

# [Factors that influence the development of financial reporting standards research ...](https://assignbuster.com/factors-that-influence-the-development-of-financial-reporting-standards-research-paper-sample/)

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Accounting concepts define the manner in which organizations and businesses report financial position of the organization and therefore it is a succinct analysis of the general operation of a business. Thus, different accounting model would define the same business in different perspective. One model may provide a view that the business is on solid standing reporting impressive profits and sound financial backing. Other models may find the same business in poor financial standing. Internationally, there abound inherent difference in financial reporting and this difference has not been thoroughly evaluated. However, some nations such as the United States and the United Kingdom have taken deliberate measures to create a universal accounting standard in their countries. The development of a universal accounting system may be affected by several factors. This research reviews the different factors that affect the development of a national accounting system.
There are general factors that can be explained to significantly affect the general difference that occur between international accounting models. Some of the factors proposed include that nature of business ownership and financing systems of the nation, taxation model of the nation, legal systems, colonial inheritance, stage of economic development, political systems; influence of theory and level of education1. While all these factors may have a significant influence, they can generally be reduced to interaction of three factors that lead to a general accounting practice.
The interaction of the three factors begins with the external environment under which businesses operate. The external environment creates a business culture that in turn has a direct relation to institutional structures. The interaction between institutional structures and the culture eventually defines accounting practices that abound in the nation. However, it is important to review general factors that affect development of national accounting. The external environment may affect accounting standards but to a less significant level. However, the significant issues that affect the development of an accounting system can be classified into three broad categories, that is, financing systems, financial reporting systems and colonial inheritance as will the discussed in the following section.

## Financing Reporting

A nations’ accounting reporting system is primarily defined by the purpose for which such financial reporting is developed. Accounting reports can be distributed to three basic classes. The first is the capital market based accounting model in which accounting records are recorded for use in a competitive market. The second kind of reporting referred to as type (B) is the credit based system: governmental, where the accounting model seeks to define resource employed by the government. The final kind of financing system is the credit-based system: financial institutions where financial institutions such as banks are the dominant element of the economy2.

## Financial System

The United States financial systems are commonly associated with the first model, that is, the Capital markets based. The United States system has always been viewed as a competitive and open economy. Thus accounting standard in the nation have been developed to conform to requires of public trading and incentives in profits in order to attract investment. The system used to develop accounting is also pegged on legislations and other government regulatory measures. The American system has been developed in a way that competition and public interest is maintained. Each country takes the effort to streamline the system of financing and accounting reporting through legislation3.

## Colonial Inheritance

A more common and influential factor that affects the development of national accounting standard is colonial inheritance. The different accounting standards that are adopted by different nations, especially those outside Europe, can be explained by colonial inheritance of the country. Colonial inheritance has had a significant influence in terms of language, governance and other key political structures4. Similarly legal systems of different nations are mainly based on the legal system initiated by the colonial masters. In the same breath, the legal requirements in accounting also define the general nature of accounting standards.
There are other factors that affect the development of accounting standard of nation. As earlier stated issues such as taxation, government regulation, level of education and the level of economic development may significantly influence accounting standards.
In conclusion, there are several accounting models that can be applied to different business sectors. These standards vary from country to country, but there have been attempts to create universal systems based on several factors and for the case of the United States, these include the financial systems in that country, the reporting standards and the history of the accounting systems. All these have contributed to ensuring that there are best practices when it comes to accounting in organizations and firms.

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