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International Accounting: Past, Present and Future

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INTERNATIONAL ACCOUNTING: PAST, PRESENT AND FUTURE

by

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INTRODUCTION

The evolution of accounting from ancient times to the present has appeared to be accelerating with the passage of time. Where before, fundamental changes in earlier periods might slowly evolve within the accounting profession over a century or more, both the number of changes and the rapidity with which they are brought about have been increasing. The phenomena has seemed particularly noticeable in the past half-century and appears to be projecting into a major trend.

This study is based upon the belief that a positive and irreversible trend exists toward achieving world-wide accounting standards. This could result in major changes within all national accounting professions and would provide the ultimate framework for both national and international accounting. In addition, acceptance of a uniform set of world standards in accounting would cause major changes within the world's business communities.

The purpose of this study is to examine the efforts made to bring international accounting into fulfillment and to provide an updated assemblage of information on this vital development in accounting.

To provide the reader with a broad basis of the events leading to present-day activities involving international accounting, a historical development of accounting changes will be presented in this study. Next, a more detailed examination of recent efforts by various organizations to formulate solutions to problems involving international accounting will demonstrate the increasing perception that a need exists for a world approach to those problems.

The formation and development of policies for the first international accounting organization, the International Accounting Standards Committee (IASC), will then follow. This organization, formed in 1973, has been primarily responsible for the promulgation of the world's first accepted accounting standards and appears to be providing the basis for further advances toward a universally-accepted accounting system. The standards which have been published by the IASC will also be summarized.

Finally, this study will attempt to view both the near-term and long-term future of international accounting and to draw conclusions based upon those views. The reader is invited to form his own hypothesis in this context, as only the historical trend is available to examine as a basis for predictions of the future.

CHAPTER I

THE EVOLUTION OF INTERNATIONAL ACCOUNTING

Since the time man first entered the barter and trade phase of his development, the need for some type of common basis of understanding, or accounting standards, was clearly recognized. A distinct and vital part of the communication processes which evolved with these first business transactions, were standardized methods by which both parties could keep track of the exchanges.

Simple counting was the first requirement, which in turn led to the development of an acceptable numerical system. Next, the necessity to hold, store, or execute a multiple transaction, caused the promotion of inventory and warehouse storage techniques. In turn, extended transactions of holding or storing of goods led to the requirement for some means to show ownership of property being held by another. Crude recipts for items either promised or held in temporary storage appeared first, then came the acceptance of some universal commodity, such as gold, to take the place of the value of goods, and finally money emerged as an accepted representative of value stored in some location which was easily accessed by all parties to the transaction.

These general patterns appeared within each of the several developing civilizations throughout the world. The time-frames may have varied but civilization centers within Europe, Asia, Africa and elsewhere gradually recognized, then solved, these common problems of business and commerce. With the gradual growth of trade and commerce grew the parallel need for a degree of expertise to cope with the increasing complexities of economic transactions; thus began the development of the accounting profession as we know it today.

Prior to 1500 B.C., accounting concerned itself with governmental and family units. Of primary concern was recordkeeping to prevent theft from the treasuries of the ancient rules or family clans, as well as recording the normal business transactions. This desire to minimize fraud within the treasury led to the use of two or more scribes who would keep independent records of the same transactions, thereby providing a means to verify one account against another. This verification process was expanded by the use of a traveling scribe who would visit and investigate his master's holdings in different locations. In turn, this technique required greater accounting standardization so that a common accounting language would permit scribes to understand each others methods of recordkeeping. It might be noted also that the use of a traveling scribe to perform these inspection functions was the beginning of what is known today as auditing.[1]

In the following period, from 1500 to about 1850, both the rapid growth of colonization and the impact of the Industrial Revolution accelerated the changes in accounting. Not only was accounting in general affected but the first realizations of the international aspects of the accounting profession began to materialize. Some insight into the exchange of international accounting ideas and proposals may be seen from exerpts of bookkeeping texts of that time:

> The fundamental principles of Double Entry are as infallible in their application to every species of accounts as their operation is extensive; in practice, however, they are exposed to all the moral and mental imperfections of the accountant: They are neither exempt from the defects of ignorance, the errors of indolence, or the practice of fraud, and frequent and careful investigations on the part of the proprietor himself are scarcely sufficient to render him secure from such evils.[2]

and:

> . . . the Italian Method, by a double entry Debtor and Creditor, by way of eminence, is now always distinguished by the appellation of Bookkeeping as being of all others the most perfect, the most elegant and the most satisfactory, either for the Merchant's own information . . . or otherwise for the inspections of others . . . In conducting of business, Order and Method contribute very much to lighten the care, facilitate the despatch (sic) and ensure the success thereof. The advantages of regularity are not more sensibly experienced by the extensive trader, in any part

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[1] L. Fitzpatrick, "The Story of Bookkeeping, Accounting, and Auditing," Accountants Digest IV (March 1939):217

[2] B.F. Foster, Commercial Bookkeeping, (Philadelphia: Perkins and Marvin, 1836), p. 4.

of his transactions, than in the orderly stating and keeping of his books of account.[3]

In the next fifty years, from 1850 to around 1900, the world witnessed an even greater surge in economic growth, particularly in Great Britain and the European nations. The Industrial Revolution had created major organizational changes in the larger businesses and entrepreneural or partnership arrangements no longer met the demands for the required investments of capital. This brought the corporate form of enterprise to the fore.

In 1844, the start of the modern era of business incorporation began with the passage of Great Britain's Act of 1844, entitled: "An Act for the Registration, Incorporation, and Regulation of Joint Stock Companies."[4] With incorporation, the accounting profession faced many new challenges in properly providing absentee business owners with uniform, timely and meaningful information. Compounding this was the added responsibility of an increasing trend for providing accounting information on investments and businesses located outside national borders. With differing accounting philosophies, as well as methods and techniques of accounting, found in the various nations throughout the world, the interchange of economic information between nations grew more complex.

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[3] William Jackson, Jackson's Book-keeping, (New York: Evert Duyckinck, Daniel Smith and Others, 1823), p. iii.

[4] Leonard W. Hein, "The Auditors and the British Companies Acts", Accounting Review (July 1963): 42.

Where before it had been found necessary to standardize accounting first within those smaller circles of economic intercourse, then within national borders for a common understanding, it was growing readily apparent that the need was to be on international levels as well.

Not until the First International Congress of Accountants, held in St. Louis in 1904, was any significant effort made toward resolving the growing problems presented by cross-border exchanges of accounting information. Even at this First Congress progress was limited to polite exchanges of viewpoints, social encounters and establishing new friendships. Of importance however was the fact that a line of accounting communication had been opened between nations.

Subsequent Congresses held, the Second in Amsterdam in 1926, the Third in New York in 1929, the Fourth in London in 1933, the Fifth in Berlin in 1938, the Sixth in London in 1952, the Seventh in Amsterdam in 1957, the Eighth in New York in 1962 and the Ninth in Paris in 1967, revealed an increasing interest in the problems common to all the accounting bodies represented from each nation. At each of the Congresses plenary sessions would be held at which papers of general interest would be presented; so-called technical sessions would also take place at which approximately 20 to 25 members could discuss specialized problems or papers of individual interest. Unfortunately, after each International Congress adjourned, no permanent technical committee remained to provide a follow-on study of what was discussed or to insure continuity until the next Congress convened; only a small organizing group was designated to assure that the next Congress would be held. The many informal links which were formed between individuals and the national accounting bodies however provided the basis for a more direct approach to international accounting; this was to crystalize into action during the Tenth Congress in 1972.[5]

The International Congresses of Accountants were perhaps the most prestigious of all the many international accounting meetings held throughout the world, but other important groups were also moving in a parallel direction toward the internationalization of accounting. Their efforts have been important in contributing to the goal of achieving a better understanding between nations. Although their efforts have been regional in nature, as a minimum they have expanded the accounting communication links by virtue of their meetings.

In the Western Hemisphere, for example, the Inter-American Accounting Conference had been formed. The First Inter-American Accounting Conference took place in San Juan, Puerto Rico, in 1949, the Second in Mexico City in 1951, the Third in Sao Paulo in 1954, the Fourth in Santiago, Chile, in 1957, the Sixth in New York in 1962, and the Seventh in

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[5]Mary E. Murphy, "The Seven International Congresses of Accountants," The Accounting Review (October 1961): 555-563

Mar del Planta, Argentina, in 1965. The major thrust of these conferences was to improve terminology used in the Spanish-speaking countries, to find ways to enhance education and professional development in accounting, and to improve the standards of professional competence in accounting. Efforts toward standardization included adoption of a resolution embracing "generally accepted auditing standards" for use throughout South America. The accepted basis for this resolution was the book entitled "Auditing Standards and Procedures" published by the Instituto Mexicano de Contadores Publicos. Although this resolution was accepted by the Conference, as were other less significant resolutions in earlier conferences, the practical success of any of them still appears to be somewhat limited. General opinion among Conference members however seems to hold that accounting in South America has been enhanced by both the presence of the Inter-American Conferences and the resolutions passed.[6]

Another accounting group interested in regional accounting activities is the Asian and Pacific Accounting Convention. A relative newcomer, it focuses on Asian and Pacific countries and their mutual problems. The First Convention was held in Manila in 1957, the Second in Canberra and Melbourne in 1960, the Third in Kyoto and

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[6] Gerhard G. Mueller, International Accounting, (New York: MacMillan Company, 1967), pp. 224-247.

Tokyo in 1962, and the Fourth in New Delhi in 1965. A major contribution to international accounting made by these meetings has been that papers presented to the conferences were available in English. Prior to these Conventions most technical papers produced by the various Asian and Pacific countries had been accomplished in the native language and very few had been adequately translated into a common language for comparison and study. The Asian and Pacific Accounting Convention does not maintain permanent committees or have other continuing organizational arrangements but future contributions to international accounting topics are considered to have substantial potential as the rate of accounting development in several of the participating nations is rather high.[7]

Possibly the most effective international accounting organization insofar as working-level efforts are concerned has been the Union Europeenne des Experts Comptables, Economiques et Financiers, or as it is known: "U.E.C." Founded in Paris in November 1951, it has been primarily involved with accounting consultations regarding European Common Market problems. Twelve permanent committees, each covering a specific area such as auditing practice, accounting practice, terminology, tax systems, professional regulations, etc. prepare and submit reports and recommended resolutions at each U.E.C.

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[7]Ibid.

Congress. Accomplishments include publication of a five-language dictionary, an auditing handbook, a book on the principles of valuing a business firm as a whole, and preliminary work on a uniform chart of accounts for European use. Member nations represented include: Austria, Belgium, France, West Germany, Italy, Luxembourg, The Netherlands, Portugal, Spain, Switzerland, the United Kingdom and the Scandinavian countries.[8]

While these, and other, international accounting groups clearly indicated their mutual interest in solving common problems by forming organizations which met periodically to discuss issues, there were individuals who perhaps articulated the very essence of the purpose of these groups. Mr. Jacob Kraayenhof, the President of the Seventh International Congress of Accountants, addressed the 1959 annual meeting of the American Institute of Certified Public Accountants and keynoted the urgency of close international accounting cooperation. He recommended that work on international accounting standards and accounting theory should begin, based on global assumptions, with standing committees in various countries doing the research and study necessary. The products of these committees would then form the basis to promote world discussion of those areas of disagreement, which in turn could lead ultimately to agreed positions of

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[8]Ibid.

standardization. He advocated the thought that the AICPA should take the initiative in accomplishing the international objectives he proposed.[9]

A few years later a perceptive editorial appeared in the Canadian Chartered Accountant, which stated in part:

> A great deal has been written and spoken in recent years on the value of achieving common international standards of accounting principles and auditing practices. The reasons are obvious. In a world economy that is becoming closer knit and with the growing international character of business and the desirability of investment in the underdeveloped countries, there is a need for a reliable means of international financial communications. To the extent that accounting principles, as commonly applied, differ from country to country, so financial statements prepared according to local concepts will fail to convey the proper message to the overseas investor. Probably even more crucial is the need for common high professional standards in auditing practice so that the investor will be able to place the same reliance on certified statements whatever the country of origin . . .[10]

Although the group of those advocating an international approach to accounting appeared to be rapidly increasing, there were those who pointed out the significant hurdles that must be overcome. One such obstacle was the fact many nations had different fundamental concepts governing the recognition, measure-

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[9]Jacob Kraayenhof, "International Challenges for Accounting," Journal of Accountancy (January 1960): pp. 34-38.

[10]Editorial, "The Need for International Standards in Accounting," Canadian Chartered Accountant (August 1963): pp. 189-191.

ment and recording of economic transactions. These concepts varied greatly from, in some cases, a non-existent one in a backward or emerging nation, up to a diametrically opposed position on interpretation by several more sophisticated nations.

From a more practical standpoint, another obstacle was that reporting methods were complicated by national differences of language, currency translation techniques and reporting patterns. A major problem was also presented insofar as auditing of accounting statements was concerned; if a standardized basis of accounting principles was not present, adequate auditing standards would be difficult to construct and the function of audit attestation rendered all but meaningless.

The historical trend of accounting was moving ever-closer toward some form of catalytic action which would crystalize international accounting efforts into a more coordinated movement. Despite the seemingly unsurmountable problems involved, all international groups and organizations had been facing the growing realization that the future was to result in an effort to at least try to mould a world-wide approach to the problem. In 1969, almost on the eve of the Tenth International Accounting Congress, proponents of international accounting provided a summary of what they viewed as almost a crisis point in the need to meet international accounting problems:

> During the last two decades, we have witnessed a significant growth of international business activities. Firms have expanded their operations abroad through (1) direct investments in other countries by either constructing new facilities or purchasing existing facilities; (2) indirect investments through purchases of securities or various forms of licensing or management agreements; and (3) establishment of both indirect and direct marketing activities on a scale comparable to domestic marketing efforts. As a result of this growth, many firms today view their operations in a global context ---the traditional dichotomy between between "domestic" and "foreign" business has given way to the much broader concept of "international" business.
>
> The newly found international outlook of business firms has brought about many accounting problems. The financial reporting problem alone is an international accounting challenge of major proportions. Accounts prepared on the bases of different national accounting principles and kept in many different national currencies must be translated, adjusted, and consolidated. The results must be reported, often to government agencies in a number of countries and stockholder groups usually domiciled in an even larger number of countries. Problems arise every time a company lists its securities on yet another stock exchange outside its country of incorporation.
>
> A second need for attention to the international dimensions of accounting arises from the present pace of accounting development. It is fair to state that accounting development has not kept pace with the requirements of our time. The lengthy controversy in the United States over accounting principles and postulates is one manifestation of this. The long and so far unsuccessful efforts to draft and pass new companies legislation containing major accounting provisions in countries like France, The Netherlands and Sweden are other examples. There is the almost total lack of attention to the accounting requirements of the developing nations.
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> A third problem is that financial information

needs of international agencies and national governments have increased sharply since World War II. An example is the International Finance Corporation. This development bank, an agency of the World Bank, makes loans to promising private and not-so-private enterprises in the developing countries. Some of these loans are equity rather than debt type. In all cases the feasibility of the loan must be investigated carefully, and, if the loan is made, there must be financial surveillance during the life of the loan. This naturally requires flows of accounting information across many national borders.

Agencies of the United Nations and the International Monetary Fund find themselves with similar requirements. Furthermore, national government activities are affected. For instance, the United States Agency for International Development, or the British Colombo Plan, could not operate without a substantial international flow of accounting data. There are also questions of measurements of international balances of payments, rates of economic growth, and accumulation of national income statistics. In all of these, accounting plays a significant role.[11]

In the decade of the 1960's, the mounting pressures for concrete steps towards an acceptable world accounting body grew swiftly. Many tentative suggestions and proposals had been put forth during informal talks between the world's various accounting bodies but no real action was taken. Finally, after preliminary discussions, the first active steps were taken by the accounting groups representing the United Kingdom and the United States. The keynote meeting occurred in Boston in 1966.

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[11] Kenneth B. Berg, Gerhard G. Mueller, and Lauren M. Walker, International Dimensions of Accounting (Boston: Houghton Mifflin Company, 1969), pp. 1-2.

CHAPTER II

THE BACKGROUND AND FORMATION OF THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE

The President of the American Institute of Certified Public Accountants (AICPA) extended an invitation to the President of the Institute of Chartered Accountants in England and Wales, Sir Henry Benson, to speak before the AICPA Executive Committee in Boston during September 1966. The purpose of Sir Henry Benson's visit was to present to the AICPA, and later to the Canadian Institute of Chartered Accountants, a proposal for a three-nation "study group" to organize a program of studies of current trends in accounting in the three countries. Since this historic visit was the forerunner of the formation of the International Accounting Standards Committee (IASC) which was to materialize some five years later, the recorded minutes of the AICPA's Executive Committee are of pertinent interest:

> . . . 22. Proposal for International Study Group.
>
> At the invitation of President Trueblood, Sir Henry Benson, of the Institute of Chartered Accountants in England and Wales, appeared before the executive committee to present a proposal for the creation of a "study group", composed of two or three representatives of the English, Canadian and

American Institutes, to organize a program of comparative studies of current trends in accounting thought and practice in the three countries.

In presenting his proposal, Sir Henry observed that most members of the three organizations pursued their separate ways with comparately little regard to, or knowledge of, accounting and auditing developments in the other countries. He suggested that this was a remarkable state of affairs in view of the fact that accountants in the United States, Canada, and the United Kingdom were collectively responsible each year for attesting to the fairness of financial statements involving billions of dollars.

Under the proposal, the "study group" would meet at least once a year in each of the countries in rotation, and keep in touch with each other by correspondence in the intervals between meetings. The first task of the "study group" would be to determine the subject areas for exploration, and to devise a pattern for the research reports which would facilitate comparisons between the three countries.

It was suggested that the formation of such a group was a simple and effective way, but not the only way, of promoting international cooperation in accounting, and it was agree that similar groups might be organized with accounting organizations in other countries or that the original group might be expanded to include representatives from other countries in due course.

In concluding his presentations, Sir Henry declared that the publications to be issued by the study group might bring about a reassessment of present practices and future plans in the three countries; that they would broaden the minds of all who read them and suggest new lines of inquiry; and that they could prove useful to the professional accountants in other nations.

After extended discussion, the executive committee resolved to approve the proposal in principle, with the understanding that the presidents of the three organizations would hold further conferences to develop a plan for an early implementation of the program.

> It was the sense of the executive committee that when the proposal had received the approval of the three organizations, any public announcement of the formation of the "study group" would be coordinated between the executive staffs of the organizations.[12]

After his address to the Executive Committee of the AICPA, Sir Henry Benson had the opportunity a day or so later to address the whole Council of the AICPA; the Council, by coincidence, happened to be meeting in Boston at that same time. No formal resolution was put to the Council for vote but the proposal for a "study group", as outlined by Sir Henry Benson before the Executive Committee, appeared to win wide approval by members of the Council.

It is always in historic retrospect that many events occurring, or those about to take place, should be viewed if a better understanding is sought. By the examination of the minutes of the AICPA's Executive Committee back in 1966, it is possible to obtain a relatively objective view of what was presented, as observed by those present who were responsible for the minutes of the meeting. It is also meaningful to obtain, at a later date, the personal observations of those who were directly involved in a historic event, in order to better understand the motivations, reasons and actions which led to that event. Writing about it ten years later,

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[12] Executive Committee, American Institute of Certified Public Accountants, "Minutes of the Meeting" (Boston, Mass.: Sept. 1966) Agenda Item 22.

Sir Henry Benson divulged the basic purpose and proposed direction of his 1966 efforts. By a careful examination of the minutes of the Executive Committee's meeting in 1966, and the personal record written by Sir Henry in 1976, it is possible to gain some insight into the efforts behind the formation of IASC in 1973. A portion of Sir Henry's personal story, disclosed in 1976, follows:

> . . . These meetings in Regina and Boston in 1966, led to the formation of the Accountants International Study Group (AISG) which first met in February 1967, and began to publish papers every few months on important topics. In the last 10 years, 15 such papers have been issued and the work of this group is still continuing.
>
> The presidents of the three Institutes knew, when the AISG was set up, that it might engender some measure of discontent in other countries who were likely to feel that they should have been invited to join, or to contribute to, what would be seen as an international group formed to speak with authority on accounting objectives.
>
> We decided deliberately to risk this criticism. It is difficult enough to get agreement on accounting subjects even within a single nation, and we felt that if this exercise was to get off the ground, the maximum number of nations who should be initially involved was three, and they should start with the advantage of all speaking a common language. We all had in mind, as the minutes record, that if AISG proved to be a success, other nations might be invited to join later on. There was, in fact, some comment by other nations who felt they had been left out unreasonably, but as far as I know, this disquiet was not deep-seated, particularly when explanations were given about the practical advantages, if not the necessity, of operating initially with a small group.
>
> In the ensuing five or six years, events moved faster. There were a number of scandals or failures in different parts of the world which brought criticism upon the business community and the accounting profession; the public began to demand, inter alia, higher and more definite accounting standards; the accumulated labour of the professional bodies in different countries since the end of the war was then beginning to

bear fruit in, among many other ways, the issue of clear and precise accounting standards; the international barriers were being continually lowered or removed, and this was accelerated in Europe by developments within the Common Market.

By the time the accounting bodies of the world met at the 10th International Congress of Accountants in Sydney, in 1972, the mood of the accounting profession had changed. The time was ripe for another step forward . . .

. . . In Sydney, therefore, another meeting of the three nations took place similar to the one in Regina six years earlier, and the President of the Institute of Chartered Accountants of Scotland was also present. On this occasion, it was proposed that an international body should be set up which would write accounting standards for international use.

As at the meeting in Regina, there was no difficulty in reaching agreement in principle, but it was realized that there would be practical difficulties in designing a suitable organization, in financing the enterprise, and in getting the approval of the governing bodies of a number of different accountancy organizations. We agreed to meet again before the end of the year, after the representatives present had had time to reflect on the proposal . . .

. . . We had a good deal of discussion about the proposed founder members. Some of those present proposed different combinations but, in the end, and without much difficulty, it was decided to invite the accountancy bodies of six other nations: Australia, France, Germany, Japan, The Netherlands, and Mexico to join us.

It would have been easy to make the number larger, but like the original decision to limit AISG to three, it was felt that the number of countries would have to be restricted to nine. Anything more was thought to be unworkable, and anything less would not be representative, from an international point of view. We also had to bear in mind that the annual cost of the enterprise would be not inconsiderable, and some accounting bodies, although operating to high standards, could not be expected to find (sic) their proportion of the cost involved.

After the initial meeting of the three nations in London, a meeting took place in March

1973, at which five of the other six nations were also represented. By this time, the proposals had been prepared in draft form. We decided that we would not employ solicitors to formalise the necessary documentation because, if solicitors were employed in London, the other nations could inevitably want lawyers in their own countries to express a view. So the representatives of the nine nations did their own redrafting of what subsequently became the Agreement and Constitution of IASC

The next meeting took place on 28 June 1973; this was followed by the inaugural meeting on 29 June 1973, at which the Agreement and Constitution were signed by representatives of 16 accounting bodies from nine nations.[13]

In addition to the nine Founder Members, the Agreement made on 29 June 1973, provides for the admission of Associate Members, namely accountancy bodies of other countries which, if admitted to membership, undertake to adhere in all respects to the objectives of IASC and to apply the same disciplinary procedures.

The primary guidelines for IASC are set forth in the Preface to International Accounting Standards. Each Standard accepted and promulgated by IASC is subject to the the basic policy in the Preface. It not only sets forth the objectives of IASC, the obligations of the members of IASC, but also provides the working framework within which each member may find guidance. The Preface consists of 20 paragraphs:

1. The International Accounting Standards Committee (IASC) came into existence on 29 June

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[13]Sir Henry Benson, "The Story of International Accounting Standards," <u>Accountancy</u> (July 1976): pp. 34-39.

1973 as a result of an agreement by the leading professional bodies of Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. Under the terms of the Constitution, accountancy bodies of other countries may become Associate Members. IASC is part of the International Coordination Committee for the Accountancy Profession but is autonomous in the issue of exposure drafts and standards.

2. The objectives of IASC as set out in paragraph 1 of the Agreement are "to formulate and publish in the public interest, basic standards to be observed in the presentation of audited accounts and financial statements and to promote their worldwide acceptance and observance."

3. By the same Agreement, the Founder and Associate Members have agreed to support these objectives by undertaking the following obligations:

(a) to support the standards promulgated by the Committee;

(b) to use their best endeavours:

(i) to ensure that published accounts comply with these standards or that there is disclosure of the extent to which they do not and to persuade governments, the authorities controlling securities markets and the industrial and business community that published accounts should comply with these standards;

(ii) to ensure that the auditors satisfy themselves that the accounts comply with these standards. If the accounts do not comply with these standards, the audit report should either refer to the disclosure of noncompliance in the accounts, or should state the extent to which they do not comply;

(iii) to ensure that, as soon as practicable, appropriate action is taken in respect of auditors whose audit reports do not meet the requirements of (ii) above;

(c) to seek to secure similar general acceptance and observance of these standards internationally.

4. When formulating Statements of International Accounting Standards the Committee has decided to shorten the words "audited accounts and financial statements", used in paragraph 2 above, to "financial statements". The term covers balance sheets, income statements or profit and loss accounts, notes, and other statements and explanatory material which are identified as being part of the financial statements. International Accounting Standards apply to the financial statements of any commercial, industrial or business enterprise.

5. The management of such an enterprise may prepare financial statements for its own use in a number of different ways best suited for internal management purposes. When financial statements are issued to other persons, such as shareholders, creditors, employees, and the public at large, they should conform to International Accounting Standards.

6. Usually, financial statements are made available once each year and are the subject of a report by an auditor.

7. The responsibility for the preparation of financial statements and for adequate disclosure is that of the management of the enterprise. The auditor's responsibility is to form his opinion and to report on the financial statements.

8. Within each country, local regulations govern, to a greater or lesser degree, the issue of financial statements. Such local regulations include accounting standards which are promulgated by the regulatory bodies and/or the professional accountancy bodies in the countries concerned.

9. The accounting standards already published in many countries, as referred to in paragraph 8, sometimes differ in form and content. IASC will take cognisance of exposure drafts, or of accounting standards already issued, on each subject and in the light of such knowledge produce an International Accounting Standard for worldwide acceptance. One of the objects of the formation of IASC was to harmonise as far as possible the diverse accounting policies at present in use in different countries.

10. In carrying out this task of adaptation of existing standards, and in formulating International

Accounting Standards on new subjects, it is the intention of the IASC, as stated in paragraph 2 above, to concentrate on basic standards. It will therefore endeavour to confine the International Accounting Standards to essentials and not to make them so complex that they cannot be applied effectively on a world wide basis. In the years to come it is to be expected that the International Accounting Standards issued by IASC will undergo revision and a greater degree of sophistication may then be appropriate.

11. International Accounting Standards promulgated by IASC do not override the local regulations, referred to in paragraph 8 above, governing the issue of financial statements in a particular country. If the International Accounting Standards issued by IASC conform with local regulations on a particular subject, the financial statements issued in that country which comply with the local regulations will automatically comply with the International Accounting Standards in respect of that subject. The obligations undertaken by the Members of IASC, as explained in this Preface, are designed to ensure that when the International Accounting Standards differ from, or are in conflict with, the local regulations, the financial statements and the auditor's report will indicate, in accordance with paragraph 3 (b) (i) and (ii) of the Preface, in what respects the International Accounting Standards have not been observed.

12. Any limitation of the applicability of specific International Accounting Standards will be made clear in the statements of those standards. International Accounting Standards are not intended to apply to immaterial items. An International Accounting Standard will apply from a date specified in the Standard and unless indicated to the contrary will not be retroactive.

13. The working procedure agreed by the Committee is to select certain subjects for detailed study by Steering Committees. As a result of this work an exposure draft is prepared on a particular subject for consideration by the full Committee. If approved by a two-thirds majority, the exposure draft is addressed to professional accountancy bodies who are entitled to participate in the International Accountancy Congresses; an exposure draft may also be addressed to such governments, securities markets, regulatory and other agencies as the Committee may

determine. Adequate time will be allowed for each exposure draft to be considered by the persons or organisations to whom it is sent for comment.

14. The comments and suggestions received as a result of this exposure are then examined by the Committee and the exposure draft is revised as necessary. Provided that the revised draft is approved by at least three-quarters of the total voting rights of the Committee, it will be issued as a definitive International Accounting Standard and will become operative from a date to be stated in the Standard.

15. For the purpose of voting referred to in paragraphs 13 and 14 above the nine countries referred to in paragraph 1 have one vote each. The exposure drafts therefore require affirmative approval by six of the nine countries and definitive standards by seven of the nine countries.

16. The definitive standard is published in the English language. Members will be responsible, under the authority of the committee, for preparing translations of exposure drafts and standards so that, where appropriate, such translations may be issued in the language of their own countries.

17. It is important to observe the degree of authority which attaches to the issue of the definitive International Accounting Standards when published in accordance with the procedure indicated above.

18. The accounting profession cannot normally impose its views except upon its own members and the task therefore is to persuade by example, leadership, and exhortation, the classes of persons referred to in paragraph 3 (b) (i) above to support the standards. In most countries of the world the accounting profession has a prestige and standing which will be of great significance in successfully achieving this task of persuasion. This explains, in this context, the use of the words "to use to their best endeavours".

19. Under the obligations referred to in paragraph 3 (b) (ii) and (iii) Members of IASC must use their best endeavours to ensure that auditors comply with the provisions of paragraph 3 (b) (ii) and that

appropriate action, which may be of disciplinary character, can be taken, in accordance with paragraph 3 (b) (iii) if they do not comply. This is the most important and serious obligation which Members of IASC have undertaken.

20. The Members of IASC believe that the adoption in their countries of International Accounting Standards, or disclosure of the extent to which they have not been observed will, over the years, have an important effect. It is to be expected that the quality of presentation of financial statements will be improved and that there will be an increasing degree of uniformity. Information will be provided as a routine which is necessary for a proper understanding of financial statements.[14]

The formation of the IASC has not been without some criticism in the United States. Many have questioned the need to participate in establishing international standards when FASB standards are considered to be equal, or superior, to those found in many nations. Others view IASC efforts as in either in direct conflict with the purpose of FASB, or duplicating FASB's efforts. And still others are concerned about the practical aspects of implementing, or enforcing, IASC's international standards.

Specific reponses to some of the criticisms leveled at IASC are not possible; only the test of time and future results will arrive at any conclusions. The proponents of international accounting do provide many arguments for IASC however, in attempting to rebut the criticism put forward. First, they claim, there is an increasing need for U.S. multinational organizations operating in foreign nations to make investment decisions

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[14]IASC, "Preface to International Accounting Standards," Accountants' Journal (February 1975): pp. 9-10.

and to control the investments once made. A multinational needs to receive financial information that is uniform and comparable, but with today's divergent accounting standards it must extract data from the foreign information, normally converting this data into U.S. accounting information, then comparing the results for use as needed. This technique, it is claimed, does not permit continuous flows of data which is sometimes needed, nor does it provide the degree of accuracy which may be required.

Seemingly universal opinion in the United States is that the creation of international accounting standards will assist U.S. investors in their overseas investment decisions. At the present time, investors are usually limited in their investment opportunities to domestic companies because of the difficulty they experience in interpreting foreign financial statements. In this respect, many express the conviction that once international standards provide world-wide comparability of financial statements, there will be great expansions of international security markets which will offer investors a much wider range of opportunities.

Several other reasons have been put forward as reasons for the United States to participate in IASC. One basic reason is simply that through the exchange of information between accounting bodies, the experiences of others will provide added useful information. For example, inflation accounting has been practiced in some countries for a number of years; this pool of experience could well provide needed information to avoid pitfalls that U.S. accounting efforts may encounter. A practical aspect of joining IASC has been expressed in the belief that the U.S. should help influence the pattern and direction of international accounting otherwise it could be possible that at some future time the U.S. is forced by world opinion to accept standards in which we have had little or no voice. Finally, a sound economic reason is put forth for us to consider. It is estimated in some studies that the U.S. may require up to $4.5 trillion in new capital within the next 10 years; if international accounting standards have been established which are conducive to better flows of investment capital between nations, it could help solve this investment requirement.

The response of those advocating the IASC and its efforts to those who are concerned about either conflict or duplication of FASB's efforts, is to point to the IASC's policy position. IASC Standards do not override local national standards if conflict arises; IASC only requires that the departure from it's standards be disclosed, with the reasons given, in the financial statements. The purpose of this IASC requirement to disclose differences is to permit examination and comparison of those difference so that over time a possible modification either to IASC or national standards could take place which would lead to an ultimate resolution of the problem.

The most critical aspect IASC faces lies in the implementation, or enforcement, of the Standards it puts forth. The thrust of the Preface to International Accounting Standards, particularly paragraph 19,[15] stresses the importance of enforcement. Progress in this respect was expected to be slow and evolutionary in nature and coupled with the persuasion of governments, authorities controlling securities markets and the industrial and business community.[16]

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[15] Ibid.

[16] Joseph P. Cummings, "Progress in the Establishment and Enforcement of International Accounting Standards," Accounting Forum (May 1976): pp. 1-6.

CHAPTER III

INTERNATIONAL ACCOUNTING STANDARDS

In the first three years of its existance, from 1973 to 1976, the IASC grew from the original nine charter members to 32 nations represented by 44 accounting bodies. As of July 1977, IASC had issued seven Standards, had five exposure drafts under study by members, and six topics undergoing active committee study. The common consensus appeared to be that IASC was gathering momentum in progress toward international accounting.

Recognition of the fact that the acceptance of international standards was the key to future success came along with the inception of IASC. Although all members of IASC have agreed to abide by the Agreement and Constitution of the Committee and to lend full support in ensuring that published financial statements comply with IASC Standards, enforcement measures have varied. The specific membership agreement is to use their best endeavors to ensure that either published statements comply with the Standards or that there is disclosure of the extent to which they do not comply. In the main, enforcement efforts have met or exceeded expectations.

In the United States, for example, the AICPA's Board of Directors, at their July 1975, meeting, reaffirmed support for the work of IASC. They agreed that the FASB would have to adopt the standards and confirmed that, if there were no significant differences between IASC Standards and U.S. Generally Accepted Accounting Principles (GAAP), compliance with GAAP would constitute compliance with the standards. If, however, IASC adopted a Standard which differed with GAAP, they stated that the AICPA "will urge the FASB to give early consideration to such differences with a view to achieving harmonisation of those areas in which the differences exist."[17] In addition, the AICPA plans to include in the appropriate volume of the Professional Standards all Standards adopted by IASC with the significant differences from GAAP indicated. The Board stated that the AICPA would continue its efforts to ensure that government authorities, securities commissions, stock exchanges and the business community were encouraged to put forth their views for possible inclusion in IASC Standards when draft Standards were circulated for study and comment.

In Canada, the Accounting Research Committee of the Canadian Institute of Chartered Accountants in July 1975, issued an exposure draft discussing its method of implementing IASC Standards. When adopted, a list of

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[17]Ibid.

IASC Standards will be included in the Canadian Handbook with an indication of the differences between the Standards and the Canadian practice. If the differences are significant, the problem will be given further study by the Accounting Research Committee. When this is completed, unless a fundamental disagreement remains or there are particular Canadian circumstances which require a different position to be taken, established procedures will be initiated to modify the Handbook to incorporate the Standard.[18]

A number of other member nations have taken steps to ensure compliance with IASC Standards. The United Kingdom, for example, has established enforcement criteria in the securities exchanges. On October 23, 1974, the London Stock Exchange announced that henceforth it will require compliance with IASC Standards and that any significant departure from, or non-compliance with, the Standards should be disclosed and explained. In France, the Ordre des Experts Comptables et des Comptables Agrees, the primary stock exchange, has adopted all the Committee's standards and has established disciplinary action, to include heavy fines and loss of accounting licences, if an auditor does not comply with the Standards.[19]

The problem of acceptance of the Standards, or the national enforcement actions, will remain key to the

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[18] Ibid.

[19] Ibid.

viability of IASC, or any organization which may accept the responsibility for issuing standardized accounting rules in the future. The IASC Standards which have been issued thus far have not created any severe conflict in principle; in the United States, for example, all seven of the Standards have been accepted as within the parameters of GAAP. It should be noted however that the IASC initial intent was to begin with the more fundamental issues, commonly accepted already by most nations, in an effort to build the basic framework of Standards. It is likely that the future will bring about interesting international discussions as the more complex issues are considered for incorporation into IASC Standards.

In the following paragraphs, the seven IASC Standards which have been promulgated through September 1977. A brief synopsis of each Standards covers the main points; it is anticipated that AICPA will soon include the Standards in full text in their Professional Standards to be published in the future.

In January 1975, IASC released its first standard covering "Disclosure of Accounting Policies" after a draft exposure period of four months. Steering committee members on this project were from France, The Netherlands, and the United Kingdom. It is very similar to Accounting Principles Board (APB) Opinion Number 22, requiring the disclosure of all significant accounting policies adopted by a company. It also requires the presentation of two-year financial statements. Prudence, substance over form, and materiality should govern the selection and application of these policies. Three fundamental accounting assumptions (going concern, consistency and accrual) are recognized as implicit in the financial statements and failure to follow them should be disclosed. A change in an accounting policy which has a material effect in a subsequent period should be disclosed and its effect quantified; disclosure does not, however, rectify any inappropriate treatment of an item in the financial statements. IASC Standard Number 1 was effective for periods beginning after 31 December 1974.

In October 1975, IASC released the second Standard on the "Valuation and Presentation of Inventories in the Context of the Historical Cost System." The steering committee was made up of members from Canada, Japan and Mexico. As far as the United States is concerned, this Standard does not have much impact. Inventories valued on the basis of historical cost should be carried at the lower of historical cost or net realizable value (estimated selling price less costs of completion and selling expenses). Although the treatment of other valuation bases is beyond the scope of this Standard, it requires the disclosure of the method of accounting for inventories. For inventory value within the historical cost system, allocation of fixed production overhead to inventory should be based upon the capacity of the facilities. Non-production overheads should be included as part of inventory cost only to the extent they relate to putting the inventories in their present location or condition. Fixed production overheads which do not contribute to the present location or condition of inventory should be excluded from cost and this fact disclosed. Exceptional amounts of wasted material, labor or other expenses likewise should be excluded from cost. Inventory cost may be accounted for by the First-in First-out, Last-in First-out, weighted average cost, or base stock method. Specific identification should be used when inventories are not ordinarily interchangeable or are manufactured and segregated for specific contracts. Use of either the LIFO or base stock method also requires disclosure of the difference between such amount and the lower of (a) cost determined by either the FIFO, weighted average, or current cost method, and (b) net realizable value of the inventories. Recognition of changes in estimates of net realizable value should not be based on temporary market fluctuations. The expected price of the final goods into which material inventories will be incorporated and the existence of firm sales contracts should be considered in establishing realizable values. The method of writing down inventories, whether on an item-by-item or group basis, should be consistently applied. The Standard requires the use of appropriate inventory subclassifications which would indicate the amounts held in each main category (e.g., materials, work-in-progress, finished goods, merchandise, and production supplies). IASC Standard Number 2 was effect for periods beginning after 31 December 1975.

In June 1976, IASC released their third Standard, on "Consolidated Financial Statements." The steering committee was composed of representatives from Australia, Germany, and the United States. In this Standard, a subsidiary is defined as a company in which the voting power is more than one-half owned either directly or indirectly by another. A parent company must consolidate all subsidiaries except where (1) control is temporary, (2) the subsidiary operates under conditions in which severe long-term restrictions on the transfer of funds impair the parents control. Subsidiaries described in (2) should be shown in the financial statements at their carrying amount under the equity method at the date they cease to to be consolidated The standard does not provide any guidance on accounting for subsidiaries under temporary control. A parent may (3), also exclude from consolidation a subsidiary whose activities are so dissimilar from those of other companies in the group that better information would result from the inclusion of separate financial statements. Dissimilar subsidiaries not consolidated should be accounted for by the equity method and their separate financial statements should be presented. Associated companies are investee companies that are not subsidiaries by over which an investor can exercise significant influence and substantial voting power. They should be accounted for by the equity method. The investor must intend to retain its interest in the investee company as a long-term investment. As under APB Opinion Number 18, "The Equity Method of Accounting for Investments in Common Stock," ownership of less than 20% creates the presumption that the investor does not exercise significant influence. When (1), an investee ceases to be a subsidiary and does not become an associated company, (2) an investee no longer meets the criteria for an associated company, or (3), a subsidiary ceases to be consolidated because it operates under severe long-term restrictions on the transfer of funds, the parent should no longer accrue its share of the investee's earnings. The investee should be stated in the consolidated financial statements at its carrying amount under the equity method of accounting at the date the investor ceases accruing its share of the intestee's earnings. However, the carrying amount of the investment should not exceed its fair value. The following are among the disclosures that should be made in the consolidated financial statements: (1) the reason for not consolidating a subsidiary, (2) an explanation for consolidating a company which is not a subsidiary, (3) an analysis of significant balance sheet and income statement amounts, if necessary to provide a fair disclosure of the exposure to exceptional risks of operating in foreign countries, and (4) a list and description of significant subsidiaries and associated companies. A minority interest in the equity of consolidated companies should be classified as a separate item in the consolidated balance sheet and income statement. However, it should not be shown as a part of shareholders' equity. IASC Standard Number 3 was effective for periods beginning after 31 December 1976.

In October 1976, IASC released their fourth Standard on "Depreciation Accounting." The steering committee included Australia, Canada and France. This Standard requires that the depreciable amount of an asset is to be systematically and consistently allocated over its useful life. The estimation of the asset's useful life should be made in light of expected physical wear and tear, obsolescence, and legal or other factors limiting the asset's use. Periodicallly, useful lives should be reviewed and, if the estimate has changed, rates should be disclosed and adjusted for the current and future periods. Financial statements should disclose for each major class of depreciable asset (1) the depreciation methods used, (2) the useful lives or the depreciation rates used, (3) total depreciation expense for the period, and (4) the gross amount of depreciable assets and the sum of the related accumulated depreciation. Straight-line, sum-of-the-years digits, and declining-balance are among the acceptable depreciation methods. IASC Standard Number 4 was effective for periods beginning after 31 December 1976.

In October 1976, IASC released their fifth Standard on "Information to be Disclosed in Financial Statements." The steering committee was comprised of Germany, Mexico, the United Kingdom and Ireland. This standard stated that all material information necessary to make financial statements clear and understandable is to be disclosed in comparative financial statements. Supplemental information should be provided if necessary to make amounts and classifications of items clear. Significant items should be identified if they are included with, or offset against, other items. General disclosures include: (1) restrictions on the title to assets, (2) security given for liabilities, (3) methods of providing for pension and retirement plans, (4) contingent assets and liabilities, (5) amounts committed for future capital expenditures. The standard lists various balance sheet and income statement classifications and accounting policies which should be disclosed. In addition to stating an enterprise's name, country of incorporation, and the period covered by the financial statements, the enterprise's legal form, nature of activities, and the currency in which the financial statements are denominated are to be disclosed if they are not otherwise apparent. IASC Standard Number 5 was effective for periods beginning after 31 December 1976.

In March 1977, IASC released their sixth Standard on "Accounting Responses to Changing Prices." The steering committee included Canada, Israel, The Netherlands, the United Kingdom and Ireland. This Standard reflected the IASC belief that financial information would become more informative as the various inflation accounting methods being proposed in many countries were studied and developed. To facilitate this process, this standard requires disclosure of the methods used to reflect the impact on financial statements of specific price changes, general price-level changes, or both. The absence of procedures for dealing with these effects is itself a required disclosure. IASC released a discussion paper on accounting for changing prices which was analyzed by the Journal of Accountancy in their April 1977, issue:

> . . . The draft summarizes and compares recent proposals to deal with the effects of inflation and changing prices in the IASC member organizations. The paper points out that in the past, financial statements have been prepared without regard to changes in prices. The IASC suggests this "shortcoming" be remedied to permit a better assessment of the performance of a company. The Committee observes that changes result either from fluctuations in the general level of prices, inflation or deflation, and/or from specific price changes. Two approaches to accounting for them are recommended. The first, based on current values of assets rather than on historical costs, recognizes the impact of price changes. Current value is based on replacement costs. The second approach is based on the general purchasing power of money

> rather than on units of currency. This approach recognizes the impact of general price level changes. It is determined by using a general price index, such as a gross national product deflator or a consumer price index. Some countries propose using a combination of both current value and general purchasing power methods. In discussing methods of reporting information on changing prices, the IASC says it seeks to develop standardization on "this rapidly developing subject."[20]

IASC Standard Number 6 is effective for periods beginning after 31 December 1977.

In September 1977, IASC released their seventh Standard on "Statement of Changes in Financial Position." The steering committee was composed of Australia, France and South Africa. Prior to this Standard, IASC did not include a sources and applications of funds statement within its definition of "financial statements." This Standard requires that a statement of changes in financial position be included as an integral part of the financial statements. The statement of changes in financial position should be presented for each period for which the income statement is presented. Funds provided from or used in the operations of an enterprise should be presented in the statement of changes in financial position separately from other sources or uses of funds. Unusual items which are not part of the ordinary activities of the enterprise should be separately discolsed in the statement. Each enterprise

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[20]News Report, Journal of Accountancy 143 (April 1977): pp. 34-38.

or group of enterprises should adopt the form of presentation for the statement of changes in financial position which is most informative in the circumstances.[21] IASC Standard Number 7 is to be effective for periods beginning after 31 December 1978.

Different cultures create different standards for comparing financial statements, different investment institutions have different needs and accounting principles differ from country to country. The problem has been to convey the same message to a foreign user as that received by a native user. Ideally, with identical reporting standards, transactions would be recorded the same in any part of the world. Although IASC, and international accounting in general, will face many frustrating developments in the future, at least the world has begun the effort to improve accounting information exchanges and is doing so in a cooperative, coordinated way.

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[21]News Report, Journal of Accountancy 144 (October 1977): pp. 26-28.

CHAPTER IV

THE FUTURE OF INTERNATIONAL ACCOUNTING

The growth in accounting body membership in IASC from the 11 original charter members in 1973, to 44 in 1976, has continued. As of October 1977, 51 accounting bodies representing over 500,000 accountants throughout the world are now participating in the process of formulating international accounting standards. This total is expected to reach 70 national organizations, representing almost 750,000 accountants, within the next year.

The significance of the membership trend in IASC has been noted by many as a confirmation of the viability of the concept of international accounting. Many of the organizations had decided to await developments in IASC in the formative months before making any commitment; it now appears that their subsequent decision to join has been based, at least in part, on their study of IASC's performance.

Both the near-term and long-term future for international accounting should be examined in any effort to provide a projection as to the rate or direction international accounting may adhere. Near-term examinations may be attempted by a review of currently proposed IASC standards; the long-term examination becomes less specific but several recent events at least provide some indications of what the future may bring. As of July 1977, IASC had five exposure drafts circulating for comment to all member accounting bodies. These drafts have received the preliminary approval of the steering committees responsible and indicate the immediate trends of IASC thought; they are discussed in the following paragraphs. Each Standard receives a consecutive number when it becomes an exposure draft and carries that number when it is approved as an IASC Standard. With Standards Number 1 through 7 already accepted, Exposure Drafts Number 8 through 12 are in circulation.

Exposure Draft Number 8, "The Treatment in the Income Statement of Unusual Items and Changes in Accounting Estimates and Accounting Policies," has a proposed effective date for periods beginning after 31 December 1977. The Draft proposes that unusual items should be included in net income and be disclosed with an explanation of their nature. Accounting estimate changes are not unusual items or prior period items. The effect of a change in estimate should be accounted for as part of income from ordinary activities, either in the period of the change, if it affects only that period, or in current and future periods, if it affects both. Accounting policies should only be changed if required by statute or an accounting standard-setting body, or if management believes a fairer presentation will result. The cumulative effect of an accounting policy change should be either (1) separately disclosed in current net income or, (2) reported as an adjustment of beginning retained earnings for the current period with restatement of comparative information for prior years. Changes in accounting estimates or policies having material effects in either the current or future periods should be quantified and disclosed together with the reasons for the changes. Comparative financial information should be restated for a change in the nature or compostion of an entity.

Exposure Draft Number 9, "Accounting for Research and Development Costs," has a proposed effective date for periods beginning after 31 December 1978. The proposed Draft appears to depart from current U.S. FASB guidance. The Draft proposes that research and and development costs should usually be charged to expense when incurred, but also proposes allowing deferral if several criteria are met. For deferral, it must be demonstrated that the product or process is technically and commercially feasible and that the enterprise has the resources to produce and market it. Every income statement should disclose the total of of research and development costs charged to expense, including amortization of deferred costs. Also to be disclosed are deferred costs, a general description of the projects, and the basis for amortization. Not included within the pruview of this draft are those research and development activities conducted for others under a contract or certain activities in the extractive industries. The major conflict between the Draft and FASB position appears to be that FASB does not permit any deferral of research and development costs.

Exposure Draft Number 10, "Contingencies and Events Occurring After the Balance Sheet Date," has a proposed effective date for periods beginning after 31 December 1978. The Draft would require contingent losses to be accrued if it is ". . . probable that a future event will confirm that . . . an asset has been impaired or a liability incurred . . ." and the amount of the loss ". . . can be determined with reasonable accuracy." Contingent losses not meeting these criteria should be disclosed, unless the likelihood of their occurrence is remote. Contingent gains should be disclosed, but not accrued.

Both Exposure Draft Number 11, "Accounting for Foreign Transactions and Translations of Foreign Financial Statements," and Exposure Draft Number 12, "Accounting for Construction Contracts," were released by IASC after July 1977, for comment by the member accounting bodies. Details of these drafts have not yet been available to the public and therefore this study does not include comment on them.

In addition to the five Draft Standards, IASC has six topics under study in various steering committees. Other than a public release of a generally descriptive title, IASC does not release detailed information to either the public or member accounting bodies until the steering committee has completed their study of the subject. Even the proposed titles of these topics under study may change, or the study may be postponed or deleted. At present, the titles of the topics in steering committees give an idea of the areas being examined and are as follows: (1) "Accounting for Taxes on Income," (2) "Accounting for Diversified Operations," (3) "Accounting for Leases in the Financial Statements of Lessors," (4) "Working Capital," (5) "Disclosure in Financial Statements of Banks," and (6) "Accounting for Pension Costs and Commitments."

The work being done by IASC on both Draft Standards and the topics under study present an indication of what lies ahead in the near-term future. Past history indicates that once the Drafts leave the steering committee for comment by member accounting bodies, about four to eight months are required before released as accepted

Standards. Topics under study have been held in steering committees for about 10 months average time, but it is almost impossible to draw any firm conclusions with such a highly variable subject; it is possible that some topics may be under study for years, or even dropped entirely. It can be conjectured however that both the Drafts and the topics under present study present somewhat of a pattern of events to come for about the next two years.

For the long-term view, several events have occurred which depict a broader picture of the course of international accounting.

In October 1977, the Eleventh International Congress of Accountants was held at Munich, Germany. At this Congress accountancy bodies from more than 50 nations agreed to the creation of a new international organization to be called the "International Federation of Accountants (IFA)." The new organization will be headquartered in the AICPA building in New York and the executive director will be Mr. Robert N. Sempier, formerly the director of the International Practice Division of AICPA. The purpose of the new organization is to "harmonize accounting practices around the world."[22]

The Council for the new IFA had their first meeting on 8 October 1977, at Munich, Germany, and set up

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[22] "Accountants Federation Established by Group From over Fifty Nations," Wall Street Journal, 11 Oct 77, p. 32

a list of tenative work program objectives for IFA for the next five years. The essential elements of this 12-point program are as follows:

1. Develop statements which would serve as guidelines for international auditing practices.

2. Establish a suggested minimum code of ethics to which member bodies would hopefully subscribe and which could be further refined as appropriate.

3. Determine the requirements and develop programs for the professional education and training of accountants.

4. Evaluate, develop, and report on financial management and other management accounting techniques and procedures.

5. Collect, analyze, research, and disseminate information on the management of public accounting practices to assist practitioners in more effectively conducting their practices.

6. Undertake other studies of value to accountants, such as, possibly, a study of the legal liability of auditors.

7. Foster close relations with users of financial statements including preparers, trade unions, financial institutions, industry, governments and others.

8. Maintain good relations with regional bodies and explore the potential for establishing other regional bodies, as well as assisting in their organization and development as appropriate. Assign appropriate projects to existing regional bodies.

9. Establish regular communication among the members of IFAC and with other interested organizations through the medium of a newsletter.

10. Organize and promote the exchange of technical information, educational materials, and professional publications and other literature emanating from member bodies.

11. Organize and conduct an International Congress of Accountants approximately every five years.

12. Seek to expand the membership of IFAC.[23]

In addition to proposing these 12 objectives, seven standing committees are planned. These will include committees on: auditing practice, education, ethics, management accounting, regional organizations, International Congress, and planning. The IFA Council would overview the work of all committees. Appointments from representative countries and member bodies would be made for a period of five years in order to ensure continuity. Committees would be asked to seek the close cooperation of others interested in their area, to include industry, governmental agencies, stock exchanges, users of financial statements, and other organizations and professions.[24]

It appears that the scope of IFA will exceed that of IASC, which was limited to providing international accounting Standards. Although too early to tell, the concensus of opinion at the Munich conference in October 1977, seems to be that IASC will continue for the time being with the purpose it now has, but at a later date, the more-inclusive IFA apparatus will absorb the IASC function.

The long-term future for international accounting, on the whole, appears to promise a continued effort toward unifying and standardizing the accounting profession.

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[23]"Tentative Work Program Objectives of the International Federation of Accountants for the Next Five Years," International Federation of Accountants Council (Munich: 8 October 1977) (Mimeographed)

[24]Ibid.

CHAPTER V

CONCLUSION

Viewing the changes in accounting which have transpired in the past three decades, as opposed to the changes from the very beginning of accounting, some perception can be gained as to the rate these changes are occurring. For example, if we assume that 24,000 years ago man began to first count on his fingers and thus began accounting, and if those 24,000 years are compared as a clock, counting 1,000 years for one hour, this can represent one full day of accounting history. Using this example then, it was about five hours ago, or 3,000 B.C., that man made simple marks on a stick to keep track of numbers.[25] Less than 30 minutes ago, in 1581 A.D., was the first recorded organization of an association of accountants, at the Collegio dei Roxonati, Venice, Italy.[26] Just six minutes ago, in 1854, the first society of accountants was formed in the United Kingdom and four minutes ago, in 1896, accountancy was first formally recognized by New York laws.[27] Less than 18 seconds ago, in 1972 and 1973, both FASB and IASC were born, and less than three seconds ago, IFA came into existence!

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[25] Enclyclopaedia Britannica. 1954 ed., s.v. "Numerals"

[26] Enclyclopaedia Britannica. 1954 ed., s.v. "Accountancy"

[27] Ibid.

These chronological comparisons of change within the accounting profession may appear surprising but of interest to this study is the pattern that seems to be developing. A more thorough examination of the organizational structure changes in accounting reveals that the tendency is for organizations to expand in their responsibility areas and in their geographic range. To simplify, accounting organizations have grown in responsibility from agreeing to keep records reasonably uniform so that members could easily exchange data with each other, to pronouncements of fundamental principles and methods that must be adhered to under penalties of both law and moral suasion. Geographically, accounting organizations began within cities, or city states, and now encompass not only nations and world regions, but the world itself.

The many rapid technological changes have, of course, provided a great motivating force for these modifications to accounting organizations. As the thrust of business grows under improved communications, transportation, and other technologies, so must accounting. The introduction of IASC four years ago and the formation of IFA in 1977, did not come as a surprise to many in the accounting profession who have been observing the rapid changes in both the business world and accounting. Their expression of surprise is that these events did not come to pass at an earlier date.

An examination of the trend of accounting in recent history, coupled with the knowledge that the world is steadily shrinking, leads to a conclusion that international accounting is here to stay. The future of it can not be predicted with any accuracy but the general pattern is evident. Satellite communication links, coupled with computer technology, can provide the world today with the exchange of accounting information on a real-time basis. Tomorrow, unless a system which will provide a basis for the simple exchange of economic information between nations is designed, mankind could pay the penalty of losing many of the world's resources. It appears that priority advancement of international accounting objectives will provide the means to prevent this tragic possibility.

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