Comparison of financial reporting systems

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Comparison of financial reporting systems: UK, France, Germany and Poland

Introduction

Although recent moves have been made towards the harmonisation of accounting and financial reporting systems within the European Union (EU), there are some differences between the ways that member states treat this issue (Ann Tarca, 2002). This paper compares the systems used in four member states, being the UK, France, Germany and Poland. In addition, it will also provide an evaluation of the harmonisation movement.

Financial reporting systems

The financial reporting systems of EU member states have evolved from their political, culture histories, and have different levels of regulatory control and responsibility.

UK

The accounting and financial reporting system in the UK has been developed in the main by accountants (Nobes and Parker, 2006, p. 485), although in latter decades the state and EU have had a significant influence upon its rules. Accountants have also been involved with the main legal regulations that apply to audits and reporting, such as the Companies Act 1989 and later amendments, including that of 2006.

Historically, the UK reporting system has been geared towards meeting the needs of investors and therefore has a high level of transparency and disclosure. As such, the impact of the taxation system is of less importance

than in other EU countries. This has led to some differences between taxable and accounting income (Blake and Amet, 2003, p. 213).

The thrust of the system is to achieve financial reports that show a true and fair value. Statements confirming this, and that “ applicable accounting standards” have been used, or explanations for deviation from this, must be included within the report (Nobes and Parker, 2006, p. 287). Following the introduction of increased legal and regulatory rules of corporate governance, and the formation of the Financial Reporting Council (2004), responsibility for accuracy falls on auditors, directors and shareholders.

“ From 2005 UK listed companies must use IFRS for their consolidated statements” (Nobes and Parker, 2006, p. 103)

France

France has a much smaller accounting profession than the UK, with only 45 compared with 352 accountants per hundred thousand of the population (Saudagaran, 2003, p. 10). Historically, its accounting system has been dominated by a macroeconomic central system and geared to providing information for government control purposes (Blake and Amet, 1993, p. 114). Tax Law is the dominant influence and auditors are responsible to, and regulated by, the Ministry of Justice (Nobes and Parker, 2005, p. 236).

French accounting falls under the “ National Accounting Plan” regulation, which is administered by the CNC (National Accounting Council). However, a peculiarity of the French accounting system is that the regulations apply to individual companies, but not to groups (Nobes and Parker, 2005, p. 226).

The regulation requirements call for a uniform chart of accounts with standard bookkeeping procedures, account title and classification numbering. For example, all individual companies must report salary and associated costs under account 641. Similarly, there are standard accounting statement formats as laid down by EU directives and a uniform procedural treatment for items such as fixed asset valuation and creation of legal reserves (Nobes and Parker, 2006, p. 301). There are also strict regulations with regard to the methods of depreciation and expense calculation for use in reducing tax liabilities.

At present, the detail between French and IFRS reporting details and procedures differs significantly.

Germany

Like France, the accounting professions influence in Germany is low. Accounting rules are mainly determined by Tax law and Federal fiscal Courts, although these incorporate EU directives. The keeping of books and records is a statutory requirement of the German Commercial Code (HGB 1985) and historical cost accounting is operated with strict revaluation restrictions (Choi and Meek, 2005, p. 79).

Unlike the UK, the German accounting reporting system is heavily geared towards the protection of creditors and therefore, accruals and provisions tend to be high (Nobes and Parker, 2006, p. 301). The income results are also aimed at a conservative position. Asset valuation tends to be reported on a forced sale basis and the financial results must equate to the taxable position. In addition, there is a requirement for a value of one tenth of

nominal capital to be held in legal reserves. Whilst the effect of the German accounting reporting system is to protect creditors, because of the impact on results, it has also led to a position that does not encourage outside investment into German Businesses.

Whilst IFRS rules apply in Germany, it is only applicable to a limited number of organisations. The majority still use German regulations for financial reporting purposes (Nobes and Parker, 20-06, p. 290).

Poland

Historically Poland, which is the largest ex-communist country to join the EU (Nobes and Parker, 2006, p. 229), came from a state dominated economy, where enterprises were not autonomous, with all aspects of business controlled by the state. The accountancy profession was not very strong (Sucher and Kosmala-MacLullich, 2004, p. 484) and there is a lacked of skilled professionals that is still being addressed.

Since returning to a market economy, Poland has introduced accounting regulations, embodied within the Accounting Act 1994 and subsequent amendments, which are regulated by the Accounting Standards Committee, set up in 1997. Under these regulations, all businesses are required to adopt an accounting plan. Whilst these regulations incorporate parts of the EU directives, it is primarily geared to the protection of the state and tax policies.

Like France, the Polish state is the main instigator and influence on accounting reforms (Sucher and Kosmala-MacLullich, 2004, p. 438) and,

because of this their system is not inherently geared as much towards attracting investors as more market based economies like the UK.

Similarly, although IFRS is widely used, there are significant differences in the Polish system (Nobes and Parker, 2006, pp. 236-8).

Summary

As can be seen from the above individual country analysis, whilst accounting reporting systems may all have similar aims, namely to provide financial information to end users, there are a range of factors that influence and create differences in accounting reporting systems between nations.

From an internal viewpoint, the differences are driven primarily by cultural, political and economic factors. Added to these are the influence of the accountancy profession, which is greater in some countries than others, and the domination of state taxation requirements.

Externally, individual reporting systems may respond to perceived dominant position of the United States and growing stature of the European Union in international trade. From an investment stance, the growth of share ownership that has resulted from the global expansion of financial markets has also had an effect (Nobes and Parker, 2006, p. 6).

Lastly, the changing face of commercial organisation because of the continuing globalisation of trade has affected their need for differing accounting reporting systems. As has been seen, multinational corporations require a significantly higher level of control in these areas than do nationally focused organisations. As Nobes and Parker (2006) earlier

publications (1980 and 1998) have shown over the years, this has resulted in differing reporting classes of nations, between those who are driven by business or state and who have weak or strong equity markets.

Harmonisation

Historically the EU opposed international reporting standards, partially out of fear of the US dominance in this area. However when, by the early 1990's it was shown that EU attempts at harmonisation was failing, it took on board international standards and became the most dominant force for change in this area (Nobel and Parker, 2005, p. 105), certainly within its own community.

Among the areas that the EU has dominated are the legalisation of enforcement, such as those used to support its 4 th and 7 th directives and the requirement for all corporations to adhere to international standards. By using EU regulations as a vehicle for this legislation, it is incumbent upon member states to incorporate these within domestic legislation. Although such legislation is not compulsory for multinational organisations for reporting, the EU " transforms them into EU standards," (Flowers, 2002, p. 273).

The EU regulation has met with mixed reactions. Sir David Tweedie (2003, p. 15) states that it provides the opportunity to *" unite its* [the EU's] [1] *many national markets."* However, others state, " the reality is disparity and muddle" (Amat and Blake, 1993, p. 5)

The International standards are extensive and aimed to cover all aspects of financial reporting within corporations (Flowers, 2002, p. 263). In general,

they cover five main areas. These include treatment of assets and revenue; liabilities; accounting for groups; the context within which reporting takes place and disclosure statements (Nobes and Parker, 2000, p. 6). In reality, the regulations have the effect of moving accounting away from the historical cost accounting format to a more current fair value system.

Currently the international accounting and financial reporting system is subjected to thirty seven different standards (Nobes and Parker, 2006, p. 6), although this is likely to change in the future as further harmonisation and clarification is sought.

Conclusion

Despite IFRS and its joining with US GAAP in 2002, individual nations financial reporting differences remain (Nobes and Parker, 2006, p. 19). Attempts to harmonise the EU position across its member states are continuing but, until or unless the influences that attach to individual nations are addressed both internally and nationally, it will be difficult to achieve.

As Gregoriou and Gaber's (2006) publication reveals, internationally there are still numerous accounting systems in place. In the opinion of the author, the relevant national and international regulatory and legal bodies will need to be cognisant of national differences as they seek improvements and further harmonisation of the global accounting reporting systems that currently exist.

However, it is apparent from the current direction of international standards that they will lead to the end of individual nations reporting standards and influences (Nobes and Parker, 2006, p. 103)

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Footnotes

[1] Brackets added by author