
	-----	-----		
	41 (100.0)	43 (100.0)		
	-----	-----		
5. Goodwill (disclosure of policy)			.00000	1.0000
(a) No	0 (0.0)	1 (2.2)		
(b) Yes	45 (100.0)	44 (97.8)		
	-----	-----		
	45 (100.0)	45 (100.0)		
	-----	-----		
6. Goodwill (policy)			.61580	4326
(a) Capitalised	0 (0.0)	2 (5.0)		
(b) Written off	44 (100.0)	38 (95.0)		
	-----	-----		
	44 (100.0)	41 (100.0)		
	-----	-----		
7. Foreign Income Statements (FIS) (disclosure)	95.6	100.0	.51136	.4745
(a) No	2 (4.4)	0 (0.0)		
(b) Yes	43 (95.6)	45 (100.0)		
	-----	-----		
	45 (100.0)	45 (100.0)		
	-----	-----		
8. FIS. Translation Rate (policy)			.28796	.5915
(a) Average rates	37 (86.0)	36 (81.8)		
(b) Closing rates	6 (14.0)	8 (18.2)		
	-----	-----		
	43 (100.0)	44 (100.0)		
	-----	-----		
9. Translation Differences (disclosure)	95.6	97.8	.00000	1.0000
(a) No	2 (4.4)	1 (2.2)		
(b) Yes	43 (95.6)	44 (97.8)		
	-----	-----		
	45 (100.0)	45 (100.0)		
	-----	-----		

10	Translation Differences (policy)			.00000	1 0000
(a)	Taken to reserves	37 (88 1)	38 (88 4)		
(b)	Taken to income	5 (11 9)	5 (11 6)		
		-----	-----		
		42 (100 0)	43 (100 0)		
11	Foreign Currency Transactions (disclosure)			10 60096	0011*
(a)	No	6 (13 3)	20 (44 4)		
(b)	Yes	39 (86 7)	25 (55 6)		
		-----	-----		
		45 (100 0)	45 (100 0)		
12.	Foreign Currency Transactions Rates (policy)			5 30927	1505
(a)	Actual rates	3 (8 8)	4 (25 0)		
(b)	Average rates	1 (2 9)	2 (12 5)		
(c)	Closing rate	25 (73 5)	7 (43 8)		
(d)	Others	5 (14 7)	3 (18 8)		
		-----	-----		
		34 (100 0)	16 (100 0)		
13	Exchange Differences (policy)			6 97662	0306*
(a)	In current income	26 (66 7)	22 (95 7)		
(b)	In current and future income	1 (2 6)	0 (0 0)		
(c)	Others	12 (30 8)	1 (4 3)		
		-----	-----		
		39 (100.0)	23 (100 0)		

* Denotes significant results

UNITED STATES OF AMERICA

Topics	Domestic (%)	Multi (%)	Chi Square Values	Significance
1. Consolidations			1.37931	.2402
(a) Non-consolidated	3 (6.7)	0 (0.0)		
(b) Consolidated	42 (93.3)	45 (100.0)		
	---	---		
	45 (100.0)	45 (100.0)		
	---	-		
2. Business Combinations (disclosure of policy)			2.35465	.1249
(a) No	4 (8.9)	0 (0.0)		
(b) Yes	41 (91.1)	45 (100.0)		
	---	---		
3. Accounting for Associates (policy)			0.4252	.8366
(a) Equity method	19 (95.0)	30 (100.0)		
(b) Cost method	1 (5.0)	0 (0.0)		
	---	---		
	20 (100.0)	30 (100.0)		
	---	---		
4. Goodwill (disclosure of policy)	48.9	71.1	4.62963	.0314*
(a) No	23 (51.1)	13 (28.9)		
(b) Yes	22 (48.9)	32 (71.1)		
	---	---		
	45 (100.0)	45 (100.0)		
	-	-		
5. Goodwill (amortisation period)			1.19700	.5496
(a) 1-5 Years	0 (0.0)	0 (0.0)		
(b) 6-10 Years	0 (0.0)	0 (0.0)		
(c) 11-15 Years	1 (5.3)	1 (5.3)		
(d) 16-20 Years	2 (10.5)	1 (5.3)		
(e) 21-40 Years	16 (84.2)	28 (93.3)		
	---	---		
	19 (100.0)	30 (100.0)		
	---	---		
6. Foreign Income Statements (FIS) (disclosure)			2.16578	.1411
(a) No	37 (82.2)	31 (68.9)		
(b) Yes	8 (17.8)	14 (31.1)		
	---	---		
	45 (100.0)	45 (100.0)		
	---	---		
7. FIS: Translation Rate (policy)			.96507	.3259
(a) Average rates	7 (100.0)	10 (71.4)		
(b) Closing rate	0 (0.0)	4 (28.6)		
	---	---		
	7 (100.0)	14 (100.0)		
	-	-		

8 Translation Differences (disclosure)	22 2	57 8	11 85185	0006*
(a) No	35 (77 8)	19 (42 2)		
(b) Yes	10 (22 2)	26 (57 8)		
	45 (100 0)	45 (100 0)		
9 Translation Differences (policy)			1 85970	1727
(a) Taken to reserves	8 (88 9)	14 (56 0)		
(b) Taken to income	1 (11 1)	11 (44 0)		
	9 (100 0)	25 (100 0)		
10 Foreign Currency Transactions (disclosure)	13 3	60 0	21 10048	0000*
(a) No	39 (86 7)	18 (40 0)		
(b) Yes	6 (13 3)	27 (60 0)		
	45 (100 0)	45 (100 0)		
11 Foreign Currency Transactions Rates (policy)			87500	6456
(a) Actual rates	1 (50 0)	1 (20 0)		
(b) Average rates	1 (50 0)	3 (60 0)		
(c) Closing rate	0 (0 0)	1 (20 0)		
	2 (100 0)	5 (100 0)		
12 Exchange Differences (policy)			2 98246	2251
(a) In current income	2 (33 3)	17 (70 8)		
(b) In current and future income	2 (33 3)	4 (16 7)		
(c) Others	2 (33 3)	3 (12 5)		
	6 (100 0)	24 (100 0)		

* Denotes significant results

Aggregate Comparisons of 1970/71 and 1990/91 financial Years

Topic	1970/71 (%)	1990/91 (%)	Change (%)	Chi Square	Significance
1. Consolidations	89 (69.6)	11 (96.2)	+26.6	74.77388	0000*
(a) Non-consolidated	89 (30.4)	11 (4.1)			
(b) Consolidated	204 (69.6)	282 (96.2)			
	-	-			
	293 (100.0)	293 (100.0)			
	-	-			
2 Business Combinations (disclosure)	70.5	95.9	+25.4	67.42634	0000*
(a) No	86 (29.5)	12 (4.1)			
(b) Yes	206 (70.5)	281 (95.9)			
	-	-			
	292 (100.0)	293 (100.0)			
	-	-			
3 Business Combinations (policy)				71272	3985
(a) Purchase	175 (95.6)	257 (93.8)			
(b) Pooling	8 (4.4)	17 (6.2)			
	-	-			
	183 (100.0)	274 (100.0)			
	-	-			
4 Accounting for Associates (policy)				28.02634	0000*
(a) Equity method	94 (80.3)	229 (97.0)			
(b) Cost method	23 (19.7)	7 (3.0)			
	-	-			
	117 (100.0)	236 (100.0)			
	-	-			
5 Goodwill (disclosure of policy)	38.9	75.1	+36.2	78.22802	0000*
(a) No	179 (61.1)	73 (24.9)			
(b) Yes	114 (38.9)	220 (75.1)			
	-	-			
	293 (100.0)	293 (100.0)			
	-	-			
6 Goodwill (policy)				3.07814	0794
(a) Capitalised	63 (66.3)	118 (55.7)			
(b) Written off	32 (33.7)	94 (44.3)			
	-	-			
	95 (100.0)	212 (100.0)			
	-	-			
7 Goodwill (amortisation period)				35.27995	0000*
(a) 1-5 Years	24 (68.6)	19 (18.4)			
(b) 6-10 Years	4 (11.4)	7 (6.8)			
(c) 11-15 Years	1 (2.9)	6 (5.8)			
(d) 16-20 Years	0 (0.0)	13 (12.6)			
(e) 21-40 Years	6 (17.1)	58 (56.3)			
	-	-			
	35 (100.0)	103 (100.0)			
	-	-			

8. Foreign Income Statements (disclosure)	32 4	67 2	+34 8	71.01789	0000*
(a) No	198 (67.6)	96 (32 8)			
(b) Yes	95 (32 4)	197 (67 2)			
	-----	-----			
	293 (100 0)	293 (100 0)			
	-----	-----			
9. FIS. Translation Rate (policy)				57.77005	0000*
(a) Average rates	23 (26 4)	138 (75 0)			
(b) Closing rates	64 (73 6)	46 (25 0)			
	-----	-----			
	87 (100 0)	184 (100 0)			
	-----	-----			
10 Translation Differences (disclosure)	18 4	69 3	+50 9	154.16570	0000*
(a) No	239 (81 6)	90 (30 7)			
(b) Yes	54 (18 4)	203 (69 3)			
	-----	-----			
	293 (100 0)	293 (100 0)			
	-----	-----			
11 Translation Differences (policy)				1.10928	2922
(a) Taken to reserves	32 (61 5)	135 (69 2)			
(b) Taken to income	20 (38 5)	60 (30 8)			
	-----	-----			
	52 (100 0)	195 (100 0)			
	-----	-----			
12 Foreign Currency Transactions (disclosure)	28.7	59 4	+30.7	56.09047	.0000*
(a) No	209 (71.3)	119 (40 6)			
(b) Yes	84 (28.7)	174 (59.4)			
	-----	-----			
	293 (100.0)	293 (100 0)			
	-----	-----			
13. Foreign Currency Transactions (policy)				10.88032	.0124*
(a) Actual rates	12 (15.4)	40 (30.8)			
(b) Average rates	13 (16 7)	13 (10 0)			
(c) Closing rate	41 (52 6)	47 (36 2)			
(d) Others	12 (15 4)	30 (23 1)			
	-----	-----			
	78 (100 0)	130 (100 0)			
	-----	-----			
14 Exchange Differences (policy)				39.31664	0000*
(a) In current income	17 (32 1)	126 (78 8)			
(b) In current and future income	13 (24 5)	12 (7 5)			
(c) Others	23 (43 4)	22 (13 8)			
	-----	-----			
	53 (100 0)	160 (100 0)			
	-----	-----			

* Denotes significant results

Comparisons of 1970/71 and 1990/91 Financial Years on Individual Country Basis

FRANCE

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi Square	Significance
1 Consolidations	24 0	96 0	+72 0	27 00000	0000*
(a) Non-consolidated	19 (76 0)	1 (4 0)			
(b) Consolidated	6 (24 0)	24 (96 0)			
	25 (100 0)	25 (100 0)			
	---	---			
2 Business Combinations (disclosure)	28 0	96 0	+68 0	24 53311	0000*
(a) No	18 (72 0)	1 (4 0)			
(b) Yes	7 (28 0)	24 (96 0)			
	25 (100 0)	25 (100 0)			
	---	---			
3 Accounting for Associates (policy)				3 36040	0668
(a) Equity method	5 (71 4)	24 (100 0)			
(b) Cost method	2 (28 6)	0 (0 0)			
	7 (100 0)	24 (100 0)			
	---	---			
4 Goodwill (disclosure of policy)	4 0	80 0	+76 0	27 00000	0000*
(a) No	24 (96 0)	5 (20 0)			
(b) Yes	1 (4 0)	20 (80 0)			
	25 (100 0)	25 (100 0)			
	---	---			
5 Foreign Income Statements (disclosure)	12 0	84 0	+72 0	25 96154	0000*
(a) No	22 (88 0)	4 (16 0)			
(b) Yes	3 (12 0)	21 (84 0)			
	25 (100 0)	25 (100 0)			
	---	---			
6 FIS Translation Rate (policy)				8 12030	0044*
(a) Average rates	0 (0 0)	19 (90 5)			
(b) Closing rates	3 (100 0)	2 (9 5)			
	3 (100 0)	21 (100 0)			
	---	---			
7 Translation Differences (disclosure)	0 0	76 0	+76 0	30 80000	0000*
(a) No	25 (100 0)	6 (24 0)			
(b) Yes	0 (0 0)	19 (76 0)			
	25 (100 0)	25 (100 0)			
	---	---			
8 Foreign Currency Transactions (disclosure)	0 0	48 0	+48 0	15 78947	0001*
(a) No	25 (100 0)	13 (52 0)			
(b) Yes	0 (0 0)	12 (48 0)			
	25 (100 0)	25 (100 0)			
	---	---			

* Denotes significant results

GERMANY

Topics	1970/71 (%)	1980/81 (%)	Change (%)	Chi Square	Significance
1 Consolidations	71 4	92 9	+21 5	6 57391	0103*
(a) Non consolidated	12 (28 6)	3 (7 1)			
(b) Consolidated	30 (71 4)	39 (92 9)			
	42 (100 0)	42 (100 0)			
	---	---			
2 Business Combinations (disclosure)	92 9	95 2	+ 2 3	00000	1 0000
(a) No	3 (7 1)	2 (4 8)			
(b) Yes	39 (92 9)	40 (95 2)			
	42 (100 0)	42 (100 0)			
	---	---			
3 Business Combinations (policy)				12 82500	0003*
(a) Purchase	36 (100 0)	28 (70 0)			
(b) Pooling	0 (0 0)	12 (30 0)			
	36 (100 0)	40 (100 0)			
	---	---			
4 Accounting for Associates (policy)				4 74598	0294*
(a) Equity method	12 (80 0)	38 (100 0)			
(b) Cost method	3 (20 0)	0 (0 0)			
	15 (100 0)	38 (100 0)			
	---	---			
5 Goodwill (disclosure of policy)	16 7	78 6	+61 9	32 26364	0000*
(a) No	35 (83 3)	9 (21 4)			
(b) Yes	7 (16 7)	33 (78 6)			
	42 (100 0)	42 (100 0)			
	---	---			
6 Goodwill (policy)				00000	1 0000
(a) Capitalised	4 (57 1)	19 (61 3)			
(b) Written off	3 (42 9)	12 (38 7)			
	7 (100 0)	31 (100 0)			
	---	---			
7 Foreign Income Statements (disclosure)	11 9	83 3	+71 4	42 95455	0000*
(a) No	37 (88 1)	7 (16 7)			
(b) Yes	5 (11 9)	35 (83 3)			
	42 (100 0)	42 (100 0)			
	---	---			
8 FIS Translation Rate (policy)				00000	0000*
(a) Average rates	2 (50 0)	18 (56 3)			
(b) Closing rate	2 (50 0)	14 (43 8)			
	4 (100 0)	32 (100 0)			
	---	---			

9. Translation Differences (disclosure)	9.5	71.4	+60.9	33.40235	.0000*
(a) No	38 (90.5)	12 (28.6)			
(b) Yes	4 (9.5)	30 (71.4)			
	-----	-----			
	42 (100.0)	42 (100.0)			
	-----	-----			
10. Translation Differences (policy)				.00000	1.0000
(a) Taken to reserves	1 (25.0)	6 (20.7)			
(b) Taken to income	3 (75.0)	23 (79.3)			
	-----	-----			
	4 (100.0)	29 (100.0)			
	-----	-----			
11. Foreign Currency Transactions (disclosure)	11.9	59.5	+47.6	20.74074	.0000*
(a) No	37 (88.1)	17 (40.5)			
(b) Yes	5 (11.9)	25 (59.5)			
	-----	-----			
	42 (100.0)	42 (100.0)			
	-----	-----			
12. Foreign Currency Transactions (policy)				7.50778	.0234*
(a) Actual rates	0 (0.0)	11 (45.8)			
(b) Average rates	2 (40.0)	1 (4.2)			
(c) Others	3 (60.0)	12 (50.0)			
	-----	-----			
	5 (100.0)	24 (100.0)			
	-----	-----			
13. Exchange Differences (policy)				.00000	1.0000
(a) In current income	4 (100.0)	21 (95.5)			
(b) Others	0 (0.0)	1 (4.5)			
	-----	-----			
	4 (100.0)	22 (100.0)			
	-----	-----			

* Denotes significant results

JAPAN

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi Square	Significance
1. Consolidations	0.0	87.0	+87.0	83.21311	0.000*
(a) Non consolidated	54 (100.0)	7 (13.0)			
(b) Consolidated	0 (0.0)	47 (87.0)			
	54 (100.0)	54 (100.0)			
2. Business Combinations (disclosure)	9.3	90.7	+81.4	71.70370	0.000*
(a) No	49 (90.7)	5 (9.3)			
(b) Yes	5 (9.3)	49 (90.7)			
	54 (100.0)	54 (100.0)			
3. Business Combinations (policy)				27.81833	.0000*
(a) Purchase	0 (0.0)	45 (95.7)			
(b) Pooling	5 (100.0)	2 (4.3)			
	5 (100.0)	47 (100.0)			
4. Accounting for Associates (policy)				.00000	1.0000
(a) Equity method	3 (100.0)	45 (93.8)			
(b) Cost method	0 (0.0)	3 (6.3)			
	3 (100.0)	48 (100.0)			
5. Goodwill (disclosure of policy)	50.0	61.1	+11.1	1.35000	.2453
(a) No	27 (50.0)	21 (38.9)			
(b) Yes	27 (50.0)	33 (61.1)			
	54 (100.0)	54 (100.0)			
6. Goodwill (policy)				1.67111	1961
(a) Capitalised	26 (96.3)	28 (82.4)			
(b) Written off	1 (3.7)	6 (17.6)			
	27 (100.0)	34 (100.0)			
7. Goodwill (amortisation period)				11.83158	0.080*
(a) 1-5 Years	24 (92.3)	14 (53.8)			
(b) 6-10 Years	2 (7.7)	3 (11.5)			
(c) 16-20 Years	0 (0.0)	4 (15.4)			
(d) 21-40 Years	0 (0.0)	5 (19.2)			
	26 (100.0)	26 (100.0)			

8. Foreign Income Statements (disclosure)	3 7	72 2	+68 5	53 82308	0000*
(a) No	52 (96 3)	15 (27 8)			
(b) Yes	2 (3 7)	39 (72 2)			
	54 (100.0)	54 (100 0)			
9. FIS Translation Rate (policy)				92495	3362
(a) Average rates	0 (0.0)	19 (61 3)			
(b) Closing rate	2 (100.0)	12 (38 7)			
	2 (100 0)	31 (100 0)			
10. Translation Differences (disclosure)	5 6	72 2	+66 6	50 49351	0000*
(a) No	51 (94 4)	15 (27 8)			
(b) Yes	3 (5 6)	39 (72 2)			
	54 (100.0)	54 (100 0)			
11. Translation Differences (policy)				.00000	1 0000
(a) Taken to reserves	2 (66 7)	22 (61.1)			
(b) Taken to income	1 (33 3)	14 (38 9)			
	3 (100.0)	36 (100 0)			
12. Foreign Currency Transactions (disclosure)	16.7	87 0	+60.3	53.55495	.0000*
(a) No	45 (83 3)	7 (13 0)			
(b) Yes	9 (16.7)	47 (87 0)			
	54 (100 0)	54 (100 0)			
13. Foreign Currency Transactions (policy)				7.45122	0588
(a) Actual rates	8 (88.9)	17 (40.5)			
(b) Average rates	0 (0.0)	6 (14.3)			
(c) Closing rate	1 (11 1)	8 (19.0)			
(d) Others	0 (0 0)	11 (26 2)			
	9 (100.0)	42 (100.0)			
14. Exchange Differences (policy)				34 69459	.0000*
(a) In current income	1 (12.5)	36 (90 0)			
(b) In current and future income	7 (87.5)	1 (2 5)			
(c) Others	0 (0 0)	3 (7.5)			
	8 (100 0)	40 (100 0)			

* Denotes significant results

UNITED KINGDOM

<u>Topics</u>	<u>1970/71 (%)</u>	<u>1980/81 (%)</u>	<u>Change (%)</u>	<u>Chi Square</u>	<u>Significance</u>
1. Consolidations	98.8	100.0	+ 1.2	0.0000	1.0000
(a) Non-consolidated	1 (1.2)	0 (0.0)			
(b) Consolidated	81 (98.8)	82 (100.0)			

	82 (100.0)	82 (100.0)			

2. Business Combinations (disclosure)	92.6	100.0	+ 7.4	4.39000	0.062*
(a) No	6 (7.4)	0 (0.0)			
(b) Yes	75 (92.6)	82 (100.0)			
	-				
	81 (100.0)	82 (100.0)			
3. Business Combinations (policy)				.00000	1.0000
(a) Purchase	71 (95.9)	78 (96.3)			
(b) Pooling	3 (4.1)	3 (3.7)			

	74 (100.0)	82 (100.0)			
	-				
4. Accounting for Associates (policy)				7.52471	0.061*
(a) Equity method	32 (78.0)	73 (96.1)			
(b) Cost method	9 (22.0)	3 (3.9)			

	41 (100.0)	76 (100.0)			

5. Goodwill (disclosure of policy)	62.2	98.8	+36.6	32.65246	.0000*
(a) No	31 (37.8)	1 (1.2)			
(b) Yes	51 (62.2)	81 (98.8)			
	-				
	82 (100.0)	82 (100.0)			
	-				
6. Goodwill (policy)				30.07765	0.000*
(a) Capitalised	19 (40.4)	2 (2.6)			
(b) Written off	28 (59.6)	76 (97.4)			

	47 (100.0)	78 (100.0)			
7. Foreign Income Statements (disclosure)	69.5	97.6	+26.1	23.45391	0.000*
(a) No	25 (30.5)	2 (2.4)			
(b) Yes	57 (69.5)	80 (97.6)			

	82 (100.0)	82 (100.0)			
	--				

8. FIS: Translation Rate (policy)				77.56376	0000*
(a) Average rates	3 (5 4)	65 (82 3)			
(b) Closing rate	53 (94 6)	14 (17 1)			
	-- --				
	56 (100 0)	79 (100 0)			
	-- --				
9. Translation Differences (disclosure)	31 7	96 3	+64 6	74 36255	0000*
(a) No	56 (68.3)	3 (3 7)			
(b) Yes	26 (31 7)	79 (96 3)			
	-- --				
	82 (100 0)	82 (100 0)			
	-- --				
10 Translation Differences (policy)				0 54191	4616
(a) Taken to reserves	24 (96 0)	68 (88 3)			
(b) Taken to income	1 (4.0)	9 (11 7)			
	-- --				
	25 (100 0)	77 (100 0)			
	-- --				
11. Foreign Currency Transactions (disclosure)	63 4	69.5	+ 6 1	.68390	4082
(a) No	30 (36 6)	25 (30 5)			
(b) Yes	52 (63.4)	57 (69 5)			
	-- --				
	82 (100 0)	82 (100 0)			
	-- --				
12. Foreign Currency Transactions (policy)				4 97875	.1734
(a) Actual rates	1 (2.1)	6 (13 0)			
(b) Average rates	3 (6 3)	2 (4 3)			
(c) Closing rates	39 (81 3)	31 (67 4)			
(d) Others	5 (10 4)	7 (15 2)			
	-- --				
	48 (100 0)	46 (100 0)			
	-- --				
13 Exchange Differences (policy)				26 06332	0000*
(a) In current income	5 (17 2)	42 (75 0)			
(b) In current and future income	3 (10 3)	1 (1 8)			
(c) Others	21 (72 4)	13 (23 2)			
	-- --				
	29 (100 0)	56 (100 0)			
	-- --				

* Denotes significant results

UNITED STATES OF AMERICA

<u>Topics</u>	<u>1970/71 (%)</u>	<u>1990/91 (%)</u>	<u>Change (%)</u>	<u>Chi Square</u>	<u>Significance</u>
1. Consolidations	96.7	96.7	+ 0.0	00000	1.0000
(a) Non consolidated	3 (3.3)	3 (3.3)			
(b) Consolidated	87 (96.7)	87 (96.7)			

	90 (100.0)	90 (100.0)			
2. Business Combinations (disclosure)	88.9	95.6	+ 6.7	2.78830	.0950
(a) No	10 (11.1)	4 (4.4)			
(b) Yes	80 (88.9)	86 (95.6)			

	90 (100.0)	90 (100.0)			
3. Accounting for Associates (policy)				5.28622	.0215*
(a) Equity method	42 (82.4)	49 (98.0)			
(b) Cost method	9 (17.6)	1 (2.0)			
	-----	---			
	51 (100.0)	50 (100.0)			
	-----	-----			
4. Goodwill (disclosure of policy)	31.1	60.0	+28.9	15.14186	.0001*
(a) No	62 (68.9)	36 (40.0)			
(b) Yes	28 (31.1)	54 (60.0)			
	-----	-----			
	90 (100.0)	90 (100.0)			
	---	---			
5. Goodwill (amortisation period)				12.63813	.0055*
(a) 6-10 Years	2 (22.2)	0 (0.0)			
(b) 11-15 Years	1 (11.1)	2 (4.1)			
(c) 16-20 Years	0 (0.0)	3 (6.1)			
(d) 21-40 Years	6 (66.7)	44 (89.8)			
	-	-			
	9 (100.0)	49 (100.0)			
	---	---			
6. Foreign Income Statements (disclosure)	31.1	24.4	6.7	99692	.3181
(a) No	62 (68.9)	68 (75.6)			
(b) Yes	28 (31.1)	22 (24.4)			
	---	---			
	90 (100.0)	90 (100.0)			
	---	---			
7. FIS. Translation Rate (policy)				.00000	1.0000
(a) Average rates	18 (81.8)	17 (81.0)			
(b) Closing rates	4 (18.2)	4 (19.0)			
	-	-			
	22 (100.0)	21 (100.0)			
	-----	---			

8. Translation Differences (disclosure)	23 3	40 0	+16 7	5 77664	0162*
(a) No	69 (76 7)	54 (60 0)			
(b) Yes	21 (23 3)	36 (40 0)			
	90 (100 0)	90 (100 0)			

9. Translation Differences (policy)				7 94118	.0048*
(a) Taken to reserves	5 (25.0)	22 (64 7)			
(b) Taken to income	15 (75 0)	12 (35 3)			
	20 (100 0)	34 (100 0)			

10 Foreign Currency Transactions (disclosure)	20 0	36.7	+16 7	6.15595	0131*
(a) No	72 (80.0)	57 (63 3)			
(b) Yes	18 (20.0)	33 (36 7)			
	90 (100.0)	90 (100.0)			

11. Foreign Currency Transactions (policy)				2 37530	.4982
(a) Actual rates	3 (18.8)	2 (28 6)			
(b) Average rates	8 (50.0)	4 (57 1)			
(c) Closing rates	1 (6 3)	1 (14 3)			
(d) Others	4 (25 0)	0 (0 0)			
	16 (100 0)	7 (100 0)			

12 Exchange Differences (policy)				.13462	9349
(a) In current income	7 (58 3)	19 (63 3)			
(b) In current and future income	3 (25 0)	6 (20 0)			
(c) Others	2 (16 7)	5 (16 7)			
	12 (100 0)	30 (100 0)			

* Denotes significant results

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APPENDIX FOUR

AGGREGATE ANALYSIS OF THE IMPACT OF LISTING STATUS ON ACCOUNTING PRACTICES RELATING TO INVENTORIES; PROPERTY, PLANT AND EQUIPMENT; DEPRECIATION; AND INVESTMENTS

Topics	Domestic (N)	Multi (N)	Chi-Square Values	Significance
1. Disclosure of inventory valuation policy			2.23111	.1353
(a) No	11 (4.9)	4 (2.1)		
(b) Yes	214 (95.1)	184 (97.9)		
	-----	-----		
	225 (100.0)	188 (100.0)		

2. Method used to assign cost to inventory			6.28996	.0983
(a) FIFO	25 (16.6)	14 (10.8)		
(b) LIFO	11 (7.3)	9 (6.9)		
(c) Weighted Average	61 (40.4)	42 (32.3)		
(d) Others	54 (35.8)	65 (50.0)		

	151 (100.0)	130 (100.0)		
	-	-		
3. Measurement basis for recording inventory			8.72473	.0031*
(a) Cost	52 (24.2)	23 (12.6)		
(b) Locom	163 (75.8)	160 (87.4)		

	215 (100.0)	183 (100.0)		
	--	--		
4. Definition of market value			4.99871	.0821
(a) Net realisable value	87 (91.6)	65 (81.3)		
(b) Replacement cost	6 (6.3)	8 (10.0)		
(c) MRV & RC	2 (2.1)	7 (8.8)		
	-	-		
	95 (100.0)	80 (100.0)		
	-	-		
5. Disclosure of policy for measuring PPE			2.09858	.1474
(a) No	9 (4.0)	3 (1.6)		
(b) Yes	216 (96.0)	185 (98.4)		
	-----	-----		
	225 (100.0)	188 (100.0)		
	-	-		
6. Cost basis of for recording PPE			3.19533	.0738
(a) Original cost	180 (82.9)	165 (89.2)		
(b) Cost or valuation	37 (17.1)	20 (10.8)		
	---	---		
	217 (100.0)	185 (100.0)		
	-	-		
7. Gains or losses on disposal of PPE			0.94370	.3313
(a) In current income	188 (97.4)	154 (99.4)		
(b) Taken to reserves	5 (2.6)	1 (0.6)		
	-	-		
	193 (100.0)	155 (100.0)		

8. Disclosure of depreciation policy			0 10000	7518
(a) No	6 (2 7)	6 (3 2)		
(b) Yes	219 (97 3)	182 (96 8)		
	----	----		
	225 (100 0)	188 (100 0)		
	-----	-----		
9 Method of accounting for depreciation			10 51292	0052*
(a) Straight line	112 (52 8)	90 (50 3)		
(b) Declining balance	32 (15 1)	49 (27 4)		
(c) SL & DB	68 (32 1)	40 (22 3)		
	-	-		
	212 (100 0)	179 (100 0)		
10 Disclosure of policy on long term investments			2 25895	1328
(a) No	65 (28 9)	67 (35 8)		
(b) Yes	160 (71 1)	120 (64 2)		
	-----	-----		
	225 (100 0)	187 (100 0)		
11 Method of valuing long term investments			0 50127	4789
(a) Cost	107 (66 9)	76 (62 8)		
(b) Others	53 (33 1)	45 (37 2)		
	--	--		
	160 (100 0)	121 (100 0)		
12 Disposal of long term investments			0 45263	5011
(a) In current income	93 (97 9)	90 (100 0)		
(b) Taken to reserves	2 (2 1)	0 (0 0)		
	-----	-----		
	95 (100 0)	90 (100 0)		
13 Disclosure of policy on current investments			0 24776	6187
(a) No	94 (41 8)	74 (39 4)		
(b) Yes	131 (58 2)	114 (60 6)		
	-----	-----		
	225 (100 0)	118 (100 0)		
14 Measurement of current investments			2 30692	3155
(a) Market value	4 (3 1)	8 (7 1)		
(b) Locom	107 (84 3)	93 (83 0)		
(c) Cost	16 (12 6)	11 (9 8)		
	--	--		
	127 (100 0)	112 (100 0)		
15. Treatment of gain/loss on disposal of current investments			0 42878	5126
(a) In current income	89 (97 8)	84 (100 0)		
(b) Taken to reserves	2 (2 2)	0 (0 0)		
	-----	-----		
	91 (100 0)	84 (100 0)		
	---	---		

* Denotes Significant result

IMPACT OF LISTING STATUS ON ACCOUNTING PRACTICES: INDIVIDUAL COUNTRY COMPARISONS

FRANCE

Topics	Domestic (n)	Multi (n)	Chi Square Values	Significance
1. Disclosure of inventory valuation policy			.58333	.4450
(a) No	8 (17.8)	2 (8.0)		
(b) Yes	37 (82.2)	23 (92.0)		
	45 (100.0)	25 (100.0)		
2. Method used to assign cost to inventory			02908	9856
(a) FIFO	7 (21.2)	4 (21.1)		
(b) Weighted Average	18 (54.5)	10 (52.6)		
(c) Others	8 (24.2)	5 (26.3)		
	33 (100.0)	19 (100.0)		
3. Measurement basis for recording inventory			1.22591	2682
(a) Cost	9 (24.3)	2 (9.1)		
(b) Locom	28 (75.7)	20 (90.9)		
	37 (100.0)	22 (100.0)		
4. Definition of market value			.06140	.8043
(a) Net realisable value	17 (89.5)	7 (77.8)		
(b) Replacement cost	2 (10.5)	2 (22.2)		
	19 (67.9)	9 (32.1)		
5. Disclosure of policy for measuring PPE			.00000	1.0000
(a) No	2 (4.4)	1 (4.0)		
(b) Yes	43 (95.6)	24 (96.0)		
	45 (100.0)	25 (100.0)		
6. Cost basis of for recording PPE			51106	4747
(a) Original cost	42 (95.5)	21 (87.5)		
(b) Cost or valuation	2 (4.5)	3 (12.5)		
	44 (100.0)	24 (100.0)		
7. Disclosure of depreciation policy			.00000	1.0000
(a) No	4 (8.9)	2 (8.0)		
(b) Yes	41 (91.1)	23 (92.0)		
	45 (100.0)	25 (100.0)		

8	Method of accounting for depreciation			34759	5555
(a)	Straight line	24 (66 7)	17 (73 9)		
(b)	SL & DB	12 (33 3)	6 (26 1)		
		36 (100 0)	23 (100 0)		
9	Disclosure of policy on long term investments			02255	8806
(a)	No	12 (26 7)	6 (25 0)		
(b)	Yes	33 (73 3)	18 (75 0)		
		45 (100 0)	24 (100 0)		
10	Method of valuing long term investments			1 09029	2964
(a)	Cost	28 (84 8)	13 (68 4)		
(b)	Others	5 (15 2)	6 (31 6)		
		33 (100 0)	19 (100 0)		
11	Disclosure of policy on current investments			00000	1 0000
(a)	No	18 (40 0)	10 (40 0)		
(b)	Yes	27 (60 0)	15 (60 0)		
		45 (100 0)	25 (100 0)		
12	Measurement of current investments			1 86136	3943
(a)	Market value	2 (7 1)	3 (21 4)		
(b)	LOCOM	23 (82 1)	10 (71 4)		
(c)	Cost	3 (10 7)	1 (7 1)		
		28 (100 0)	14 (100 0)		

* Denotes Significant result

GERMANY

<u>Topics</u>	<u>Domestic (1)</u>	<u>Multi (1)</u>	<u>Chi Square Values</u>	<u>Significance</u>
1. Disclosure of inventory valuation policy			.00000	1 0000
(a) No	2 (4 4)	1 (3 6)		
(b) Yes	43 (95 6)	27 (96 4)		
	45 (100 0)	28 (100 0)		
2. Method used to assign cost to inventory			1.71845	.4235
(a) FIFO	0 (0 0)	0 (0 0)		
(b) LIFO	3 (14 3)	5 (31 3)		
(c) Weighted Average	8 (38 1)	4 (25 0)		
(d) Others	10 (47 6)	7 (43 8)		
	21 (100 0)	16 (100 0)		
3. Measurement basis for recording inventory			.32712	.5674
(a) Cost	2 (4 5)	3 (11 1)		
(b) Locom	42 (95 5)	24 (88 9)		
	44 (100 0)	27 (100 0)		
4. Definition of market value			6 58498	.0372*
(a) Net realisable value	20 (87 0)	5 (45 5)		
(b) Replacement cost	1 (4 3)	2 (18 2)		
(c) NetV & RC	2 (8 7)	4 (36 4)		
	23 (100 0)	11 (100 0)		
5. Disclosure of policy for measuring PPE			00000	1 0000
(a) No	1 (2 2)	1 (3 6)		
(b) Yes	44 (97 8)	27 (96 4)		
	45 (100 0)	28 (100 0)		
6. Disclosure of depreciation policy			00000	1 0000
(a) No	2 (4 4)	2 (7 1)		
(b) Yes	43 (95 6)	26 (92 9)		
	45 (100 0)	28 (100 0)		
7. Method of accounting for depreciation			27570	8712
(a) Straight line	5 (11 6)	3 (11 5)		
(b) Declining balance	2 (4 7)	2 (7 7)		
(c) SL & DB	36 (83 7)	21 (80 8)		
	43 (100 0)	26 (100 0)		

8	Disclosure of policy on long term investments			00000	1 0000
(a)	No	4 (8 9)	2 (7 1)		
(b)	Yes	41 (91 1)	26 (92 9)		
		45 (100 0)	28 (100 0)		
9	Method of valuing long term investments			2 13476	1440
(a)	Cost	32 (78 0)	16 (61 5)		
(b)	Others	9 (22 0)	10 (38 5)		
		41 (100 0)	26 (100 0)		
		--	--		
10	Disposal of long term investments			00611	9377
(a)	In current income	17 (94 4)	21 (100 0)		
(b)	Taken to reserves	1 (5 6)	0 (0 0)		
		18 (100 0)	21 (100 0)		
11	Disclosure of policy on current investments			00368	9516
(a)	No	18 (40 0)	11 (39 3)		
(b)	Yes	27 (60 0)	17 (60 7)		
		45 (100 0)	28 (100 0)		
12	Measurement of current investments			16433	6852
(a)	LCCOM	25 (92 6)	17 (100 0)		
(b)	Cost	2 (7 4)	0 (0 0)		
		27 (100 0)	17 (100 0)		

* Denotes Significant result

JAPAN

Topics	Domestic (N)	Multi (N)	Chi-Square Values	Significance
1. Disclosure of inventory valuation policy				
(a) No	0 (0.0)	0 (0.0)		
(b) Yes	45 (100.0)	45 (100.0)		
	-----	-----		
	45 (100.0)	45 (100.0)		
2. Method used to assign cost to inventory			4.05714	.2554
(a) FIFO	3 (6.7)	4 (8.9)		
(b) LIFO	3 (6.7)	0 (0.0)		
(c) Weighted Average	24 (53.3)	21 (46.7)		
(d) Others	15 (33.3)	20 (44.4)		
	-----	-----		
	45 (100.0)	45 (100.0)		
3. Measurement basis for recording inventory			10.07964	.0015
(a) Cost	26 (62.2)	13 (28.9)		
(b) Locom	17 (37.8)	32 (71.1)		
	-----	-----		
	45 (100.0)	45 (100.0)		
4. Definition of market value			1.39683	.4974
(a) Net realizable value	2 (100.0)	5 (55.6)		
(b) Replacement cost	0 (0.0)	2 (22.2)		
(c) NWV & RC	0 (0.0)	2 (22.2)		
	-----	-----		
	2 (100.0)	9 (100.0)		
5. Disclosure of policy for measuring PPE			6.42857	.0346
(a) No	6 (13.3)	0 (0.0)		
(b) Yes	39 (86.7)	45 (100.0)		
	-----	-----		
	45 (100.0)	45 (100.0)		
6. Gains or losses on disposal of PPE			2.60671	.1064
(a) In current income	27 (87.1)	33 (100.0)		
(b) Taken to reserves	4 (12.9)	0 (0.0)		
	-----	-----		
	31 (100.0)	33 (100.0)		
7. Disclosure of depreciation policy				
(a) No	0 (0.0)	0 (0.0)		
(b) Yes	45 (100.0)	45 (100.0)		
	-----	-----		
	45 (100.0)	45 (100.0)		

8. Method of accounting for depreciation			10.45714	.0054
(a) Straight line	4 (8 9)	0 (0 0)		
(b) Declining balance	26 (57 8)	39 (86 7)		
(c) SL & DB	15 (33 3)	6 (13 3)		
	45 (100 0)	45 (100 0)		
9. Disclosure of policy on long term investments			.61962	.4312
(a) No	2 (4 4)	5 (11 1)		
(b) Yes	43 (95 6)	40 (88 9)		
	45 (100 0)	45 (100 0)		
10 Method of valuing long term investments			.01484	.9030
(a) Cost	22 (51 2)	21 (52 5)		
(b) Others	21 (48 8)	19 (47 5)		
	43 (100 0)	40 (100 0)		
11 Disposal of long term investments			00849	9266
(a) In current income	24 (96 0)	30 (100 0)		
(b) Taken to reserves	1 (4 0)	0 (0 0)		
	25 (100 0)	30 (100 0)		
12. Disclosure of policy on current investments			51136	4745
(a) No	0 (0 0)	2 (4 4)		
(b) Yes	45 (100 0)	43 (95 6)		
	45 (100 0)	45 (100 0)		
13 Measurement of current investments			1.69474	.4285
(a) Market value	0 (0.0)	1 (2 3)		
(b) LOCOM	36 (81 8)	37 (86 0)		
(c) Cost	8 (18 2)	5 (11 6)		
	44 (100.0)	43 (100 0)		
14. Gain/loss on disposal of current investments			.80361	.3700
(a) In current income	24 (92 3)	33 (100 0)		
(b) Taken to reserves	2 (7.7)	0 (0 0)		
	26 (100 0)	33 (100 0)		

* Denotes Significant result

UNITED KINGDOM

<u>Topics</u>	<u>Domestic (1)</u>	<u>Multi (1)</u>	<u>Chi Square Values</u>	<u>Significance</u>
1 Disclosure of inventory valuation policy				
(a) No	0 (0 0)	0 (0 0)		
(b) Yes	45 (100 0)	45 (100 0)		
	- - -			
	45 (100 0)	45 (100 0)		
2. Method used to assign cost to inventory			8 57143	0356
(a) FIFO	8 (100 0)	2 (28 6)		
(b) LIFO	0 (0 0)	1 (14 3)		
(c) Weighted Average	0 (0 0)	1 (14 3)		
(d) Others	0 (0 0)	3 (42 9)		
	8 (100 0)	7 (100 0)		
3 Disclosure of policy for measuring PPE				
(a) No	0 (0 0)	0 (0 0)		
(b) Yes	45 (100 0)	45 (100 0)		

	45 (100 0)	45 (100 0)		
4 Cost basis of for recording PPE			14 75709	0001
(a) Original cost	10 (22 2)	28 (62 2)		
(b) Cost or valuation	35 (77 8)	17 (37 8)		

	45 (100 0)	45 (100 0)		
5 Gains or losses on disposal of PPE			.00000	1 0000
(a) In current income	41 (97 6)	39 (100 0)		
(b) Taken to reserves	1 (2 4)	0 (0 0)		

	42 (100.)	39 (100 0)		
6 Disclosure of depreciation policy			51136	4745
(a) No	0 (0 0)	2 (4 4)		
(b) Yes	45 (100 0)	43 (95 6)		
	- -			
	45 (100 0)	45 (100 0)		
7 Method of accounting for depreciation			00000	1 0000
(a) Straight line	42 (97 7)	39 (97 5)		
(b) SL & DB	1 (2 3)	1 (2 5)		

	43 (51 8)	40 (100 0)		
8 Disclosure of policy on long term investments			6 80672	0091
(a) No	11 (24 4)	23 (51 1)		
(b) Yes	34 (75 6)	22 (48 9)		
	-			
	45 (100 0)	45 (100 0)		

9. Method of valuing long term investments			1 28190	2575
(a) Cost	18 (52 9)	15 (68 2)		
(b) Others	16 (47 1)	7 (31 8)		
	34 (100.0)	22 (100 0)		
	--	--		
10 Disclosure of policy on current investments			04921	8244
(a) No	29 (64 4)	30 (66 7)		
(b) Yes	16 (35 6)	15 (33 3)		
	45 (100 0)	45 (100 0)		
	-	-		
11. Measurement of current investments			10597	9484
(a) Market value	2 (15 4)	2 (14 3)		
(b) LOCOM	8 (61 5)	8 (57 1)		
(c) Cost	3 (23 1)	4 (28 6)		
	-	-		
	13 (100.0)	14 (100 0)		
	-	-		

* Denotes Significant result.

UNITED STATES OF AMERICA

<u>Topics</u>	<u>Domestic (1)</u>	<u>Multi (3)</u>	<u>Chi Square Values</u>	<u>Significance</u>
1. Disclosure of inventory valuation policy			.00000	1.0000
(a) No	1 (2.2)	1 (2.2)		
(b) Yes	44 (97.8)	44 (97.8)		
	-----	-----		
	45 (100.0)	45 (100.0)		
	-----	-----		
2. Method used to assign cost to inventory			4.36609	.2246
(a) FIFO	7 (15.9)	4 (9.3)		
(b) LIFO	5 (11.4)	3 (7.0)		
(c) Weighted Average	11 (25.0)	6 (14.0)		
(d) Others	21 (47.7)	30 (69.8)		
	-----	-----		
	44 (100.0)	43 (100.0)		
	-----	-----		
3. Measurement basis for recording inventory			4.46984	.0345*
(a) Cost	13 (29.5)	5 (11.4)		
(b) LCOM	31 (70.5)	39 (88.4)		
	-----	-----		
	44 (100.0)	44 (100.0)		
	-----	-----		
4. Definition of market value			1.20000	.5488
(a) Net realisable value	3 (50.0)	3 (50.0)		
(b) Replacement cost	3 (50.0)	2 (33.3)		
(c) MV & MC	0 (0.0)	1 (16.7)		
	-----	-----		
	6 (100.0)	6 (100.0)		
	-----	-----		
5. Disclosure of policy for measuring PPE			.00000	1.0000
(a) No	0 (0.0)	1 (2.2)		
(b) Yes	45 (100.0)	44 (97.8)		
	-----	-----		
	45 (100.0)	45 (100.0)		
	-----	-----		
6. Gains or losses on disposal of PPE			.00297	.9565
(a) In current income	39 (100.0)	34 (97.1)		
(b) Taken to reserves	0 (0.0)	1 (2.9)		
	-----	-----		
	39 (100.0)	35 (100.0)		
	-----	-----		
7. Disclosure of depreciation policy				
(a) No	0 (0.0)	0 (0.0)		
(b) Yes	45 (100.0)	45 (100.0)		
	-----	-----		
	45 (100.0)	45 (100.0)		
	-----	-----		

8	Method of accounting for depreciation			2.26275	3226
(a)	Straight line	37 (82 2)	31 (68 9)		
(b)	Declining balance	4 (8 9)	8 (17 8)		
(c)	SL & DB	4 (8 9)	6 (13 3)		
		45 (100.0)	45 (100 0)		
9.	Disclosure of policy on long term investments			93446	2269
(a)	No	36 (80.0)	31 (68 9)		
(b)	Yes	9 (20.0)	14 (31 1)		
		45 (100 0)	45 (100 0)		
10	Method of valuing long term investments			.00000	1 0000
(a)	Cost	7 (77 8)	11 (78 6)		
(b)	Others	2 (22 2)	3 (21 4)		
		9 (100 0)	14 (100 0)		
11	Disclosure of policy on current investments			2.88000	0897
(a)	No	29 (64 4)	21 (46.7)		
(b)	Yes	16 (35 6)	24 (53 3)		
		45 (100 0)	45 (100 0)		
12	Measurement of current investments			2 03125	.3622
(a)	Market value	0 (0 0)	2 (8 3)		
(b)	LOCOM	15 (100 0)	21 (87 5)		
(c)	Cost	0 (0 0)	1 (4 2)		
		15 (100 0)	24 (100 0)		

* Denotes Significant result

Aggregate Comparisons of 1970/71 and 1990/91 Financial Years

Topics	1970/71 (N)	1990/91 (N)	Change (N)	Chi Square	Sig
1 Disclosure of inventory valuation policy			+11 3	27.33111	.0000*
(a) No	38 (13 0)	5 (1 7)			
(b) Yes	255 (87 0)	288 (98 3)			
	-----	-----			
	293 (100 0)	293 (100 0)			
	-----	-----			
2. Method used to assign cost to inventory				12.21136	.0067*
(a) FIFO	34 (22 4)	30 (15 3)			
(b) LIFO	16 (10 5)	14 (7 1)			
(c) Weighted Average	61 (40 1)	64 (32.7)			
(d) Others	41 (27 0)	88 (44 9)			
	-----	-----			
	152 (100.0)	196 (100.0)			
	-----	-----			
3. Measurement basis for recording inventory				3.13482	.0766
(a) Cost	60 (23 8)	51 (17 6)			
(b) Locom	192 (76 2)	238 (82 4)			
	-----	-----			
	252 (100.0)	289 (100 0)			
	-----	-----			
4. Definition of market value				8.41245	.0149*
(a) Net realisable value	77 (73 3)	117 (87.3)			
(b) Replacement cost	14 (13 3)	11 (8 2)			
(c) NRV & RC	14 (13 3)	6 (4 5)			
	-----	-----			
	105 (100 0)	134 (100 0)			
	-----	-----			
5 Disclosure of policy for measuring PPE			+20 5	57.00389	.0000*
(a) No	66 (22 5)	6 (2 0)			
(b) Yes	227 (77 5)	287 (98 0)			
	-----	-----			
	293 (100 0)	293 (100 0)			
	-----	-----			
6. Cost basis of for recording PPE				3.81646	.0508
(a) Original cost	171 (76 3)	239 (83 3)			
(b) Cost or valuation	53 (23 7)	48 (16 7)			
	-----	-----			
	224 (100 0)	287 (100 0)			
	-----	-----			
7. Gains or losses on disposal of PPE				97.38931	0000*
(a) In current income	80 (65 0)	245 (99 2)			
(b) Taken to reserves	43 (35 0)	2 (0 6)			
	-----	-----			
	123 (100 0)	247 (100 0)			
	-----	-----			

8.	Disclosure of depreciation policy			+27 0	79 76676	0000*
(a)	No	86 (29 4)	7 (2 4)			
(b)	Yes	207 (70 6)	286 (97 6)			
		293 (100 0)	293 (100 0)			
9.	Method of accounting for depreciation				19 36218	.0007*
(a)	Straight line	89 (43 2)	163 (58 6)			
(b)	Declining balance	36 (17 5)	54 (19 4)			
(c)	SL & DB	80 (38 8)	61 (21 9)			
		206 (100 0)	278 (100 0)			
10.	Disclosure of policy on L-term investments			+ 1 4	0 11487	7347
(a)	No	116 (39 6)	112 (38 2)			
(b)	Yes	177 (60 4)	181 (61 8)			
		293 (100 0)	293 (100 0)			
11.	Method of valuing long-term investments				10.64379	.0011*
(a)	Cost	145 (81 9)	121 (66 9)			
(b)	Others	32 (18 1)	60 (33 1)			
		177 (100.0)	181 (100 0)			
12.	Disposal of long term investments				69 31581	0000*
(a)	In current income	26 (45 6)	109 (99 1)			
(b)	Taken to reserves	31 (54 4)	1 (0 9)			
		57 (100 0)	110 (100.0)			
13.	Disclosure of policy on current investments			+10 8	6 82557	.0090*
(a)	No	171 (58 6)	140 (47 8)			
(b)	Yes	121 (41 4)	153 (52 2)			
		292 (100 0)	293 (100 0)			
14.	Measurement of current investments				19 67422	0002*
(a)	Market value	7 (5 9)	7 (4 8)			
(b)	LOCOM	78 (66 1)	127 (86 4)			
(c)	Cost	27 (22 9)	13 (8 8)			
(d)	Others	6 (5 1)	0 (0.0)			
		118 (100.0)	147 (100 0)			
15.	Gain/loss on disposal of current investments				22.18161	0000*
(a)	In current income	31 (79 5)	102 (100 0)			
(b)	Taken to reserves	8 (20 5)	0 (0 0)			
		39 (100.0)	102 (100 0)			

* Denotes Significant result

Comparison of 1970/71 and 1990/91 financial years on individual country basis

FRANCE

Topics	1970/71 (n)	1990/91 (n)	Change (n)	Chi Square	Sig
1 Disclosure of inventory valuation policy			+92 0	42.32000	0.0000*
(a) No	24 (96 0)	1 (4 0)			
(b) Yes	1 (4 0)	24 (96 0)			
	-----	-----			
	25 (100 0)	25 (100 0)			
2. Measurement basis for recording inventory				.00000	1.0000
(a) Cost	0 (0 0)	6 (25 0)			
(b) LCCOM	1 (100 0)	18 (75 0)			
	-----	-----			
	1 (100 0)	24 (100 0)			
3 Definition of market value				0.00000	1.0000
(a) Net realisable value	1 (100 0)	9 (81 8)			
(b) Replacement cost	0 (0 0)	2 (18 2)			
(c) MRV & RC					
	-----	-----			
	1 (100 0)	11 (100 0)			
4 Disclosure of policy for measuring PPE			+88 0	38.78205	0.0000*
(a) No	23 (92 0)	1 (4 0)			
(b) Yes	2 (8 0)	24 (96 0)			
	-----	-----			
	25 (100 0)	25 (100 0)			
5. Cost basis of for recording PPE				0.00000	1.0000
(a) Original cost	2 (100 0)	23 (95 8)			
(b) Cost or valuation	0 (0 0)	1 (4 2)			
	-----	-----			
	2 (100 0)	24 (100 0)			
6. Disclosure of depreciation policy			+80 0	32.46753	0.0000*
(a) No	24 (96 0)	4 (16 0)			
(b) Yes	1 (4 0)	21 (84 0)			
	-----	-----			
	25 (100 0)	25 (100 0)			
7 Method of accounting for depreciation				1.07000	.3684
(a) Straight line	0 (0 0)	12 (66 7)			
(b) SL & DB	1 (4 0)	6 (84 0)			
	-----	-----			
	1 (100 0)	18 (100 0)			
8. Disclosure of policy on long term investments			+64 0	23.72742	0.0000*
(a) No	23 (92 0)	6 (24 0)			
(b) Yes	2 (8 0)	19 (76 0)			
	-----	-----			
	25 (100 0)	25 (100 0)			

9. Method of valuing long term investments			00000	1 0000
(a) Cost	2 (100 0)	16 (84 2)		
(b) Others	0 (0 0)	3 (15 8)		
	2 (100 0)	19 (100 0)		

10 Disclosure of policy on current investments		+36 0	7 71429	0055*
(a) No	22 (88 0)	13 (52 0)		
(b) Yes	3 (12 0)	12 (48 0)		
	25 (100 0)	25 (100 0)		

11 Measurement of current investments			.57692	.7494
(a) Market value	0 (0 0)	1 (8 3)		
(b) LOCOM	3 (100 0)	10 (83 3)		
(c) Cost	0 (0 0)	1 (8 3)		
	3 (100 0)	12 (100 0)		

* Denotes Significant result

GERMANY

Topics	1970/71 (A)	1990/91 (A)	Change (A)	Chi Square	Sig
1. Disclosure of inventory valuation policy			+16 6	5.12578	.0236*
(a) No	9 (21 4)	2 (4 8)			
(b) Yes	33 (78 6)	40 (95 2)			
	42 (100 0)	42 (100 0)			
2 Method used to assign cost to inventories				2.97143	2263
(a) LIFO	2 (13 3)	4 (19 0)			
(b) Weighted Average	10 (66 7)	8 (38 1)			
(c) Others	3 (20 0)	9 (42 9)			
	15 (100 0)	21 (100 0)			
3 Measurement basis for recording inventory				3 61232	.0574
(a) Cost	6 (18 2)	1 (2 4)			
(b) LCCOM	27 (81 8)	40 (97 6)			
	33 (100 0)	41 (100 0)			
4 Definition of market value				.30691	8577
(a) Net realisable value	13 (76 5)	17 (73 9)			
(b) Replacement cost	2 (11 8)	2 (8 7)			
(c) MKV & MC	2 (11 8)	4 (17 4)			
	17 (100 0)	23 (100 0)			
5 Disclosure of policy for measuring PPE			+26 2	11 01192	.0009*
(a) No	12 (28 6)	1 (2 4)			
(b) Yes	30 (71 4)	41 (97 4)			
	42 (100 0)	42 (100 0)			
6 Cost basis of for recording PPE				.90444	3416
(a) Original cost	28 (93 3)	41 (100 0)			
(b) Cost or valuation	2 (6 7)	0 (0 0)			
	30 (100 0)	41 (100 0)			
7 Gains or losses on disposal of PPE				4 73356	0938
(a) In current income	31 (91 2)	38 (100 0)			
(b) Taken to reserves	3 (8 8)	0 (0 0)			
	34 (100 0)	38 (100 0)			
8 Disclosure of depreciation policy			+16 6	4 48000	0343*
(a) No	8 (19 0)	1 (2 4)			
(b) Yes	34 (81 0)	41 (97 6)			
	42 (100 0)	42 (100 0)			

9. Method of accounting for depreciation			.83009	.6603
(a) Straight line	3 (8 8)	6 (14 6)		
(b) Declining balance	1 (2 9)	2 (4 9)		
(c) SL & DB	30 (88 2)	33 (80 5)		
	34 (100 0)	41 (100 0)		
10. Disclosure of policy on L term investments			+61 9	35 05185
(a) No	28 (66 7)	2 (4 8)		0000*
(b) Yes	14 (33 3)	40 (95 2)		
	42 (100 0)	42 (100 0)		
11. Method of valuing long term investments			48214	4875
(a) Cost	13 (92 9)	32 (80 0)		
(b) Others	1 (7 1)	8 (20 0)		
	14 (100 0)	40 (100 0)		
12. Disposal of long term investments			.00000	1 0000
(a) In current income	2 (100 0)	21 (95 5)		
(b) Taken to reserves	0 (0 0)	1 (4 5)		
	2 (100.0)	22 (100 0)		
13. Disclosure of policy on current investments			+28 5	7.00000
(a) No	30 (71 4)	18 (42.9)		.0082*
(b) Yes	12 (28 6)	24 (57 1)		
	42 (100.0)	42 (100.0)		
14. Measurement of current investments			.12857	.7199
(a) Market value	1 (8 3)	0 (0 0)		
(b) LOCOM	11 (91.7)	24 (100 0)		
	12 (100.0)	24 (100 0)		

* Denotes Significant result.

JAPAN

Topics	1970/71 (%)	1980/81 (%)	Change (%)	Chi Square	Sig
1. Disclosure of inventory valuation policy			+ 3 7	50943	4754
(a) No	2 (3 7)	0 (0 0)			
(b) Yes	52 (96 3)	54 (100 0)			
	54 (100 0)	54 (100 0)			
2 Method used to assign cost to inventory				2 75132	4316
(a) FIFO	4 (8 0)	2 (3 7)			
(b) LIFO	5 (10 0)	2 (3 7)			
(c) Weighted Average	24 (48 0)	28 (51 9)			
(d) Others	17 (34 0)	22 (40 7)			
	50 (100 0)	54 (100 0)			
3 Measurement basis for recording inventory				3 98044	0460*
(a) Cost	35 (67 3)	26 (48 1)			
(b) Locom	17 (32 7)	28 (51 9)			
	52 (100 0)	54 (100 0)			
4 Definition of market value				44444	8007
(a) Net realisable value	1 (50 0)	3 (50 0)			
(b) Replacement cost	1 (50 0)	2 (33 3)			
(c) ERV & RC	0 (0 0)	1 (16 7)			
	2 (100 0)	6 (100 0)			
5 Disclosure of policy for measuring PPE			+48 1	30 01974	0000*
(a) No	29 (53 7)	3 (5 6)			
(b) Yes	25 (46 3)	51 (94 4)			
	54 (100 0)	54 (100 0)			
6 Gains or losses on disposal of PPE				39721	5285
(a) In current income	11 (91 7)	39 (100 0)			
(b) Taken to reserves	1 (8 3)	0 (0 0)			
	12 (100 0)	39 (100 0)			
7 Disclosure of depreciation policy			+ 1 9	00000	1 0000
(a) No	1 (1 9)	0 (0 0)			
(b) Yes	53 (98 1)	54 (100 0)			
	54 (100 0)	54 (100 0)			

8	Method of accounting for depreciation			11 92916	0026*
(a)	Straight line	3 (5 8)	3 (5 6)		
(b)	Declining balance	22 (42 3)	40 (74 1)		
(c)	SL & DB	27 (51 9)	11 (20 4)		
		52 (100 0)	54 (100 0)		
9	Disclosure of policy on L term investments			+22 2	8 83636
(a)	No	16 (29 6)	4 (7 4)		
(b)	Yes	38 (70 4)	50 (92 6)		
		54 (100 0)	54 (100 0)		
10	Method of valuing long term investments			9 65674	0019*
(a)	Cost	33 (86 8)	28 (56 0)		
(b)	Others	5 (13 2)	22 (44 0)		
		38 (100 0)	50 (100 0)		
11	Disclosure of policy on current investments			+20 3	10.58138
(a)	No	12 (22 2)	1 (1 9)		
(b)	Yes	42 (77 8)	53 (98 1)		
		54 (100 0)	54 (100 0)		
12.	Measurement of current investments			12 26603	0065*
(a)	Market value	0 (0 0)	1 (1 9)		
(b)	LOCOM	23 (54 8)	43 (82 7)		
(c)	Cost	15 (35 7)	8 (15 4)		
(D)	Others	4 (9 5)	0 (0 0)		
		42 (100 0)	52 (100 0)		

* Denotes Significant result

UNITED KINGDOM

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi Square	Sig
1 Disclosure of inventory valuation policy			+ 1.2	00000	1.0000
(a) No	1 (1.2)	0 (0.0)			
(b) Yes	81 (98.8)	82 (100.0)			
	82 (100.0)	82 (100.0)			
2 Method used to assign cost to inventory				10.56178	.0051*
(a) FIFO	1 (10.0)	10 (71.4)			
(b) LIFO	0 (0.0)	0 (0.0)			
(c) Weighted Average	6 (60.0)	1 (7.1)			
(d) Others	3 (30.0)	3 (21.4)			
	10 (100.0)	14 (100.0)			
3 Measurement basis for recording inventory				5.45103	.0196*
(a) Cost	7 (8.6)	0 (0.0)			
(b) Locom	74 (91.4)	82 (100.0)			
	81 (100.0)	82 (100.0)			
4 Definition of market value				19.49531	.0001*
(a) Net realisable value	55 (78.6)	82 (100.0)			
(b) Replacement cost	5 (7.1)	0 (0.0)			
(c) MV & RC	10 (14.3)	0 (0.0)			
	70 (100.0)	82 (100.0)			
5 Disclosure of policy for measuring PPE			+ 2.4	.50617	.4768
(a) No	2 (2.4)	0 (0.0)			
(b) Yes	80 (97.6)	82 (100.0)			
	82 (100.0)	82 (100.0)			
6 Cost basis of for recording PPE				70118	.4024
(a) Original cost	29 (36.3)	35 (42.7)			
(b) Cost or valuation	51 (63.8)	47 (57.3)			
	80 (100.0)	82 (100.0)			
7. Gains or losses on disposal of PPE				62.80953	.0000*
(a) In current income	22 (36.1)	73 (98.6)			
(b) Taken to reserves	39 (63.9)	1 (1.4)			
	61 (100.0)	74 (100.0)			
8. Disclosure of depreciation policy			+58.6	64.87912	.0000*
(a) No	50 (61.0)	2 (2.4)			
(b) Yes	32 (39.0)	80 (97.6)			
	82 (100.0)	82 (100.0)			

9	Method of accounting for depreciation			2 10503	1467
(a)	Straight line	29 (90 6)	74 (98 7)		
(b)	Declining balance	0 (0 0)	0 (0 0)		
(c)	SL & DB	3 (9 4)	1 (1 3)		
		32 (100 0)	75 (100 0)		
10.	Disclosure of policy on long term investments			32 9	24 52431
(a)	No	6 (7 3)	33 (40 2)		
(b)	Yes	76 (92 7)	49 (59 8)		
		82 (100 0)	82 (100 0)		
11	Method of valuing long term investments			5 35148	0207*
(a)	Cost	57 (75 0)	27 (55 1)		
(b)	Others	19 (25 0)	22 (44 9)		
		76 (60 8)	49 (100 0)		
12	Disposal of long term investments			33 29831	0000*
(a)	In current income	12 (29 3)	27 (100 0)		
(b)	Taken to reserves	29 (70 7)	0 (0 0)		
		41 (100 0)	27 (100 0)		
13	Disclosure of policy on current investments			+ 7 3	1 15222
(a)	No	64 (78 0)	58 (70 7)		
(b)	Yes	18 (22 0)	24 (29 3)		
		82 (100 0)	82 (100 0)		
14.	Measurement of current investments			6 47338	0393*
(a)	Market value	5 (33 3)	3 (15 0)		
(b)	LOCOM	4 (26 7)	14 (70 0)		
(c)	Cost	6 (40 0)	3 (15 0)		
		15 (100 0)	20 (100 0)		
15.	Gain/loss on disposal of current investments			12 01644	0005*
(a)	In current income	4 (40 0)	21 (100 0)		
(b)	Taken to reserves	6 (60 0)	0 (0 0)		
		10 (100 0)	21 (100 0)		

* Denotes Significant result

UNITED STATES OF AMERICA

Topics	1970/71 (1)	1990/91 (1)	Change (1)	Chi Square	Sig
1. Disclosure of inventory valuation policy			0.0	00000	1 0000
(a) No	2 (2 2)	2 (2 2)			
(b) Yes	88 (97 8)	88 (97 8)			
	---	---			
	90 (100 0)	90 (100 0)			
2. Method used to assign cost to inventory				23.84138	0000*
(a) FIFO	29 (37 7)	11 (12 6)			
(b) LIFO	9 (11 7)	8 (9 2)			
(c) Weighted Average	21 (27 3)	17 (19 5)			
(d) Others	18 (23 4)	51 (58 6)			
	---	---			
	77 (100 0)	87 (100 0)			
3. Measurement basis for recording inventory				1.21128	.2711
(a) Cost	12 (14 1)	18 (20 5)			
(b) Locom	73 (85 9)	70 (79 5)			
	---	---			
	85 (100.0)	88 (100 0)			
4. Definition of market value				.16993	.9185
(a) Net realisable value	7 (46 7)	6 (50 0)			
(b) Replacement cost	6 (40 0)	5 (41 7)			
(c) MNV & RC	2 (13 3)	1 (8 3)			
	---	---			
	15 (100.0)	12 (100 0)			
5. Disclosure of policy for measuring PPE			-1.1	.00000	1 0000
(a) No	0 (0 0)	1 (1 1)			
(b) Yes	90 (100 0)	89 (98 9)			
	-----	-----			
	90 (100 0)	90 (100 0)			
6. Gains or losses on disposal of PPE				.20500	.9959
(a) In current income	15 (100 0)	73 (98 6)			
(b) Taken to reserves	0 (0 0)	1 (1 4)			
	---	---			
	15 (100 0)	74 (100 0)			
7. Disclosure of depreciation policy			+3 3	1 35593	.2442
(a) No	3 (3.3)	0 (0 0)			
(b) Yes	87 (96 7)	90 (100.0)			
	-----	-----			
	90 (100 0)	90 (100 0)			

8	Method of accounting for depreciation			5 88312	2080
(a)	Straight line	55 (63.2)	68 (75.6)		
(b)	Declining balance	13 (14.9)	12 (13.3)		
(c)	SL & DB	19 (21.8)	10 (11.1)		
		87 (100.0)	90 (100.0)		
9.	Disclosure of policy on long term investments			26 6	13 46494
(a)	No	43 (47.8)	67 (74.4)		
(b)	Yes	47 (52.2)	23 (25.6)		
		90 (100.0)	90 (100.0)		
10	Method of valuing long term investments			14151	7068
(a)	Cost	40 (85.1)	18 (78.3)		
(b)	Others	7 (14.9)	5 (21.7)		
		47 (100.0)	23 (100.0)		
11.	Disposal of long term investments			2 70000	1429
(a)	In current income	4 (66.7)	9 (100.0)		
(b)	Taken to reserves	2 (33.3)	0 (0.0)		
		6 (100.0)	9 (100.0)		
12	Disclosure of policy on current investments			7 3	.93993
(a)	No	43 (48.3)	50 (55.6)		
(b)	Yes	46 (51.7)	40 (44.4)		
		90 (100.0)	90 (100.0)		
13.	Measurement of current investments			5.37847	.1461
(a)	Market value	1 (2.2)	2 (5.1)		
(b)	LOCOM	37 (80.4)	36 (92.3)		
(c)	Cost	6 (13.0)	1 (2.6)		
(d)	Others	2 (4.3)	0 (0.0)		
		46 (100.0)	39 (100.0)		
14	Gain/loss on disposal of current investments			4 56668	0326*
(a)	In current income	3 (60.0)	22 (100.0)		
(b)	Taken to reserves	2 (40.0)	0 (0.0)		
		5 (100.0)	22 (100.0)		

APPENDIX FIVE

AGGREGATE COMPARISONS OF THE IMPACT OF LISTING STATUS ON ACCOUNTING MEASUREMENT AND ASSOCIATED DISCLOSURE PRACTICES; BORROWING COSTS; DEFERRED TAXES; EXTRA-ORDINARY AND EXCEPTIONAL ITEMS; RESEARCH AND DEVELOPMENT COSTS; PENSIONS AND RETIREMENT BENEFITS; LONG-TERM CONTRACTS AND; GOVERNMENT GRANTS

Topics	Domestic (A)	Multi (A)	Chi Square Values	Significance
1 Disclosure of policy on borrowing costs			0.19380	.6598
(a) No	115 (51.1)	92 (48.9)		
(b) Yes	110 (48.9)	96 (51.1)		
	--- --	---		
	225 (100.0)	188 (100.0)		
2. Method of accounting for borrowing costs			2.87417	.0900
(a) Expensed	60 (54.5)	41 (42.7)		
(b) Amortised	50 (45.5)	55 (57.3)		
	-----	---		
	110 (100.0)	96 (100.0)		
3. Disclosure of deferred tax accounting policy			0.23643	.6268
(a) No	47 (20.9)	43 (22.9)		
(b) Yes	178 (79.1)	145 (77.1)		
	225 (100.0)	188 (100.0)		
4. Basis of providing for deferred taxes			4.49450	.1057
(a) Flow through	35 (22.3)	15 (12.6)		
(b) Full provision	47 (29.9)	37 (31.1)		
(c) Partial provision	75 (47.8)	67 (56.3)		
	157 (100.0)	119 (100.0)		
5 Method of treating deferred taxes			1.05975	.3033
(a) Deferral	28 (23.9)	27 (30.3)		
(b) Liability	89 (76.1)	62 (69.7)		
	117 (100.0)	89 (100.0)		
6. Disclosure of policy on extra ord/excep items			2.34429	.1257
(a) No	92 (40.9)	91 (48.4)		
(b) Yes	133 (59.1)	97 (51.6)		
	225 (100.0)	188 (100.0)		

7	Treatment of extra ord/exceptional items			0 00000	1 0000
(a)	In current income	130 (99 2)	95 (100 0)		
(b)	Taken to reserves	1 (0 8)	0 (0 0)		
		131 (100 0)	95 (100 0)		
8	Disclosure of policy on R & D expenditures			6 77586	0092*
(a)	No	140 (62 2)	93 (49 5)		
(b)	Yes	85 (37 8)	95 (50 5)		
		225 (100 0)	188 (100 0)		
9	Treatment of research expenditures			2 41842	1199
(a)	Expensed	79 (91 9)	95 (97 9)		
(b)	Capitalised	7 (8 1)	2 (2 1)		
		86 (100 0)	97 (100 0)		
10	Treatment of development expenditures			1 78181	1819
(a)	Expensed	75 (89 3)	89 (94 7)		
(b)	Capitalised	9 (10 7)	5 (5 3)		
		84 (100 0)	94 (100 0)		
11	Disclosure of policy on FRB			8 80558	0030*
(a)	No	63 (28 3)	30 (16 0)		
(b)	Yes	160 (71 7)	158 (84 0)		
		223 (100 0)	188 (100 0)		
12	Determination of cost of FRB			3 65002	1612
(a)	Accrued benefit	13 (10 7)	24 (19 5)		
(b)	Projected benefit	92 (76 0)	84 (68 3)		
(c)	Others	16 (13 2)	15 (12 2)		
		121 (100 0)	123 (100 0)		
13	Past service costs/experience adjustments			0 00000	1 0000
(a)	Over a period	110 (95 7)	101 (95 3)		
(b)	In current income	5 (4 3)	5 (4 7)		
		115 (100 0)	106 (100 0)		
14	Disclosure of policy on long term contracts			0 67811	4102
(a)	No	200 (89 3)	163 (86 7)		
(b)	Yes	25 (10 7)	25 (13 3)		
		225 (100 0)	188 (100 0)		

15	Method of accounting for long term contracts			1 09524	5703
(a)	Completed contract (CC)	2 (8 0)	2 (8 0)		
(b)	Percentage of completion (PC)	22 (88 0)	20 (80 0)		
(c)	CC & PC	1 (4 0)	3 (12 0)		
		25 (100 0)	25 (100 0)		
16	Disclosure of policy on government grants			0 26522	6066
(a)	No	205 (91 1)	173 (92 5)		
(b)	Yes	20 (8 9)	14 (7 5)		
		225 (100 0)	187 (100 0)		
17	Method of treating government grants			0 00000	1 0000
(a)	In current income	2 (14 3)	2 (15 4)		
(b)	Over a period	12 (85 7)	11 (84 6)		
		14 (100 0)	13 (100 0)		

* Denotes significant result

IMPACT OF LISTING STATUS ON ACCOUNTING PRACTICES ON INDIVIDUAL COUNTRY BASIS

FRANCE

Topics	Domestic (N)	Multi (N)	Chi Square Values	Significance
1. Disclosure of policy on borrowing costs			6.45966	.0110*
(a) No	35 (77.8)	12 (48.0)		
(b) Yes	10 (22.2)	13 (52.0)		
	-----	-----		
	45 (100.0)	25 (100.0)		
2. Method of accounting for borrowing costs			0.95572	.3283
(a) Expensed	6 (60.0)	4 (30.8)		
(b) Amortised	4 (40.0)	9 (69.2)		
	--			
	10 (100.0)	13 (100.0)		
3. Disclosure of deferred tax accounting policy			0.38889	.5329
(a) No	8 (17.8)	6 (24.0)		
(b) Yes	37 (82.2)	19 (76.0)		
	-			
	45 (100.0)	25 (100.0)		
4. Basis of providing for deferred taxes			2.73848	.2543
(a) Flow through	1 (3.6)	3 (17.6)		
(b) Full provision	8 (28.6)	5 (29.4)		
(c) Partial provision	19 (67.9)	9 (52.9)		
	-	-		
	28 (100.0)	17 (100.0)		
	- - - -			
5. Method of treating deferred taxes			0.00000	1.0000
(a) Deferral	2 (5.9)	1 (6.3)		
(b) Liability	32 (94.1)	15 (93.8)		
	-	-		
	34 (100.00)	16 (100.0)		
6. Disclosure of policy on extra-ord/except items			6.00000	.0143*
(a) No	9 (20.0)	12 (48.0)		
(b) Yes	36 (80.0)	13 (52.0)		
	--	--		
	45 (100.0)	25 (100.0)		

7. Disclosure of policy on R & D expenditures			5.52752	.0187*
(a) No	31 (68.9)	10 (40.0)		
(b) Yes	14 (31.1)	15 (60.0)		
	-	-		
	45 (100.0)	25 (100.0)		
	-	-		

8	Treatment of R & D expenditures			0 00000	1 0000
(a)	Expensed	14 (93.3)	15 (100.0)		
(b)	Capitalised	1 (6.7)	0 (0.0)		
		15 (100.0)	15 (100.0)		
		--			
9	Disclosure of policy on PRB			8 13489	0043*
(a)	No	35 (77.8)	11 (44.0)		
(b)	Yes	10 (22.2)	14 (56.0)		

		45 (100.0)	25 (100.0)		
10	Determination of cost of PRB			0.34722	8406
(a)	Accrued benefit	3 (30.0)	6 (40.0)		
(b)	Projected benefit	5 (50.0)	7 (46.7)		
(c)	Others	2 (20.0)	2 (13.3)		
		10 (100.0)	15 (100.0)		
11	Past service costs/experience adjustments			0 00000	1 0000
(a)	Over a period	4 (80.0)	10 (90.9)		
(b)	In current income	1 (20.0)	1 (9.1)		
		5 (100.0)	11 (100.0)		
12	Disclosure of policy on long term contracts			0 00000	1 0000
(a)	No	40 (88.9)	22 (88.0)		
(b)	Yes	5 (11.1)	3 (12.0)		
		45 (100.0)	25 (100.0)		

13	Method of accounting for long term contracts			0 75000	6873
(a)	Completed contract (CC)	1 (16.7)	0 (0.0)		
(b)	Percentage of completion (PC)	4 (66.7)	2 (66.7)		
(c)	CC & PC	1 (16.7)	1 (33.3)		

		6 (100.0)	3 (100.0)		
14.	Disclosure of policy on government grants			0 91803	3380
(a)	No	41 (91.1)	20 (80.0)		
(b)	Yes	4 (8.9)	5 (20.0)		
		45 (100.0)	25 (100.0)		
15	Method of treating government grants			0 00000	1 0000
(a)	In current income	0 (0.0)	1 (16.7)		
(b)	Over a period	1 (100.0)	4 (83.3)		

		1 (100.0)	5 (100.0)		

* Denotes significant result

GERMANY

<u>Topics</u>	<u>Domestic (%)</u>	<u>Multi (%)</u>	<u>Chi Square Values</u>	<u>Significance</u>
1. Disclosure of policy on borrowing costs			2.35503	1249
(a) No	41 (91.1)	21 (75.0)		
(b) Yes	4 (8.9)	7 (25.0)		
	45 (100.0)	28 (100.0)		
2. Method of accounting for borrowing costs				1333
(a) Expensed	2 (50.0)	6 (100.0)		
(b) Amortised	2 (50.0)	0 (0.0)		
	4 (100.0)	6 (100.0)		
3. Disclosure of deferred tax accounting policy			10.64588	0011*
(a) No	32 (71.1)	9 (32.1)		
(b) Yes	13 (28.9)	19 (67.9)		
	45 (100.0)	28 (100.0)		
4. Basis of providing for deferred taxes				2857
(a) Flow through	0 (0.0)	0 (0.0)		
(b) Full provision	1 (50.0)	0 (0.0)		
(c) Partial provision	1 (50.0)	5 (100.0)		
	2 (100.0)	5 (100.0)		
5. Disclosure of policy on extra-ord/except items			3.22745	0724
(a) No	9 (20.0)	11 (39.3)		
(b) Yes	36 (80.0)	17 (60.7)		
	45 (100.0)	28 (100.0)		
6. Treatment of extra ord/exceptional items			0.00000	1.0000
(a) In current income	34 (97.1)	16 (100.0)		
(b) Taken to reserves	1 (2.9)	0 (0.0)		
	35 (100.0)	16 (100.0)		
7. Disclosure of policy on R & D expenditures			4.32262	0376*
(a) No	45 (100.0)	24 (85.7)		
(b) Yes	0 (0.0)	4 (14.3)		
	45 (100.0)	28 (100.0)		
8. Disclosure of policy on FRB			6.24733	.0124*
(a) No	21 (46.7)	5 (17.9)		
(b) Yes	24 (53.3)	23 (82.1)		
	45 (100.0)	28 (100.0)		

9. Determination of cost of PRR			5 45455	0654
(a) Accrued benefit	0 (0 0)	1 (11 1)		
(b) Projected benefit	8 (72 7)	2 (22 2)		
(c) Others	3 (27 3)	6 (66 7)		
	11 (100 0)	9 (100 0)		
10 Past service costs/experience adjustments			0 00000	1 0000
(a) Over a period	1 (50 0)	1 (100 0)		
(b) In current income	1 (50 0)	0 (0 0)		
	2 (100 0)	1 (100 0)		
11 Disclosure of policy on long term contracts			0 15514	6937
(a) No	43 (95 5)	28 (100 0)		
(b) Yes	2 (4 4)	0 (0 0)		
	45 (100 0)	28 (100 0)		
12 Disclosure of policy on government grants			0 00000	1 0000
(a) No	39 (86 7)	25 (89 3)		
(b) Yes	6 (13 3)	3 (10 7)		
	45 (100 0)	28 (100 0)		
13 Method of treating government grants			0 00000	1 0000
(a) In current income	2 (66 7)	0 (0 0)		
(b) Over a period	1 (33 3)	1 (100 0)		
	3 (100 0)	1 (100 0)		

* Denotes significant result

JAPAN

<u>Topics</u>	<u>Domestic (3)</u>	<u>Multi (3)</u>	<u>Chi Square Values</u>	<u>Significance</u>
1. Disclosure of policy on borrowing costs			1.60079	2058
(a) No	20 (44.4)	26 (57.8)		
(b) Yes	25 (55.6)	19 (42.2)		
	45 (100.0)	45 (100.0)		
2. Method of accounting for borrowing costs			1.65359	1985
(a) Expensed	24 (96.0)	15 (78.9)		
(b) Amortised	1 (4.0)	4 (21.1)		
	--	--		
	25 (100.0)	19 (100.0)		
3. Disclosure of deferred tax accounting policy			6.10604	0142*
(a) No	6 (13.3)	16 (35.6)		
(b) Yes	39 (86.7)	29 (64.4)		
	--	--		
	45 (100.0)	45 (100.0)		
4. Basis of providing for deferred taxes			4.71429	.0947
(a) Flow through	31 (81.6)	11 (57.9)		
(b) Full provision	7 (18.4)	7 (36.8)		
(c) Partial provision	0 (0.0)	1 (5.3)		
	--	--		
	38 (100.0)	19 (100.0)		
5. Method of treating deferred taxes			0.00000	1.0000
(a) Deferral	7 (100.0)	7 (87.5)		
(b) Liability	0 (0.0)	1 (12.5)		
	--	--		
	7 (100.0)	8 (100.0)		
6. Disclosure of policy on extra ord/excep items			1.81305	1781
(a) No	39 (86.7)	34 (75.6)		
(b) Yes	6 (13.3)	11 (24.4)		
	45 (100.0)	45 (100.0)		
7. Disclosure of policy on R & D expenditures			0.17787	.6732
(a) No	22 (48.9)	24 (53.3)		
(b) Yes	23 (51.1)	21 (46.7)		
	45 (100.0)	45 (100.0)		
8. Treatment of R & D expenditures			1.24500	2645
(a) Expensed	20 (87.0)	21 (100.0)		
(b) Capitalised	3 (13.0)	0 (0.0)		
	--	--		
	23 (100.0)	21 (100.0)		

9	Disclosure of policy on PPS			0 73380	3917
(a)	No	5 (11 4)	8 (17 8)		
(b)	Yes	39 (88 6)	37 (82 2)		
		44 (100 0)	45 (100 0)		
10	Determination of cost of PPS			10 03191	0066*
(a)	Accrued benefit	4 (26 7)	7 (33 3)		
(b)	Projected benefit	1 (6 7)	10 (47 6)		
(c)	Others	10 (66 7)	4 (19 0)		
		15 (100 0)	21 (100 0)		
11	Past service costs/experience adjustments			0 02472	8751
(a)	Over a period	30 (100 0)	21 (95 5)		
(b)	In current income	0 (0 0)	1 (4 5)		
		30 (100 0)	22 (100 0)		
12	Disclosure of policy on long-term contracts			0 00000	1 0000
(a)	No	43 (95 6)	42 (93 3)		
(b)	Yes	2 (4 4)	3 (6 7)		
		45 (100 0)	45 (100 0)		
13	Method of accounting for long term contracts			5 00000	0821
(a)	Completed contract (CC)	0 (0 0)	1 (33 3)		
(b)	Percentage of completion (PC)	2 (100 0)	0 (0 0)		
(c)	CC & PC	0 (0 0)	2 (66 7)		
		2 (100 0)	3 (100 0)		
14	Disclosure of policy on government grants				
(a)	No	45 (100 0)	45 (100 0)		

* Denotes significant result

UNITED KINGDOM

<u>Topics</u>	<u>Domestic (3)</u>	<u>Multi (3)</u>	<u>Chi Square Values</u>	<u>Significance</u>
1. Disclosure of policy on borrowing costs			0 18182	.0042*
(a) No	6 (13 3)	18 (40 0)		
(b) Yes	39 (86 7)	27 (60 0)		
	-			
	45 (100 0)	45 (100 0)		
2. Method of accounting for borrowing costs			3 22556	.0725
(a) Expensed	26 (66.7)	12 (44 4)		
(b) Amortised	13 (33 3)	15 (55 6)		
	-			
	39 (100 0)	27 (100 0)		
	-	-		
3 Disclosure of deferred tax accounting policy			0 84706	.3574
(a) No	1 (2 2)	4 (8 9)		
(b) Yes	44 (97 8)	41 (91 1)		
	-			
	45 (100.0)	45 (100 0)		
4. Basis of providing for deferred taxes			0.58762	.4433
(a) Flow through	0 (0 0)	0 (0 0)		
(b) Full provision	0 (0 0)	2 (4 9)		
(c) Partial provision	44 (100 0)	39 (95 1)		
	-			
	44 (100 0)	41 (100 0)		
5. Method of treating deferred taxes			0 00000	1 0000
(a) Deferral	1 (2 3)	0 (0 0)		
(b) Liability	43 (97 7)	31 (100 0)		
	-			
	44 (100 0)	31 (100 0)		
	-	-		
6 Disclosure of policy on extra ord/excep items			0.00000	1 0000
(a) No	2 (4 4)	3 (6 7)		
(b) Yes	43 (95 6)	42 (93 3)		
	-			
	45 (100.0)	45 (100 0)		
7. Disclosure of policy on R & D expenditures			0 00000	1 0000
(a) No	11 (24 4)	11 (24 4)		
(b) Yes	34 (75 6)	34 (75 6)		
	-			
	45 (100 0)	45 (100 0)		
	-			
8 Treatment of research expenditures			0 00000	1 0000
(a) Expensed	33 (97.1)	34 (97 1)		
(b) Capitalised	1 (2 9)	1 (2 9)		
	-			
	34 (100 0)	35 (100 0)		

9 Treatment of development expenditures			0 00000	1 0000
(a) Expensed	32 (94 1)	31 (91 2)		
(b) Capitalised	2 (5 9)	3 (8 8)		
	34 (100 0)	34 (100 0)		
	-			
10 Disclosure of policy on FRB			3 29632	0694
(a) No	0 (0 0)	5 (11 1)		
(b) Yes	44 (100 0)	40 (88 9)		
	-	-		
	44 (100 0)	45 (100 0)		
	-			
11 Determination of cost of FRB			4 59933	1003
(a) Accrued benefit	1 (2 4)	2 (5 9)		
(b) Projected benefit	41 (97 6)	29 (85 3)		
(c) Others	0 (0 0)	3 (8 8)		
	--			
	42 (100 0)	34 (100 0)		
12 Disclosure of policy on long term contracts			0 00000	1 0000
(a) No	38 (84 4)	38 (84 4)		
(b) Yes	7 (15 6)	7 (15 6)		
	45 (100 0)	45 (100 0)		
13 Method of accounting for long term contracts			0 00000	1 0000
(a) Completed contract (CC)	0 (0 0)	1 (14 3)		
(b) Percentage of completion (PC)	7 (100 0)	6 (85 7)		
(c) CC & PC	0 (0 0)	0 (0 0)		
	7 (100 0)	7 (100 0)		
14 Disclosure of policy on government grants			1 11219	2916
(a) No	35 (77 8)	38 (86 4)		
(b) Yes	10 (22 2)	6 (13 6)		
	45 (100 0)	44 (100 0)		
15. Method of treating government grants				4118
(a) In current income	0 (0 0)	1 (14 3)		
(b) Over a period	10 (100 0)	6 (85 7)		
	10 (100 0)	7 (100 0)		

* Denotes significant result

UNITED STATES OF AMERICA

<u>Topics</u>	<u>Domestic (b)</u>	<u>Multi (b)</u>	<u>Chi Square Values</u>	<u>Significance</u>
1 Disclosure of policy on borrowing costs			0 20737	6488
(a) No	13 (28 9)	15 (33 3)		
(b) Yes	32 (71 1)	30 (66 7)		
	45 (100 0)	45 (100 0)		
2 Method of accounting for borrowing costs			0 22102	6383
(a) Expensed	2 (6 3)	4 (12 9)		
(b) Amortised	30 (93 8)	27 (87 1)		
	32 (100 0)	31 (100 0)		
3 Disclosure of deferred tax accounting policy			6 72256	0095*
(a) No	0 (0 0)	8 (17 8)		
(b) Yes	45 (100 0)	37 (82 2)		
	45 (100 0)	45 (100 0)		
4 Basis of providing for deferred taxes			1 58646	4524
(a) Flow through	3 (6 7)	1 (2 7)		
(b) Full provision	31 (68 9)	23 (62 2)		
(c) Partial provision	11 (24 4)	13 (35 1)		
	45 (100 0)	37 (100 0)		
5 Method of treating deferred taxes			0 01064	9179
(a) Deferral	18 (60 0)	19 (61 3)		
(b) Liability	12 (40 0)	12 (38 7)		
	30 (100 0)	31 (100 0)		
6 Disclosure of policy on extra ord/excep items			0 21635	6418
(a) No	33 (73 3)	31 (68 9)		
(b) Yes	12 (26 7)	14 (31 1)		
	45 (100 0)	45 (100 0)		
7 Disclosure of policy on R & D expenditures			2 29091	1301
(a) No	31 (68 9)	24 (53 3)		
(b) Yes	14 (31 1)	21 (46 7)		
	45 (100 0)	45 (100 0)		
8 Treatment of R & D expenditures			0 17001	6801
(a) Expensed	12 (85 7)	21 (95 5)		
(b) Capitalised	2 (14 3)	1 (4 5)		
	14 (100 0)	22 (100 0)		

9. Disclosure of policy on PRB			0 00000	1.0000
(a) No	2 (4 4)	1 (2 2)		
(b) Yes	43 (95 6)	44 (97 8)		
	45 (100 0)	45 (100 0)		
10 Determination of cost of PRB			1 69474	4285
(a) Accrued benefit	5 (11 6)	8 (18 2)		
(b) Projected benefit	37 (86 0)	36 (81 8)		
(c) Others	1 (2 3)	0 (0 0)		
	43 (100 0)	44 (100 0)		
11 Past service costs/experience adjustments			0 00000	1 0000
(a) Over a period	32 (81 4)	30 (90 9)		
(b) In current income	3 (8 6)	3 (9 1)		
	35 (100 0)	33 (100 0)		
12 Disclosure of policy on long term contracts			1 02857	3105
(a) No	37 (82 2)	33 (73 3)		
(b) Yes	8 (17 8)	12 (26 7)		
	45 (100)	45 (100 0)		
13 Disclosure of policy on government grants				
(a) No	45 (100 0)	45 (100 0)		

Aggregate Comparisons of Accounting Practices in 1970/71 and 1990/91 financial Years

Topics	1970/71 (N)	1990/91 (N)	Change (%)	Chi Square	Sig
1 Disclosure of policy on borrowing costs			+ 0.4	0.00694	.9336
(a) No	128 (43.7)	127 (43.3)			
(b) Yes	165 (56.3)	166 (56.7)			
	293 (100.0)	293 (100.0)			
2 Method of accounting for borrowing costs				72.44708	.0000*
(a) Expensed	146 (88.5)	74 (44.3)			
(b) Amortised	19 (11.5)	93 (55.7)			
	165 (100.0)	167 (100.0)			
3. Disclosure of deferred tax accounting policy			+46.6	129.75885	.0000*
(a) No	194 (66.4)	58 (19.8)			
(b) Yes	98 (33.6)	235 (80.2)			
	292 (100.0)	293 (100.0)			
4. Basis of providing for deferred taxes				64.08412	.0000*
(a) Flow through	2 (2.3)	28 (13.3)			
(b) Full provision	74 (84.1)	70 (33.3)			
(c) Partial provision	12 (13.6)	112 (53.3)			
	88 (100.0)	210 (100.0)			
5 Method of treating deferred taxes				4.46505	.0346*
(a) Deferral	14 (51.9)	48 (31.0)			
(b) Liability	13 (48.1)	107 (69.0)			
	27 (100.0)	155 (100.0)			
6 Disclosure of policy on extra ord/excep items			+ 5.3	1.64174	.2001
(a) No	146 (50.0)	131 (44.7)			
(b) Yes	146 (50.0)	162 (55.3)			
	292 (100.0)	293 (100.0)			
7 Treatment of extra-ord/exceptional items				5.89929	.0151*
(a) In current income	138 (95.2)	160 (100.0)			
(b) Taken to reserves	7 (4.8)	0 (0.0)			
	145 (100.0)	160 (100.0)			
8. Disclosure of policy on R & D expenditures			+22.4	31.68825	.0000*
(a) No	219 (75.3)	155 (52.9)			
(b) Yes	72 (24.7)	138 (47.1)			
	291 (100.0)	293 (100.0)			

9.	Treatment of research expenditures			67 36523	0000*	
(a)	Expensed	29 (42 6)	132 (93 6)			
(b)	Capitalised	39 (57 4)	9 (6 4)			
		68 (100 0)	141 (100 0)			
10.	Treatment of development expenditures			62 14574	0000*	
(a)	Expensed	30 (42 3)	127 (92 0)			
(b)	Capitalised	41 (57 7)	11 (8 0)			
		71 (100 0)	138 (100 0)			
11.	Disclosure of policy on PRB			+39 8	102 13914	0000*
(a)	No	160 (54 6)	43 (14 8)			
(b)	Yes	133 (45 4)	248 (85 2)			
		293 (100 0)	291 (100 0)			
12.	Determination of cost of PRB				119 19675	0000*
(a)	Accrued benefit	55 (85 9)	26 (13 3)			
(b)	Projected benefit	7 (10 9)	154 (78 6)			
(c)	Others	2 (3 1)	16 (8 2)			
		64 (100 0)	196 (100 0)			
13.	Past service costs/experience adjustments				7 10954	0077*
(a)	Over a period	39 (83 0)	171 (95 5)			
(b)	In current income	8 (17 0)	8 (4 5)			
		47 (100 0)	179 (100 0)			
14.	Disclosure of policy on long-term contracts			+10 6	22 11803	0000*
(a)	No	284 (97 3)	254 (86 7)			
(b)	Yes	8 (2 7)	39 (13 3)			
		292 (100 0)	293 (100 0)			
15.	Method of accounting for long term contracts				2 20465	3321
(a)	Completed contract (CC)	1 (12 5)	1 (2 5)			
(b)	Percentage of completion (PC)	7 (87 5)	36 (90 0)			
(c)	CC & PC	0 (0 0)	3 (7 5)			
		8 (100 0)	40 (100 0)			
16.	Disclosure of policy on government grants			13 7	21 01664	0000*
(a)	No	227 (77 7)	267 (91 4)			
(b)	Yes	65 (22 3)	25 (8 6)			
		292 (100 0)	292 (100 0)			
17.	Method of treating government grants				3 15789	0756
(a)	In current income	1 (1 7)	3 (15 0)			
(b)	Over a period	59 (98 3)	17 (85 0)			
		60 (100 0)	20 (100 0)			

**COMPARISON OF ACCOUNTING PRACTICES 1970/71 AND 1990/91 ON
COUNTRY BY COUNTRY BASIS**

FRANCE

Topics	1970/71 (N)	1990/91 (N)	Change (N)	Chi Square	Sig
1 Disclosure of policy on borrowing costs			+32 0	8 00000	0047*
(a) No	24 (96 0)	16 (64 0)			
(b) Yes	1 (4 0)	9 (36 0)			
	25 (100 0)	25 (100 0)			
2 Method of accounting for borrowing costs				0 00000	1 0000
(a) Expensed	0 (0 0)	4 (44 4)			
(b) Amortised	1 (100 0)	5 (55 6)			
	1 (100 0)	9 (100 0)			
3 Disclosure of deferred tax accounting policy			+80 0	33 33333	0000*
(a) No	25 (100 0)	5 (20 0)			
(b) Yes	0 (0 0)	20 (80 0)			
	25 (100 0)	25 (100 0)			
4 Disclosure of policy on extra ord/except items			-24 0	3 94737	0469*
(a) No	3 (12 0)	9 (36 0)			
(b) Yes	22 (88 0)	16 (64 0)			
	25 (100 0)	25 (100 0)			
5 Disclosure of policy on R & D expenditures			+40 0	12 50000	0004*
(a) No	25 (100 0)	15 (60 0)			
(b) Yes	0 (0 0)	10 (40 0)			
	25 (100 0)	25 (100 0)			
6 Disclosure of policy on PRB			+28 0	5 98007	0145*
(a) No	25 (100 0)	18 (72 0)			
(b) Yes	0 (0 0)	7 (28 0)			
	25 (100 0)	25 (100 0)			
7 Disclosure of policy on long-term contracts			+ 8 0	0 52083	4705
(a) No	25 (100 0)	23 (92 0)			
(b) Yes	0 (0 0)	2 (8 0)			
	25 (100 0)	25 (100 0)			
8 Disclosure of policy on government grants			+16 0	2 44565	1179
(a) No	25 (100 0)	21 (84 0)			
(b) Yes	0 (0 0)	4 (16 0)			
	25 (100 0)	25 (100 0)			

GERMANY

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi Square	Sig
1 Disclosure of policy on borrowing costs			+16.6	5.12578	0236
(a) No	40 (95.2)	33 (78.6)			
(b) Yes	2 (4.8)	9 (21.4)			
	-----	-----			
	42 (100.0)	42 (100.0)			
	---	---			
2 Method of accounting for borrowing costs				0.00000	1.0000
(a) Expensed	2 (100.0)	7 (77.8)			
(b) Amortised	0 (0.0)	2 (22.2)			

	2 (100.0)	9 (100.0)			
3 Disclosure of deferred tax accounting policy			+35.7	18.26087	0000
(a) No	42 (100.0)	27 (64.3)			
(b) Yes	0 (0.0)	15 (53.7)			
	42 (100.0)	42 (100.0)			
4 Disclosure of policy on extra-ord/excep items			14.3	3.50000	0614
(a) No	3 (7.1)	9 (21.4)			
(b) Yes	39 (92.9)	33 (78.6)			
	42 (100.0)	42 (100.0)			
	---	---			
5. Disclosure of policy on R & D expenditures			11.9	2.49351	.1100
(a) No	36 (85.7)	41 (97.6)			
(b) Yes	6 (14.3)	1 (2.4)			
	42 (100.0)	42 (100.0)			
6 Treatment of R & D expenditures					2857
(a) Expensed	1 (16.7)	1 (100.0)			
(b) Capitalised	5 (83.3)	0 (0.0)			
	6 (100.0)	1 (100.0)			
	---	---			
7. Disclosure of policy on PRB			+ 9.5	0.89125	3451
(a) No	15 (35.7)	11 (26.2)			
(b) Yes	27 (64.3)	31 (73.8)			
	42 (100.0)	42 (100.0)			
8. Determination of cost of PRB				6.46154	0395
(a) Accrued benefit	1 (100.0)	1 (7.7)			
(b) Projected benefit	0 (0.0)	8 (61.5)			
(c) Others	0 (0.0)	4 (30.8)			
	1 (100.0)	13 (100.0)			

9. Past service costs/experience adjustments				0 00000	1 0000
(a) Over a period	0 (0 0)	2 (66 7)			
(b) In current income	1 (100 0)	1 (33 3)			
	1 (100 0)	3 (100 0)			
10. Disclosure of policy on long term contracts			0 0		
(a) No	41 (100)	42 (100 0)			
11. Disclosure of policy on government grants			0 3	0 00000	1 0000
(a) No	36 (87 8)	37 (88 1)			
(b) Yes	5 (12 2)	5 (11 9)			
	42 (100 0)	42 (100 0)			
12. Method of treating government grants					48571
(a) In current income	1 (25 0)	2 (66 7)			
(b) Over a period	3 (75 0)	1 (33 3)			
	4 (100 0)	3 (100 0)			

* Denotes significant result

JAPAN

Topics	1979/7) (%)	1990/9) (%)	Change (%)	Chi Square	Sig
1. Disclosure of policy on borrowing costs			+ 5 6	0 33345	5636
(a) No	26 (48 1)	29 (53 7)			
(b) Yes	28 (51 9)	25 (46 3)			
	54 (100 0)	54 (100 0)			
2 Method of accounting for borrowing costs				0 00328	9544
(a) Expensed	28 (100 0)	24 (96 0)			
(b) Amortised	0 (0 0)	1 (4 0)			
	28 (100 0)	25 (100 0)			
3 Disclosure of deferred tax accounting policy			+66 6	49 07714	0000*
(a) No	49 (90 7)	13 (24 1)			
(b) Yes	5 (9 3)	41 (75 9)			
	54 (100 0)	54 (100 0)			
4 Basis of providing for deferred taxes				2 63799	2674
(a) Flow through	0 (0 0)	22 (71 0)			
(b) Full provision	1 (100 0)	8 (25 8)			
(c) Partial provision	0 (0 0)	1 (3 2)			
	1 (100 0)	31 (100 0)			
5 Method of treating deferred taxes					3454
(a) Deferral	1 (50 0)	8 (88 9)			
(b) Liability	1 (50 0)	1 (11 1)			
	2 (100 0)	9 (100 0)			
6 Disclosure of policy on extra ord/excep items			-33 3	13 50000	0002*
(a) No	27 (50 0)	45 (83 3)			
(b) Yes	27 (50 0)	9 (16 7)			
	54 (100 0)	54 (100 0)			
7 Disclosure of policy on R & D expenditures			+14 3	1 13761	2862
(a) No	30 (56 6)	25 (46 3)			
(b) Yes	23 (43 4)	29 (53 7)			
	53 (100 0)	54 (100 0)			
8 Treatment of R & D expenditures				32 79366	0000*
(a) Expensed	2 (9 1)	26 (89 7)			
(b) Capitalised	20 (90 9)	3 (10 3)			
	22 (100 0)	29 (100 0)			

9	Disclosure of policy on PRB			+14 6	3 47652	0622
(a)	No	15 (27 8)	7 (13 2)			
(b)	Yes	39 (72 2)	46 (86 8)			
		54 (100 0)	53 (100 0)			
10.	Determination of cost of PRB				5 36667	0683
(a)	Accrued benefit	3 (100 0)	6 (30 0)			
(b)	Projected benefit	0 (0 0)	7 (35 0)			
(c)	Others	0 (0 0)	7 (35 0)			
		3 (100 0)	20 (100 0)			
11	Past service costs/experience adjustments				0 00000	1 0000
(a)	Over a period	1 (100 0)	29 (96 7)			
(b)	In current income	0 (0 0)	1 (3 3)			
		1 (100 0)	30 (100 0)			
12	Disclosure of policy on long term contracts			+ 7 4	2 33654	1264
(a)	No	54 (100 0)	50 (92 6)			
(b)	Yes	0 (0 0)	4 (7 4)			
		54 (100 0)	54 (100 0)			
13	Disclosure of policy on government grants			0 0		
(a)	No	54 (100 0)	54 (100 0)			

* Denotes significant result

UNITED KINGDOM

Topics	1970/71 (%)	1990/91 (%)	Change (%)	Chi Square	Sig
1 Disclosure of policy on borrowing costs			6.1	0.87253	3503
(a) No	16 (19.5)	21 (25.6)			
(b) Yes	66 (80.5)	61 (74.4)			
	82 (100.0)	82 (100.0)			
2 Method of accounting for borrowing costs				29.38499	0000*
(a) Expensed	63 (95.5)	33 (54.1)			
(b) Amortised	3 (4.5)	28 (45.9)			
	66 (100.0)	61 (100.0)			
3 Disclosure of deferred tax accounting policy			+48.8	46.03509	.0000*
(a) No	45 (54.9)	5 (6.1)			
(b) Yes	37 (45.1)	77 (93.9)			
	82 (100.0)	82 (100.0)			
4. Basis of providing for deferred taxes				52.28181	0000*
(a) Flow through	1 (3.2)	0 (0.0)			
(b) Full provision	19 (61.3)	2 (2.6)			
(c) Partial provision	11 (35.5)	75 (97.4)			
	31 (100.0)	77 (100.0)			
5 Method of treating deferred taxes				6.61792	0011*
(a) Deferral	3 (23.1)	1 (1.5)			
(b) Liability	10 (76.9)	66 (98.5)			
	13 (100.0)	67 (100.0)			
6 Disclosure of policy on extra ord/excep items			+54.9	56.45079	0000*
(a) No	49 (59.8)	4 (4.9)			
(b) Yes	33 (40.2)	78 (95.1)			
	82 (100.0)	82 (100.0)			
7 Treatment of extra ord/exceptional items				14.73587	0001*
(a) In current income	25 (78.1)	78 (100.0)			
(b) Taken to reserves	7 (21.9)	0 (0.0)			
	32 (100.0)	78 (100.0)			
8 Disclosure of policy on R & D expenditures			+65.8	72.19565	0000*
(a) No	73 (89.0)	19 (23.2)			
(b) Yes	9 (11.0)	63 (76.8)			
	82 (100.0)	82 (100.0)			

9	Treatment of research expenditures			0 09783	7545
(a)	Expensed	7 (87 5)	62 (96 9)		
(b)	Capitalised	1 (12 5)	2 (3 1)		
		8 (100 0)	64 (100 0)		
10.	Treatment of development expenditures			1.44866	2287
(a)	Expensed	8 (80 0)	58 (92 1)		
(b)	Capitalised	2 (20 0)	5 (7 9)		
		10 (100 0)	63 (100 0)		
11.	Disclosure of policy on FRB			+92.7	139 96358
(a)	No	80 (97 6)	4 (4 9)		.0000*
(b)	Yes	2 (2 4)	77 (95 1)		
		82 (100 0)	81 (100 0)		
12.	Determination of cost of FRB			.07804	.9617
(a)	Accrued benefit	0 (0 0)	3 (4 3)		
(b)	Projected benefit	1 (100 0)	64 (92 8)		
(c)	Others	0 (0 0)	2 (2 9)		
		1 (100 0)	69 (100 0)		
13	Disclosure of policy on long term contracts			+12 2	6 92568
(a)	No	79 (96 3)	69 (84 1)		0085*
(b)	Yes	3 (3 7)	13 (15 9)		
		82 (100 0)	82 (100 0)		
14	Method of accounting for long term contracts				3500
(a)	Completed contract (CC)	1 (33 3)	1 (7 7)		
(b)	Percentage of completion (PC)	2 (66 7)	12 (92 3)		
		3 (100 0)	13 (100 0)		
15.	Disclosure of policy on government grants			53 4	46 72219
(a)	No	22 (26 8)	65 (80 2)		.0000*
(b)	Yes	60 (73 2)	16 (19 8)		
		82 (100 0)	81 (100 0)		
16.	Method of treating government grants			45272	5010
(a)	In current income	0 (0 0)	1 (6.3)		
(b)	Over a period	56 (100.0)	15 (93 8)		
		56 (100 0)	16 (100 0)		

* Denotes significant result

UNITED STATES OF AMERICA

Topics	1970/71 (%)	1980/81 (%)	Change (%)	Chi Square	Sig
1. Disclosure of policy on borrowing costs			6.7	0.99692	3181
(a) No	22 (24.4)	28 (31.1)			
(b) Yes	68 (75.6)	62 (68.9)			
	90 (100.0)	90 (100.0)			

2. Method of accounting for borrowing costs				61.83993	0000*
(a) Expensed	53 (77.9)	6 (9.5)			
(b) Amortised	15 (22.1)	57 (90.5)			
	68 (100.0)	63 (100.0)			
3. Disclosure of deferred tax accounting policy			+28.2 ¹	20.13749	0000*
(a) No	33 (37.1)	8 (8.9)			
(b) Yes	56 (62.9)	82 (91.1)			
	89 (100.0)	90 (100.0)			
4. Basis of providing for deferred taxes				18.72617	0001*
(a) Flow through	1 (1.8)	4 (4.9)			
(b) Full provision	54 (96.4)	54 (65.9)			
(c) Partial provision	1 (1.8)	24 (29.3)			
	56 (100.0)	82 (100.0)			
5. Method of treating deferred taxes				1.36861	2421
(a) Deferral	10 (83.3)	37 (60.7)			
(b) Liability	2 (16.7)	24 (39.3)			
	12 (100.0)	61 (100.0)			
6. Disclosure of policy on extra ord/excep items			+ 0.8	0.01402	9057
(a) No	64 (71.9)	64 (71.1)			
(b) Yes	25 (28.1)	26 (28.9)			
	89 (100.0)	90 (100.0)			
7. Disclosure of policy on R & D expenditures			+ 1.8	0.00891	9248
(a) No	55 (61.8)	54 (60.0)			
(b) Yes	34 (38.2)	36 (40.0)			
	89 (100.0)	90 (100.0)			
8. Treatment of R & D expenditures				9.81791	0017*
(a) Expensed	19 (59.4)	33 (91.7)			
(b) Capitalised	13 (40.6)	3 (8.3)			
	32 (100.0)	36 (100.0)			

9	Disclosure of policy on PRB			+25 4	20 46992	0000*
(a)	No	25 (27 8)	3 (3 3)			
(b)	Yes	65 (72 2)	87 (96 7)			
		90 (100 0)	90 (100 0)			
10	Determination of cost of PRB				77 18771	0000*
(a)	Accrued benefit	51 (86 4)	13 (14 9)			
(b)	Projected benefit	6 (10 2)	73 (83 9)			
(c)	Others	2 (3 4)	1 (1 1)			
		59 (100 0)	87 (100 0)			
11	Past service costs/experience adjustments				1 30722	2529
(a)	Over a period	37 (84 1)	62 (91 2)			
(b)	In current income	7 (15 9)	6 (8 8)			
		44 (100 0)	68 (100 0)			
12	Disclosure of policy on long term contracts			+16 6	10 45161	0012*
(a)	No	85 (94 4)	70 (77 8)			
(b)	Yes	5 (5 6)	20 (22 2)			
		90 (100 0)	90 (100 0)			
13	Disclosure of policy on government grants			0 0		
(a)	No	90 (100 0)	90 (100 0)			

* Denotes significant result

APPENDIX SIX

LIST OF COMPANIES SURVEYED

FRANCE

DOMESTIC LISTED COMPANIES

1. ACCOR
2. AEROSPATIALE
3. AIR LIQUIDE
4. ALCATEL ALSTHOM
5. BEL
6. BIC
7. BOLLORE TECH
8. BONGRAIN
9. CALBERSON
10. CARREFOUR
11. CASINO
12. CHARGEURS
13. CIMENTS FRANCIAS
14. DARTY
15. DE DIETRICH
16. DOCKS DE FRANCE
17. ECCO
18. FIVES LILLE
19. GALLERIES LAFAYETTE
20. GAZ DE FRANCE
21. GROUP DE LA CITE
22. GROUPE ANDRE
23. HACHETTE
24. IMETAL
25. L OREAL
26. LA REDOUTE
27. LEGRAND

28. MERLIN GERIN
29. MICHELIN
30. NOUVELLES GALERIES
31. PECHINEY
32. PERRIER
33. POLIET
34. PRINTEMPS
35. RADIOTECH
36. RENAULT
37. SAE
38. SAGEM
39. SASM
40. SCHNEIDER
41. SCOA
42. SODEXHO
43. SOMMER ALLIBERT
44. USINOR SACILOR
45. VALEO

MULTI-LISTED COMPANIES

1. BEGHIN SAY
2. BIS
3. BSN
4. CLUB MEDITERRANEE
5. CMB PACKAGING
6. DMC
7. EDF
8. ELF AQUITAINE
9. GENERAL DES EAUX
10. GIRODET
11. GROUP BULL
12. LAFARGE COPPEE
13. LVMH
14. LYONNAISSE DUMEZ
15. MATRA
16. MOULINEX
17. PERNOD RICARD

18. PEUGEOT
19. REMY & ASSOCIES
20. RHONE POULENC
21. SAINT GOBAIN
22. SANOFI
23. THOMSON
24. TOTAL
25. TRANSPAC

GERMANY

DOMESTIC LISTED COMPANIES

1. A MOKSEL
2. ADIDAS
3. AGIV
4. ALTANA
5. ANZAG
6. BADENWERK
7. BEIERSDORF
8. BERTELSMANN
9. BOSCH
10. BREMER VULKAN
11. DIDIER
12. DOUGLAS HOLDING
13. DYCKERHOFF
14. FAG
15. FLACHGLAS AG
16. FRIED KRUPP
17. GEHE AG
18. GRUNDIG
19. HAINDL
20. HAPAG LLOYD
21. HEIDELBERGER
22. HEW
23. HOCHTIEF
24. HOLZMANN

25. HORTEN
26. ISAR AMPERWERKE
27. KLOCKNER
28. LEW
29. LUFTHANSA
30. MASSA
31. METALLGESELLSCHAFT
32. NECKARWERKE
33. NORDEUTSCHE AFF
34. PHOENIX
35. PREUSSAG
36. PUMA
37. PWA
38. RHEINMETALL
39. SAABERGWERKE
40. SALAMANDER
41. SCHMALBACH LUBECA
42. STRABAG
43. SUDZUCKER
44. VAW ALUMINIUM
45. VOITH

DOMESTIC LISTED COMPANIES

1. AEG
2. ASKO D KAUFHAUS
3. BABCOCK
4. BASF
5. BAYER
6. BMW
7. CONTINENTAL
8. DAIMLER BENZ
9. DEGUSSA
10. HENKEL
11. HOESCH
12. HOESCHST
13. IWKA
14. KAUFHOF

15. KHD
16. KRAFTUBERTRAGUNGS
17. LINDE
18. MAN
19. MANNESMAN
20. NIXDORF SIEMENS
21. RWE
22. SCHERING
23. SIEMENS
24. THYSSEN
25. VEBA
26. VIAG
27. VOLKSWAGEN
28. WELLA

JAPAN

DOMESTIC LISTED COMPANIES

1. AJINOMOTO
2. ALPS
3. BRIDGESTONE
4. DAIDO STEEL
5. DAIHATSU
6. DAINIPPON INK & CH
7. FURUKAWA ELECT
8. HINO MOTORS
9. ISHIKAWAJIMA HARIMA
10. ITOHAM FOODS
11. ITOMAN
12. JUJO PAPER
13. KANEBO
14. KANEKA
15. KAO
16. KAWASAKI STEEL
17. KOBE STEEL
18. KOKUYO

19. LION
20. MAZDA
21. MITSUBISHI GAS
22. MITSUBISHI OIL
23. MITSUBISHI P CHEM
24. MITSUI KINZOKU M&S
25. MITSUI PETROCHEM
26. NICHIMEN
27. NICHIREI
28. NIPPON MINING
29. NIPPON OIL
30. NIPPONDENSO
31. NISSHIN STEEL
32. NITTO DENKO
33. NSK
34. OKI
35. ONWARD
36. SEIYU
37. SHISEIDO
38. SHOWA DENKO
39. SNOW BRAND
40. SUMITOMO CHEM
41. SUMITOMO RUBBER
42. TEIJIN
43. TOYO SASH
44. TOYOBO
45. YAMAHA

MULTI-LISTED COMPANIES

1. AOKI
2. ASAHI CHEMICAL
3. ASAHI OPTICAL
4. CANON
5. CASIO
6. CHUGOKU ELECT
7. DAI NIPPON PRINTING
8. DAIEI

9. FUJI ELECTRIC
10. FUJI HEAVY
11. FUJI PHOTO FILM
12. FUJITSU
13. HITACHI
14. HONDA
15. ITO YOKADO
16. IZUMIYA
17. JUSCO
18. KIRIN BREWERY
19. KOMATSU
20. KONICA
21. KUBOTA
22. KYOCERA
23. MATSUSHITA ELECT
24. MITSUBISHI ELECT
25. MURATA
26. NEC
27. NIPPON MEAT PACKERS
28. NISSAN
29. OLYMPUS
30. OMRON
31. PIONEER
32. RICOH
33. RYOBI
34. SANYO
35. SEKISUI HOUSE
36. SHARP
37. SONY
38. STANLEY
39. SUMITOMO HEAVY
40. TDK
41. TOPPAN PRINTING
42. TORAY
43. TOSHIBA
44. TOYOTA
45. UNY

USA

DOMESTIC LISTED COMPANIES

1. ALBERTSONS
2. AMERICAN ELECTRIC
3. AMERICAN STORES
4. BALTIMORE GAS ELEC
5. BOISE CASCADE
6. BRISTOL MYERS SQ
7. CAROLINA POWER & L
8. CHAMPION INTERNATL
9. COLUMBIA GAS SYSTEM
10. CROWN CORK & SEAL
11. DELTA AIRLINES
12. DRESSER INDUSTRIES
13. DUKE POWER
14. EMERSON ELECTRIC
15. FARMLAND INDUSTRIES
16. FLEMING COMPANIES
17. FMC
18. FOOD LION
19. GANNETT
20. GENERAL DYNAMICS
21. GENERAL MILLS
22. HUMANA
23. ILLINOIS POWER
24. JAMES RIVER
25. KIMBERLY CLARK
26. LTV
27. MASCO
28. MEAD
29. NORTHEAST UTILITIES
30. NYSEG
31. OWENS CORNING
32. PHILADELPHIA ELEC
33. PITNEY BOWES
34. RAYTHEON

35. RYDER SYSTEM
36. SANTA FE PACIFIC
37. SOUTHERN COMPANY
38. SUPER VALU
39. SYSCO
40. TELEDYNE
41. TYSON FOODS
42. UNION ELECTRIC
43. WALGREEN
44. WETTERAU
45. WINN DIXIE STORES

MULTI-LISTED COMPANIES

1. ABBOTT LABORATORIES
2. ALCOA
3. AMAX
4. AMERICAN BRANDS
5. ARCHER DANIELS
6. ASHLAND OIL
7. AT & T
8. ATLANTIC RICHFIELD
9. AVON PRODUCTS
10. BLACK & DECKER
11. BOEING
12. BORDEN
13. CATERPILLAR
14. CHEVRON
15. CHRYSLER
16. COCA COLA
17. DUPONT
18. EASTMAN KODAK
19. ELI LILLY
20. FORD
21. GENERAL MOTORS
22. GEORGIA PACIFIC
23. GILLETTE
24. HONEYWELL

25. INGERSOLL RAND
26. KELLOGG
27. LITTON
28. MCDONNELL DOUGLAS
29. MERCK
30. MONSANTO
31. MOTOROLA
32. NATIONAL MEDICAL
33. OCCIDENTAL
34. PPG INDUSTRIES
35. SCOTT PAPER COMPANY
36. TANDY
37. TEXACO
38. TEXAS INSTRUMENTS
39. UNION CARBIDE
40. UNION PACIFIC
41. WASTE MANAGEMENT
42. WEYERHAUSER
43. WHIRLPOOL
44. XEROX
45. ZENITH

UNITED KINGDOM

DOMESTIC LISTED COMPANIES

1. APPLEYARD
2. APV
3. ASSOC BRIT FOODS
4. BBA
5. BERISFORD
6. BICC
7. BLUE CIRCLE
8. BPB
9. BUNZL
10. BURTON
11. CHLORIDE
12. COATS VIYELLA

13. COOKSON
14. COSTAIN
15. DAILY MAIL
16. DAVY CORP
17. DELA RUE
18. DELTA
19. FITCH LOVELL
20. GLYNWED
21. HARRISONS & CROSS
22. HAWKER SIDDELEY
23. HEPWORTH
24. IMI
25. INCHCAPE
26. JOHN MENZIES
27. JOHN MOWLEM
28. JOHNSON MATHEY
29. LAPORTE
30. LUCAS
31. MARLEY
32. McKECHNIE
33. MORGAN CRUCIBLE
34. PEARSON
35. POWELL DUFFRYN
36. RANK HOVIS MCD
37. RECKITT & COLMAN
38. REDLAND
39. REED
40. RMC
41. SIMON ENGINEERING
42. SMITH & NEPHEW
43. TATE & LYLE
44. UNITED BISCUITS
45. WOLSELEY

MULTI-LISTED COMPANIES

1. ALBERT FISHER
2. ALLIED LYONS
3. BASS
4. BAT
5. BOC
6. BOOTS
7. BOWATER
8. BP
9. BTR
10. CABLE & WIRELESS
11. CADBURY SCHWEPPE
12. CARLTON COMM
13. CHARTER CONSOL
14. COURTAULDS
15. ECC
16. FERRANTI
17. FISON
18. GEC
19. GESTETNER
20. GKN
21. GLAXO
22. GRANADA
23. GRAND MET
24. GUINNESS
25. GUS
26. HANSON
27. ICI
28. LONHRO
29. MARKS & SPENCER
30. MB CARADON
31. P & O
32. PILKINGTON
33. RACAL
34. RANK ORG
35. ROTHMANS
36. RTZ

37. SHELL TRANSPORT
38. SMITHKLINE BEECHAM
39. STEETLEY
40. THORN EMI
41. TOMKINS
42. TRUST HOUSE FORTE
43. WELLCOME
44. WHITBREAD
45. WPP