

## **International Differences In Financial Reporting And Importance Of Harmonization**

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**Abstract:** Financial Reporting is reached informations that can be used for making decisions with financial issues by decision makers. Technological developments facilitated to access information but it is not enough. It is more important that financial information can be understood by all relevant. Comparability and transparency requirements in financial reporting and accounting have become more pronounced. Nevertheless, countries' financial reporting standards and structures of setting standards have varied. These differences have originated from structures of legal and financial systems, shareholding structure of companies and financial methods. The development of the accountancy profession level is effective on these differences. Harmonization is a process that could reduce differences of accounting practices and accounting regulations. Multinational enterprises have benefitted from harmonization efforts to compare financial reports for providing a competitive advantage.

**Key Words:** Financial Reporting, Harmonization, Accounting Standards

### **Introduction**

The basic function of accounting is to provide information for internal and external institutions. The institutions analyzing and processing this information, provided by accounting, rapidly achieve success. Rapid development in information technologies, removal of the duties, and decreasing tariffs have accelerated globalization of markets and business firms.

Because of the increase in the international investments and multinational enterprises result in financial reports that are prepared through different accounting standarts and rules. Such a situation brings additional costs by money and time. Therefore, the uncertainty increases in international investment actions.

Analyzing information to make investment decisions in a global environment is quite important for business success. Harmonizing accounting systems and standards is crucial for individuals and institutions in evaluating information provided by the financial statements.

### **Importance Of Financial Reporting**

Financial reporting, is achieved that the topics which have included financial information that could be used in making decisions by decision makers. The Internet world has lost the concept of time and space their effectiveness and it has allowed to access that the individuals, institutions and organizations, nations or states to each other faster, cheaper and more profoundly. It is much easier than ever before that the economic environment and the financial statement users also needed access to information. But it is not enough that the easy Access to the information alone. It is more important that financial information can be understood by all relevant(Ağca,2003).

Comparability and transparency requirements in financial reporting and accounting have become more pronounced. integrated financial reporting standards that responding to this need will increase the efficiency of the global market. Because accounting is an important element of the emerging global market and, it has kept the control of weakening and strengthening the effectiveness of market power. The responsibility for companies, have integration approach that financial reporting regulations which is published for the investors, creditors and auditors.

## **The Causes Of Difference In Financial Reporting**

Countries' accounting systems have many reasons to be different. Countries' different histories, traditions and customs, political and economic structures, legal systems differ between countries as a financial accounting and related developments have led to different financial reporting. Causes of differences in accounting systems can be listed like that:

- Judicial system
- Financial resources
- Political and economic developments
- Economical crisis
- Taxation
- Security exchange
- National culture
- Inflation
- Specialization in accounting(Hoyle,2004)

The factors that affect the accounting, is contributing to our understanding that the differences and similarities between countries. Do not forget that accounting is a social science and serve the society. Technical and social significance of accounting in order to remain useful, it must respond to the changing needs of society and it must reflect that the country's cultural, economic, legal and social characteristics.

## **A Method For Reduction Of The Financial Reporting Difference: Harmonization**

Harmonization is a process that could reduce differences of accounting practices and accounting regulations and could compare the financial reports prepared by businesses which is operating in different countries.

Standarts reduce the differences between financial reporting and they increase the benefits of the financial reports for user of financial statements. At the same time, standarts are instruments of harmonization to their country. This situation is especially very important for multinational companies. Harmonization standarts take part for solving the problems when the national standarts conflict with each other.

There are a lot of factors to make essential the harmonization of international accounting standarts. They are;

- The globalization of capital markets
- Expansion of multinational corporations
- Increasing the efficiency of the independent audit firm
- Goal of creating economic union

(Bayazıtlı and the others;2006).

There are various benefits to canalise the international accounting standarts and harmonization:

- They help to provide incremental cost savings in Multinational Companies.
- They enhance relevance and comparability comprehensive to cross-border financial reporting
- They help spread the High-quality accounting standards and applications to larger areas.
- They cause increase the cross-border financing and trading of securities exchanges and the number of registered companies.
- They raise to access the multinational corporations to foreign market and they can help increase the rate of recognition by consumers in these markets (Bekçi;2007).

Despite these advantages, there are several factors must be taken into account to use the international standarts:

- International financial reporting standarts, in countries which use the standarts, are required upgrade the qualifications of accountants and auditors
- They must be taken into account on the difficulty of the transition from rules-based accounting to principle-based accounting.
- A clear separation of tax legislation, recovery to tax-focused, complexity of international financial reporting standards are the most important factors which can be overcome with education( Aksoy;2005).

Not to lag behind developments in the world, to use the same common language with international financial markets, to meet the demands of financial market information effectively and particularly transparency, adapting to the

principles of corporate governance and the EU in terms, transition to international financial reporting standards is essential.

## **The Compliance Process Of International Accounting Standards In The World**

Many studies have been carried for creating a common language in the accounting area and have been able to achieve standardization both at the national level and at the international level. The United Nations Intergovernmental Working Group on Accounting, Accounting Advisory Group of the European Union, The International Organization of Securities Commissions, International Federation of Accountants and International Accounting Standards Board are international organizations who have done important works in this field. In national level, USA, England, Germany, Canada and Japan have done important works for accounting standards(Karabınar,2006).

International Accounting Standards Board, who is an conspicuous organization to the process of creating the International Accounting Standards, have prepared the set of International Financial Reporting Standards to eliminate different accounting practices around the world. It has aimed that the relevants could study comparable, understandable and responding to the needs of qualified financial figures.

In accordance with this purpose, International Accounting Standards Board has included the countries ,which are effective the emergence of accounting standards, and their foundation to the process of creating accounting standards. It works on this point in consultation with all relevants.

Also Financial Accounting Standards Board has worked in harmonization of accounting standards. Since 2002, these organizations have started to work together. The aim here is, to harmonize U.S GAAP (United States Generally Accepted Accounting Principles) and IAS (International Accounting Standards) and will be created to prevent different applications to standards in the future.

## **The Criticism Of Harmonization**

Harmonization helps investors in making the right decisions. Proponents of harmonization adduce that harmonization is an advantage for investors in order to help determine the potential value of investments and to reduce risk in international diversification. Other hand, there are also some comments against harmonization. The most important of these views is the magnitude of the difference about current accounting practice in different countries(Çankaya,2007).

Because of National Accounting Standards' practitioners have difficulty in the application of International Financial Reporting Standards, their disabilities about applying standards, excessive costs of the application, political interests and legal regulations, they except the implementation of standards in national accounting systems.

## **Conclusion**

Nowadays, The differences between the accounting systems of the countries have directed the accounting researchers to determine what the differences are then to resolve the differences. International Accounting Harmonization is the most remarkable proposal among the suggestions. With harmonization, companies with financial reporting standards will be able to access capital markets all over the world. Accounting standards which is internationally accepted, to reduce costs in preparing consolidated financial reports will be valid anywhere in the world and auditing of reports is more easier.

The use of international accounting standards allows to evaluate multiple alternative about the financial events to reflect in accounting system. In this way, harmonization will provide a significant advantage about selecting the most appropriate method under the current conditions.

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