

Accounting theory flashcard



**ASSIGN
BUSTER**

The depth and quality of the research undertaken by you| The application of the research to the WIL task| The ability to apply appropriate accounting theories to the context of the task| The ability to synthesise information into a coherent and engaging report| The ability to correctly acknowledge sources using the Harvard Referencing system| Score| | 8 marks| 6 marks| 6 marks| 6 marks| 4 marks| | - Accomplished High Distinction| * Materials referred to are relevant * References are drawn from a wide variety sources * References support the arguments presented * Research is current and from a reliable source 7-8 marks| * The report discussion clearly addresses the issues raised in the WIL task * The report is highly relevant to the needs of the client * The report clearly outlines the major findings of the investigation and the impact of these findings on the client 5-6 marks| * You have managed to make clear links between their research and current accounting theories * You have explained these links with clarity and applies these links to the WIL task 5-6 marks| * The report is professionally presented * All grammar and punctuation is correct * The report is written in a style appropriate for the client * The report is highly engaging and easy to read * All sections of the report have been included and correctly constructed 5-6 marks| * You have used the Harvard referencing system to clearly and accurately record all cited sources in the report * You have provided a list of references which is correctly formatted 2 marks| | 3- Highly Competent Distinction/Credit| * Most of the materials referred to are relevant * References are drawn from a range of sources * References generally support the arguments presented * Research is mostly current and from a reliable source 6 marks| * The report discussion addresses most of the issues raised in the WIL task * The report is mostly relevant to the needs of the

client * The report outlines the major findings of the investigation and the impact of these findings on the client 4 marks | * You make links between your research and current accounting theories but at times these links lack clarity * You have mostly managed to explain these links and apply these links to the WIL task 4 marks | * The report is professionally presented * The majority of the grammar and punctuation is correct * The report is written in a style appropriate for the client * The report is engaging and fairly easy to read * All sections of the report have been included and correctly constructed 4 marks | * You have used the Harvard referencing system to clearly and accurately record all cited sources in the report * You have provided a list of references which is correctly formatted * Some minor errors in the citations and/or list of references 1.

marks | | 2 – Satisfactory Credit/Pass | * Some of the materials referred to are relevant * References are drawn from one or two sources * There is a lack of cohesion between the references cited and the topic being discussed * Research is mostly current and from a reliable source 5 marks | * The discussion addresses most of the issues raised in the WIL task lacks some clarity * The report at times lacks relevance and/or some of the conclusions drawn are erroneous * The report outlines the major findings but lacks clarity in linking these findings to the clients needs 3 marks | * While some attempts have been made to link accounting theories to your discussion lack clarity * You have not managed to explain these links clearly and apply these links to the WIL task 3 marks | * Improvement is needed in the presentation * There are some errors in grammar and punctuation * The report is mostly written in a style appropriate for the client * The report is not engaging and/or is not

easy to read * All sections of the report are included but there are some errors in these sections 3 marks | * You have used the Harvard referencing system to record cited sources in the report but have made some major errors in these citations * You have provided a list of references but there are errors in the construction of this list 1 mark | | 1- Unsatisfactory | * There is a lack of evidence of relevant research * The research presented is too narrow * The research presented does not support the topic 0-4 marks | * The report discussion fails to address most of the issues raised in the WIL task and the discussion lacks clarity * The report relevance in the discussion and/or most of the conclusions drawn are erroneous * The report does not outline the major findings 0-2 marks | * Little or no attempt has been made to link accounting theories to the discussion and /or the links made are incorrect * You have not managed to explain these links and apply these links to the task 0-2 marks | * Major improvements in the presentation of the report is needed There are many errors in grammar and punctuation which need correction * The report style is inappropriate, the report is not engaging and/or is not easy to read * Not all sections of the report have been included 0-2 marks | * You have not used either the Harvard system to record cited sources in the report * Not all sources are cited * No List of references or serious errors in the construction of this list 0 - 0.5 mark | | Total | | | | | /30 |

In this article, the diversity in financial reporting system of Mexico is identified from three different aspects - historical influences, cultural influences and current influence. In terms of the historical aspect, this report draws a picture on the Mexican political and economic system, legal and taxation system and corporate financing system; for cultural aspect, the relationship between Mexican culture and their accounting values are

assumed by building a relationship between Hofstede's four cultural dimensions and Gray's accounting values; with respect to the current issue, arguments develop on the influence of both earlier harmonisation of North American accounting standards and recent harmonisation of international accounting standards on Mexico and the influence of the Global Financial Crisis. Introduction The Mexican Institute of Public Accountants (MIPA) is the primary standard issuing and enforcement body in Mexico. Similar to state societies in the United States, it is governed and supervised by the "General Conference of Members", the "Governance Junta", and the National Executive Committee (NEC). The NEC appoints the Accounting Principles Commission (APC)—the official subgroup charged with formulating financial reporting standards.

Generally, the National Securities Commission (NSC) and the MIPA enforce the application of standards once it has been approved, however, other regulatory agencies such as tax authorities and the National Banking Commission may also affect standard-setting (Hazera & Carmen 2000). For further understanding, influences on Mexican financial reporting system have been examined below from several different aspects, including historical influences, cultural influences and current influences. 1. Historical Influences on Financial Reporting in Mexico 1. 1 Influences of Political and Economic System Mexican government's regulation on local industries has a substantial effect on the financial reporting system. The companies in regulated industries are required to prepare financial statements according to specialized GAAP which may be inconsistent with the international financial reporting standards.

For instance, according to specialized GAAP Mexican banks are required to devalue only 60% of the past-due loan payments while the international standards require a disclosure of 100% past-due loan (Hazera & Carmen 2000). This inadequacy of regulation was enhanced in 1997 though it is still not enough to comply with international standards. Financial reporting system in Mexico was also influenced by the economic environment of Mexico. The high rate of price inflation in the economy forced Mexico to use current value rather than historical cost primarily used by the U. S. and Canada (Quigley 1997).

However, Mexican firms are not required to reconcile for inflation which means the value of the Mexican firms could be overvalued and not conservative as required by international accounting standards (Davis-Friday & Rivera 2000). 1. 2 Influence of the Legal and Taxation System Mexican accounting standards are affected by diverse legislations. Companies are required to operate and maintain an adequate accounting system and prepare a comprehensive set of financial report by the Mexican commercial code. Publicly listed companies are required to afford comprehensive financial reports with illustrations of accounting principles applied to their shareholders by the general corporate law.

The Mexican tax code is the most influential one, which requires that medium to large businesses file audited financial statements with the Treasury Secretariat which supplement the companies' tax returns. As a consequence, the Mexican Treasury Secretariat becomes the agency which has the responsibility to promulgate the accounting standards for the statements filed for tax purposes and to audit those statements. In such

case, private sector public accountants are not permitted for the auditing of financial statements filed for tax purposes (Hazera & Carmen 2000). 1. 3 Influences of Corporate Financing System Speaking of the impact of capital market on the setting of accounting standards, the impact of Mexican Stock Exchange is not appreciable as it is a relatively small capital market compared to its neighbour countries (Hazera & Carmen 2000). The influence is also weakened by the low level of “openness” of the companies.

Listed corporations are discouraged to disclose their financial information to the public. The reason is that the high level of concentration of Mexican capital markets makes the companies fear possible loss of competitive advantages by their financial disclosure. 2. Cultural Influences on Financial Reporting and Disclosure Practices in Mexico Culture refers to “a set of common ideas, beliefs and values that shared by the members of a group of individuals” (Anis 2012). Cultural diversity leads to the variations in financial reporting among countries. As said by Hampton (1980), “national preferences in accounting that are no less real and no more logical than national preferences in food, drink, or humour”.

The relationship between culture and accounting values was analysed and summarized in Douppnik and Tsakumis’s study in 2004. They exploited the relationship by establishing relationships between Hofstede’s four cultural dimensions and Gray’s accounting values (see Appendix 1). With respect to the Hofstede’s cultural dimensions—individualism vs. collectivism, masculinity vs. femininity, power distance and uncertainty avoidance, Mexico is seen as a collectivist country where the “group” (family) is preferred over individualistic roles; the male are placed in a superior role to the female

because of the economic and intellectual dependence of the male; power distance is quite long since the inequality in Mexico is serious; and uncertainty and risk avoidance is fairly high in Mexico since they emphasize on upholding traditions and preserving family values and security (Najera 2008). Therefore, according to the study of Doupnik and Tsakumis (2004), Mexico tends to have less professionalism, high uniformity, more conservatism and more secrecy in their accounting values because of its high collectivism, high masculinity, long power distance and high uncertainty avoidance.

3. Current Influences on Financial Reporting and Disclosure Practices 4. 1

Harmonisation of Accounting Standards 3. 1. 1 Harmonisation in North

America In the late 1980s, North American Free Trade Agreement (NAFTA) emphasized the movements toward the globalization of investment and trade (Quigley 1997).

A joint study was carried out by the accounting professions in the North America in 1995 to provide evidence of the necessity to harmonise the accounting standards among these three trading partners—Canada, the United States and Mexico and provide comparative analysis of each country's enforcement responsibilities, security-regulator relationships, and standard issuing norms. The emerging of Financial Reporting in North America (FRNA) was a further evidence of harmonization of accounting standards for the three countries (McConomy 1997). 3. 3.

3 Worldwide Harmonisation Since 2001, International Accounting Standards Board (IASB) has been working on a project that is developing a mechanism

of universal financial reporting standards—International Financial Reporting Standards (IFRS) all over the world, facilitating increasingly interlinked businesses and cross-border flow of capital. By the beginning of 2010, Mexico has been following this trend since late 2008. In that year, the National Banking and Securities Commission in Mexico (CNBV) and the Mexican Board for Research and Development of Financial Reporting Standards (CINIF) planned to adopt IFRS for publicly listed entities. In early 2009 the relevant legislation regarding to the reporting rules for listed entities was amended and then the obligation to adopt IFRS exerted for periods ending on 31 December 2012. Currently, the adoption of IFRS in Mexico is only subject to listed entities, financial listed issuers and private companies are still required to report under Mexican Financial Reporting Standards (Mexican FRS) issued by the CNBV.

However, the CINIF is in the process of converging all Mexican FRS by 2012 for all private entities (PWC, n. d.). 3. 3 Global Financial Crisis Severe turmoil brought about by Global Financial Crisis (GFC) in recent years has shocked people all over the world.

Unexpected international reactions to the credit crisis in the U. S. made investors and politicians worrying about the process of globalisation. In response to the GFC, international accounting professions called on enhancing assurance for financial reporting in order to restore confidence in accounts and to facilitate well-informed decision making which takes account of risk and all economical environment factors (Buga et al. 2010). According to (Wild ; amp; Poole 2008), reliable valuations and useful disclosures of the risks associated with structured credit products and off-balance sheet

entities are extremely important for rebuilding the confidence of global capital market.

Conclusion Based on all the arguments offered above, if Tardis Ltd intends to establish a publicly listed subsidiary in Mexico, the difference in financial reporting system between Australia and Mexico should be aware of and seriously considered. Though Mexico is in the process of adopting international accounting standards, specific characteristics of Mexican political, economic, legal and cultural environment still exist, which varies the financial reporting system in Mexican style. In addition, the influence of global economic environment on Mexico should also be examined and taken into consideration.