Today’s country differences in accounting standards

Business, Accounting

Today’s Country Differences in Accounting Standards There are five main influences on a country’s accounting system. Having a different system of accounting is like having a differentculturefor countries. There are many different things that dictate how an accounting differs. The relationship between business and providers of capital, political and economic ties with other countries, inflation accounting, level of development, and the national culture are the five influences on accounting systems. Relationship between business and providers of capital

Firms can gain capital from numerous sources; selling stock and shares is one way or borrowing from a bank is another. How each country’s firms gain capital has to do with what type of accounting system the country has. The United States is full of people wanting to invest in a company or buy stock in a company. Not only do we have television stations dedicated to the stock market, but as a business student we hear about it constantly. The U. S. tries to use their accounting system to inform individual investors about the firms they want to invest in.

There are other countries that use banks more to gain capital. In these cases the accounting system is geared towards the government and the banks that provide the majority of the capital. Political and economic ties with other countries Politics and a country’s economic system can have a big effect on an accounting system. These two factors seem to bring accounting system together rather than apart. NAFTA and EU have both brought the countries involved together. They have put into practice norms throughout each accounting system to make them more uniform.

Inflation Accounting Inflation is a big factor when deciding how to approach an accounting system. Inflation accounting is all about the historic cost principle. It says that currency is not losing its value due to inflation. “ If inflation is high, the historic cost principle underestimates a firm’s assets, so the depreciation charges based on these underestimates can be inadequate for replacing assets when they wear out or become obsolete (Hill, 2011, p. 635). ” Level of Development Developed countries seem to have everything easier.

They are able to acquire more capital and business. They have more highly educated and skilled workers. The more developed countries seem to have it all and the less developed countries with the smaller businesses have taken notice. Smaller, less developed countries tend to copy or attempt to copy the larger, more developed countries in their accounting systems. This can cause problems because the less developed countries do not have all of the resources necessary to have an accounting system fit for a well-developed country. National Culture

A country’s culture comes into play in accounting systems when thinking about uncertainty avoidance. A country’s uncertainty avoidance is either high or low. High uncertainty avoidance means a country is less likely to take risk and rules and regulations. Low uncertainty avoidance means the country is willing to take risk. The country’s with a low uncertainty risk need to make sure that their finances are in top shape so they are more likely to have accountants audit their firms (Hill, 2011). Works Cited Hill, C. W. (2011). International Business. New York: McGraw-Hill Irwin.