DEVELOPMENTS IN HARMONIZATION OF ACCOUNTING STANDARDS

LeRoy J. Herbert

MR. HAWES: We are now going to shift gears a bit and talk about special legal and accounting problems in multinational activity. The first talk in that field will be on the harmonization of accounting standards, and the second will be about comparative disclosure and possibilities of harmonization in that area. We should listen to Roy Herbert's discussion of accounting harmonization in order to see what it portends for other kinds of harmonization, because certainly the accountants have been at harmonization efforts as long as anyone.

1. HARMONIZATION

MR. HERBERT: The issue of harmonization of accounting standards has received growing attention over the last decade. The process has been speeded up by a variety of interest groups, including

1. The users of financial statements. The impact of many companies on capital markets, commodity markets, on labor, etc., goes beyond national borders. Information included in the financial statements of these companies is, however, of only limited value to users in other countries if they are not familiar with the accounting standards underlying these statements.

2. International and multinational companies operating in several countries and having their shares quoted on several stock exchanges. These companies must comply with the different accounting rules and standards applicable in countries in which they operate, which makes their financial reporting increasingly difficult and costly.

3. Groups making efforts to harmonize accounting standards and company-law in connection with a greater economic and political integration of a given geographic area, e.g., the EEC.

4. Other national interest groups in various countries who are primarily interested in more stringent reporting requirements for international companies, with the objective of exercising more control over multinational companies.

As you can see from the background material that I have included as an Appendix to this Chapter, there are basically two different types of international organizations working to harmonize accounting standards. First, there are the bodies organized by governments, such as the United Nations, the OECD, and the EEC. Second, there are the international organizations set up by independent professional accounting bodies, such as the International Accounting Standards Committee and the International Federation of Accountants.

I would like to concentrate for the next few moments on the efforts of, and problems encountered by, the two organizations that have so far produced the most tangible results: the EEC and the International Accounting Standards Committee.
2. THE EUROPEAN ECONOMIC COMMUNITY [EEC]

The EEC is striving to create a common market with a free flow of capital, labor, and merchandise within its boundaries. In that context, company-law is being harmonized, and this involves harmonization of company financial reporting. The vehicles for harmonization are directives issued by the Council of Ministers to be incorporated in national laws of the member states. The Fourth Directive (on company accounts) was promulgated in 1978, and the Seventh Directive (on consolidated accounts) is in preparation. These directives have a significant impact on company reporting in the member states (the Fourth Directive will affect more than 1.5 million companies) and they are a considerable contribution to harmonization within, and probably outside, the EEC.

At the same time, the directives demonstrate the difficulties encountered in the harmonization process. It took more than ten years from the time that the Fourth Directive was first conceived to its final approval. In order to achieve agreement between member states on a number of issues, options had to be allowed to member states in enacting their national legislation, and also certain options were left to companies. With such wide latitude given, the Fourth Directive is more of a guideline than an agreed standard. The directive had to accept the fact that in some member states, financial statements are influenced by tax considerations, since in those countries taxation is based on statutory accounts. Furthermore, the Fourth Directive does not deal with all accounting issues, especially in the field of measurement. For example, there is nothing specific in it on translation of foreign currencies, on accounting for the effects of changing prices, or on deferred taxation.

It is expected that with the passage of time the gaps will be filled and the options will gradually be reduced. For the time being, however, financial statements of companies operating in different countries in Europe will still differ significantly. As an example, the proposed new national accounting legislation in Germany, resulting from the Fourth Directive, is likely to leave German companies out of line with other European and international practices in several key areas. (1) German company accounts will continue to incorporate tax-based rather than commercial valuations. (2) Consolidation will continue to be required on a domestic basis only, although this will change when legislation to comply with the EEC's Seventh Directive is introduced. (3) It is expected that Germany will continue to adopt a hostile approach to any form of accounting for changing prices, and the government will not propose the enabling legislation which would make inflation accounting compatible with the Fourth Directive.

3. INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE [IASC]

Compared to the EEC the IASC has undertaken an even bigger task—the harmonization of accounting standards on a worldwide basis. The IASC was formed in 1973 by the leading accounting bodies of ten countries: Australia, Canada, France, Germany, Japan, Mexico, The Netherlands, the U.K., Ireland, and the U.S. Today it represents fifty-nine professional accounting bodies in forty-seven countries. Its objectives are "to formulate and publish, in the public interest, standards to be observed in the presentation of audited financial statements and to promote their worldwide acceptance."
So far the IASC has issued thirteen Accounting Standards and six Exposure Drafts. A number of additional topics are presently under study. The standards are similar in format to the pronouncements issued by the Financial Accounting Standards Board (FASB) here in the U.S., and they cover topics such as inventories, consolidation, contingencies, and income taxes. Due to the variety of accepted accounting treatments worldwide, the international standards are, in general, broadly phrased and they allow options, i.e., different treatments for the same type of transactions.

Options are considered necessary in order to account for differences in economic conditions and for differences in national objectives for financial reporting around the world. Obviously, when options are allowed they reduce the degree of uniformity in financial reporting. As a result, the International Accounting Standards (IAS) represent an attempt to find common ground among national standards in areas where the standards of reporting are already highly developed, as opposed to an effort to standardize financial reporting. The degree of harmonization greatly depends on the degree of compliance with the IAS.

In this regard it is important to consider the authority of the IAS. Within each country local regulations govern, to a greater or lesser degree, the issue of financial statements. The IAS promulgated by the IASC do not override these local regulations. The IASC pronouncements are somewhat in the nature of recommendations and lack direct or supranational authority.

It was realized when the IASC was established that the IAS could not be imposed with the authority of law or of professional requirements; but it was hoped that compliance could be achieved by IASC member bodies influencing the business community. IASC member bodies committed themselves to the support of the IAS, to the use of their best endeavors in persuading all parties concerned that financial statements should comply with international standards, and to the requirement that auditors report non-compliance in their opinions. It now appears that these pressures are insufficient. The IASC has realized that compliance with its standards is, in fact, poor.

There are a number of reasons for these unsatisfactory results. In some countries the profession is not, or is no longer, in control of the standard-setting process—the FASB for example is not a member of the IASC. In other countries the professional body has no power to prescribe what auditors should state in their opinion; and in yet other countries, auditors are not allowed to say anything in their opinions beyond what is required by law. So the road is obviously more difficult than it was thought to be in 1973.

In an effort to improve its standing and to increase the level of compliance with its pronouncements, the IASC has approached the U.N. and the OECD with a suggestion for greater cooperation in the area of standard setting. In addition, the IASC is trying to increase its liaison with national standard-setting bodies, and it is calling on business interests, in particular the international and multinational companies, to give more support to the work of the IASC by making reference to compliance with the IAS in their annual reports.

One result of the IASC's work which should be mentioned is that many developing countries that have no established profession and no standards of their own are adopting the IAS as a national standard. The harmonization of accounting standards in these areas...
is a significant step forward, but in the final analysis, full compliance with the IAS can be achieved only if (1) the various professional bodies in the industrialized countries of the world give active support to the quest for international harmonization of accounting standards, (2) governments support the recommendations of the professional bodies and initiate the necessary legal changes, and last but not least, (3) the IAS enjoy the support of the international business community.

4. FOREIGN CURRENCY TRANSLATION

I have identified certain of the efforts made so far and the problems encountered by some of the organizations active in harmonizing accounting standards. Next, I would like to discuss the latest developments and some open questions relating to an important and controversial accounting issue: foreign currency translation.

Recent developments concerning foreign currency translation can serve as a good example of a truly international effort to speed up the harmonization process in a controversial area. In the U.S., the FASB has had its statement FASB No. 8 under review for the past two years. Since FASB No. 8 was issued in 1975, the statement has been criticized both by management of U.S. companies and by the accounting profession. Although some accountants believe FASB No. 8 is technically sound, many believe it produces unrealistic results.

Without going into technical details, FASB No. 8 is based on the temporal method, which uses a mixture of historical and current exchange rates for the translation of assets, liabilities, income, and expense items of foreign-based operations. The underlying assumption for the use of a mixture of exchange rates is that the unit of measurement for the performance of foreign-based operations is the currency of the ultimate reporting entity, i.e., the U.S. dollar. As a result, in times of widely fluctuating exchange rates the performance of a foreign-based operation measured in U.S. dollars may show unsatisfactory results, although the performance reflected in the local (foreign) currency financial statements is exceptionally good—or vice versa.

During the time the FASB had its statement No. 8 under reconsideration, the U.K. and Canadian institutes were also considering the issuance of standards on the subject. In 1980 a number of meetings were held among the FASB and the U.K. and Canadian institutes in order to exchange views on developments in each country and to explore ways to achieve a degree of harmonization in the standards to be published in each country. These meetings and what followed marked a significant step forward toward achieving international harmonization. It was the first time, to my knowledge, that the standard-setting bodies of these three countries (as contrasted with the IASC) had met with the objective of arriving at a common standard.

The exposure drafts that were issued by the FASB and the U.K. Accounting Standards Committee in October 1980 demonstrated this intention to agree. These two proposals are considered to be similar in all important aspects, although there are some material differences in the exceptions provided by the two drafts. Both drafts require the current-rate method; and for the U.S. this would be a revolutionary change from the presently applicable temporal method under FASB No. 8.
Canada and Ireland are presently holding back on issuance of standards, awaiting the outcome of these proposals in the U.S. and the U.K. Should the U.S. and U.K. approve the proposed statements, the current-rate method would, in all probability, also be used by other countries influenced by the U.K. and the U.S.

5. THE INTERNATIONAL ACCOUNTING FIRMS

I shall close with a few remarks about the modus operandi of the major international accounting firms and about the role they can play in the process of harmonizing accounting standards. With their experience in the multinational environment, members of these firms can and do make significant contributions, either by participating in or by commenting on the work of various organizations active in the field of harmonization. In order to maintain a high professional standard throughout their worldwide practice, these firms encourage their clients to adopt the highest standards for accounting and reporting procedures in their financial statements. In certain areas or countries where such standards are not stringent, however, the influence of the international accounting firms is limited.

The international financial press has suggested that international firms should contribute to the upgrading of accounting and reporting standards by not allowing their names to be associated, without qualification, with financial statements that do not meet certain minimum standards. In my view this suggestion is not feasible or practical because the firms cannot and should not attempt to move themselves into a quasi standard-setting position. Setting of standards is clearly the responsibility of the professional or governmental accounting bodies in the various countries—not that of the accounting firms themselves.

Furthermore, international firms cannot easily step out of line with the legal and professional requirements of the country where the financial statements are being drawn up. They are bound to observe the accounting and reporting standards required in each country. Where there is an established local profession, the international firms are normally members of this group, and they must follow its conventions. A deterioration in relations with the local profession could result in jeopardizing a firm's right to practice in the country or to practice in its own name.

The international firms can and will continue to make their contributions to the harmonization process by participating in various organizations, by rendering their professional expertise, and by using their best efforts to encourage their clients to do more on a voluntary basis.

MR. HAWES: The New York Stock Exchange says there are three hundred companies worldwide that would comply with its alternate listing standards. Using those standards, would investors (and I am talking of sophisticated analysts) have a problem comparing those three hundred companies today—any significant problem?

MR. HERBERT: If those companies are audited by what I refer to as one of the major international firms, the investors would not have a problem. I am not denigrating my professional colleagues in other countries. We have different standards; it is as simple as that. But if the audit is performed according to some local account-
ing systems in those foreign countries, I strongly suggest that investors should look very, very carefully at what is taking place.

Let me give you an example, without naming the country because their representative is here and I do not want to get in any trouble. We want to continue our practice in that country. A very, very major company--by any standard--employed us to perform an audit in one of the highly industrialized countries of the world because they were considering issuing securities through the Frankfurt market. We spent an enormous amount of time trying to do this engagement.

We came down to a relatively simple item called depreciation and we said, "Fellows, you have to take depreciation. That is the name of the game."

And they said, "Well, we had a bad year. Next year we are going to have a terrific year, and then you can take five times as much depreciation, but you cannot take it this year."

Now, I am not kidding when I tell you that we spent over seventy hours in partner time with the top management of this firm, trying to convince them that they had to take depreciation. In the final analysis we said, "If we cannot do it, then we are going to back off this engagement. We will not go ahead." That is the only way we got it done.

These were highly sophisticated businessmen in their own community. They truly believed what they said, because that is the way it is done locally. They thought we were out of our minds, telling them that they must further depress earnings by putting in this crazy thing called depreciation.

MR. HAWES: We will let Steve Friedman have the next question.

MR. FRIEDMAN: Granted the problems with harmonization, is there a middle ground that would make financial statements prepared in different countries with somewhat different conceptual systems useful to investors without a full re-statement? Is there a way to develop an explanation of differences in accounting treatment that would help investors interpret financial statements prepared in a different system, or are we on a thousand year journey?

MR. HERBERT: It may not be a thousand years, but it is a long journey. The IASC is trying to do what you are describing. But think about it in reverse. Think about explaining LIFO inventories and its ramifications to people in a foreign country who never heard of LIFO and do not have the slightest clue as to what LIFO means. That is a difficult task. The financial press would say it is simple: you can easily explain a thing like that. I very much disagree with their position. But to answer your question directly, I think what you have described—that middle ground—is the best we can hope for in any short-range period.
ORGANIZATIONS ACTIVE IN SETTING INTERNATIONAL ACCOUNTING STANDARDS

United Nations (UN)

For many years the UN has been active in the field of international accounting. An intergovernmental working group of experts was established in May 1979. This group is composed of 34 representatives from the following areas: African States, 9 members; Asian States, 7 members; Latin American States, 6 members; Western European and Other States (including the United States), 9 members; and Eastern European States, 3 members. The group was directed to research further steps to be taken in the field of international standards of accounting and reporting and to formulate priorities. A report to the Commission on Transnational Corporations is due in May 1981.

Organization for Economic Cooperation and Development (OECD)

The OECD, which is based in Paris, is the world's largest group of industrialized countries and comprises 19 European countries, the United States, Canada, Japan, Australia, and New Zealand. Participation in this organization is restricted to government representatives.

Based on the recommendations of a previous ad hoc working group, the OECD Committee on International Investment and Multinational Enterprises established an apparently permanent working group on accounting standards. International business and labor interests, the IASC, and the Group of European Accountants are asked to participate in the work of this working group through regular consultations. The objective of this group is to seek ways to energize existing activities in setting international accounting standards.

European Economic Community (EEC)

Based on a statement of the Council of Ministers of the EEC, one of the aims of the common market's industrial policy is the creation of a unified business environment. This involves the harmonization of company law and taxation, and the creation of a community capital market. The Fourth Directive of the EEC Commission provides the framework for a common standard of accounting and reporting. It requires adoption by the EEC member countries by 1982. A revised Seventh Directive dealing with consolidated financial statements was recently proposed. Approval of this Directive by the Commission is expected in 1981.

African Accounting Council (AAC)

The AAC was formed by 27 African countries in June 1979. Its objectives are to assist in the establishment of bodies entrusted with accounting standardization in African countries and to promote and carry out studies in the field of accounting standardization. This organization is still in the formative stage.

Asian Federation of Accountants (AFA)

The AFA was formed during 1977 jointly by the accountancy bodies of Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The objective of this organization is to improve professional standards in South East Asia. In 1979 the first in a series of accounting standards was issued by the Federation. These standards deal with fundamental accounting principles.
International Federation of Accountants (IFAC)

The IFAC is an organization of world accountancy bodies engaged in developing international auditing, educational, and ethical guidelines. International accounting standards are now issued by the International Accounting Standards Committee (IASC), an organization independent of the IFAC. There is a possibility that IFAC and the IASC may merge and it is for this reason that IFAC is included in this summary.

IFAC was formed in 1977 and started its operations in 1978. At January 1981, the membership of IFAC comprised 76 accountancy bodies in 58 countries. The Federation has formed committees on the subjects of auditing, education, ethics, management accounting, planning, regional organizations, and a committee to organize the 1982 International Congress in Mexico. The Auditing Practices Committee of the Federation has been authorized by the Council to issue guidelines on international auditing matters.

International Accounting Standards Committee (IASC)

The IASC was formed in 1973 by the leading accounting bodies of Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States. The Committee represents 59 professional accountancy bodies in 47 countries. Its business is conducted by a board consisting of two representatives of each of the nine founder members and two representatives each from not more than two other member bodies. The IASC has the responsibility and authority to issue, in its own name, pronouncements on International Accounting Standards.
APPENDIX XIII-B

SUMMARY OF STATEMENTS OF INTERNATIONAL ACCOUNTING STANDARDS AND EXPOSURE DRAFTS ISSUED BY THE IASC AS OF JANUARY 1, 1981

International Accounting Standards

1. Disclosure of accounting policies
2. Valuation and presentation of inventories in the context of the historical cost system
3. Consolidated financial statements
4. Depreciation accounting
5. Information to be disclosed in financial statements
6. Accounting responses to changing prices
7. Statement of changes in financial position
8. Unusual and prior period items and changes in accounting policies
9. Accounting for research and development activities
10. Contingencies and events occurring after the balance sheet date
11. Accounting for construction contracts
12. Accounting for taxes on income
13. Presentation of current assets and current liabilities

Exposure Drafts

14. Accounting for foreign transactions and translation of foreign financial statements
15. Reporting financial information by segment
16. Accounting for retirement benefits in the financial statements of employers
17. Information reflecting the effects of changing prices
18. Accounting for property, plant and equipment in the context of the historical cost system
19. Accounting for leases

Other Topics Under Consideration

The following additional topics are presently under study by the IASC. Exposure drafts have, however, not yet been issued on these subjects.

- Accounting for Business Combinations
- Revenue Recognition
- Accounting for Interest Costs
- Disclosures in Financial Statements of Banks
  (Discussion paper issued)
- Accounting for Government Grants
- Related Party Transactions
COMPARISON OF INTERNATIONAL ACCOUNTING STANDARDS WITH ACCOUNTING RULES AND PRINCIPLES APPLICABLE IN CERTAIN MAJOR PRACTICE AREAS AROUND THE WORLD

The following comparison has been prepared in order to identify controversial issues between the IAS and local rules and principles. It has been restricted to situations in which financial statements prepared in accordance with local rules and principles conflict with certain provisions of the IAS.

<table>
<thead>
<tr>
<th>International Accounting Standard</th>
<th>Controversial Issues</th>
<th>Accounting Principles Generally Accepted in the United States</th>
<th>Standard Accounting Practice in the United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Disclosure of Accounting Policies</td>
<td>IAS No.1 requires presentation of comparative financial statements</td>
<td>Presentation of comparative financial statements required for public companies (SEC regulations) not required for private companies</td>
<td>Presentation of comparative financial statements also required</td>
</tr>
<tr>
<td>2 Valuation and presentation of inventories in the context of the historical cost system</td>
<td>IAS No.2 requires valuation of inventories at the lower cost and net realizable value</td>
<td>Require valuation of inventories at the lower of cost or current replacement cost provided current replacement cost is not in excess of net realizable value or below net realizable value reduced by the approximate normal profit margin. (In addition U.S. GAAP permit valuation of certain inventories above cost.)</td>
<td>Valuation at the lower of cost and net realizable value also required</td>
</tr>
<tr>
<td>Provisions of the Fourth Directive of the European Economic Community</td>
<td>Accounting Standards in Australia</td>
<td>Accounting Principles Generally Accepted in Canada</td>
<td>Accounting Practice Generally Accepted in the Republic of South Africa</td>
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<tr>
<td>Presentation of comparative financial statements also required</td>
<td>Presentation of comparative financial statements also required</td>
<td>Presentation of comparative financial statements also required</td>
<td>Presentation of comparative financial statements also required</td>
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</table>

Requires valuation at the lower of cost or market. It is assumed that market can be interpreted as both current replacement cost or net realizable value. Disclosure is required in notes to financial statements of difference between inventory value stated in balance sheet and current replacement cost at balance sheet date, if significant. (In addition Fourth Directive permits valuation of inventories below cost or market, if value is acceptable for tax purposes. Disclosure of difference required in notes to financial statements.)

Valuation at lower of cost and net realizable value also required

Valuation at the lower of cost or market is most common practice (Significance of differences between IAS No.2 and Canadian GAAP is presently under study by the Canadian Accounting Research Committee.)

Requires valuation of inventories at the lower of cost or net realizable value or replacement cost or other expressly specified value. (Exposure draft issued proposes valuation at the lower of cost or net realizable value.)
<table>
<thead>
<tr>
<th>International Accounting Standard</th>
<th>Subject Matter</th>
<th>Accounting Principles Generally Accepted in the United States</th>
<th>Standard Accounting Practice in the United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Consolidated Financial Statements</td>
<td>IAS No. 3 permits consolidation in the following cases:</td>
<td>Consolidation not permitted</td>
<td>Consolidation not permitted</td>
</tr>
<tr>
<td></td>
<td>&quot;holding company&quot; owns majority of equity capital but less than half of voting stock.</td>
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<tr>
<td></td>
<td>&quot;holding company&quot; has the power to control by statute or agreement with or without more than half of the equity interest.</td>
<td>Consolidation not permitted without ownership of more than half of the equity interest.</td>
<td>Consolidation required if control is exercised by the power to nominate a majority of the board of directors.</td>
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<tr>
<td></td>
<td>IAS No. 3 requires disclosure of proportion of assets and liabilities to which different accounting principles have been applied, if they are included in a single balance sheet classification.</td>
<td>Disclosure of proportion of assets and liabilities to which different accounting principles have been applied, if they are included in a single balance sheet classification, not required.</td>
<td>Disclosure of proportion of assets and liabilities to which different accounting principles have been applied, if they are included in a single balance sheet classification also required.</td>
</tr>
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<td></td>
<td>IAS No. 3 requires equity accounting for certain investment accounts.</td>
<td>Equity accounting also required.</td>
<td>Equity accounting also required.</td>
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<tr>
<td>Provisions of the Fourth Directive of the European Economic Community</td>
<td>Accounting Standards in Australia</td>
<td>Accounting Principles Generally Accepted in Canada</td>
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<tr>
<td>Consolidation not dealt with in Fourth Directive. Subject matter of proposed Seventh Directive</td>
<td>Consolidation also permitted (Proposed 7th Directive)</td>
<td>Consolidation required if control can be exercised. Control is a question of fact not prescribed through legal rules</td>
<td>Consolidation required (matter under consideration for issue of exposure draft)</td>
</tr>
<tr>
<td>Consolidation also permitted (Proposed 7th Directive)</td>
<td>Consolidation required if control can be exercised. Control is a question of fact not prescribed through legal rules</td>
<td>Consolidation also permitted</td>
<td>Consolidation required if holding company or one of its subsidiaries is a member of that other company and controls the composition of the board of directors.</td>
</tr>
<tr>
<td>Financial statements of all companies included in consolidation are required to be uniformly prepared in accordance with provisions of 4th Directive (Proposed 7th Directive)</td>
<td>Disclosure of proportion of assets and liabilities to which different accounting principles have been applied, if they are included in a single balance sheet classification, not required</td>
<td>Disclosure of proportion of assets and liabilities to which different accounting principles have been applied, if they are included in a single balance sheet classification, not required</td>
<td>Matter not ruled upon.</td>
</tr>
<tr>
<td>Equity accounting optional; not required (Proposed 7th Directive, if adopted, will also require equity accounting)</td>
<td>Matter not ruled upon. (Equity accounting is, however, permitted)</td>
<td>Equity accounting also required</td>
<td>Matter not ruled upon. (Equity accounting is, however, permitted).</td>
</tr>
<tr>
<td>International Accounting Standard</td>
<td>Controversial Issues</td>
<td>Accounting Principles Generally Accepted in the United States</td>
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<tr>
<td>4 Depreciation Accounting</td>
<td>IAS No. 4 requires disclosure of certain information including the useful lives or depreciation expense for the period and accumulated depreciation individually for each major class of depreciable asset.</td>
<td>Disclosure of such information not required individually for each major class of depreciable asset</td>
<td>Disclosure also required individually for each major class of depreciable asset. (In addition disclosure is required of all movements during the year for individual classes of fixed assets.)</td>
</tr>
<tr>
<td>7 Statement of Changes in Financial Position</td>
<td>IAS No. 7 requires the presentation of a statement of changes in financial position.</td>
<td>Presentation of a statement of changes in financial position also required</td>
<td>Presentation of a statement of changes in financial position also required</td>
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</table>

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<thead>
<tr>
<th>Provisions of the Fourth Directive of the European Economic Community</th>
<th>Accounting Principles Generally Accepted in Australia</th>
<th>Accounting Principles Generally Accepted in Canada</th>
<th>Accounting Practice Generally Accepted in the Republic of South Africa</th>
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<tbody>
<tr>
<td>Disclosure of estimated useful lives or depreciation rates <em>not</em> required individually for each major class of depreciable asset (In addition disclosure is required of all movements during the year for individual classes of fixed assets.)</td>
<td>Disclosure of such information (except for estimated useful lives) <em>also</em> required individually for each major class of depreciable asset</td>
<td>Disclosure of such information <em>not</em> required individually for each major class of depreciable asset. (Exposure draft issued proposes disclosure of such information individually for each major class of depreciable asset.)</td>
<td></td>
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<tr>
<td>Presentation of a statement of changes in financial position <em>not</em> required</td>
<td>Presentation of a statement of changes in financial position <em>only</em> required for companies with shares listed on an Australian stock exchange.</td>
<td>Presentation of a statement of changes in financial position <em>also</em> required</td>
<td>Presentation of a statement of changes in financial position <em>also</em> required</td>
</tr>
<tr>
<td>International Accounting Standard Subject Matter</td>
<td>Controversial Issues</td>
<td>Accounting Principles Generally Accepted in the United States</td>
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</tr>
<tr>
<td>9 Accounting for Research and Development Activities</td>
<td>IAS No. 9 requires all research costs to be charged as an expense in the period incurred.</td>
<td>Also require that all research costs are charged as an expense in the period incurred.</td>
<td>Also requires that all research costs are charged as an expense in the period incurred.</td>
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</table>

IAS No. 9 in principle also requires development costs to be charged to expense in the period incurred but allows the deferral and systematic amortization of certain development costs if a number of specified criteria are met.

Require that all development costs are charged as an expense as incurred. Do not allow deferral of certain development costs.

In principle also requires that development costs are charged to expense as incurred but allows the deferral and systematic amortization of certain development costs if a number of specific criteria similar to those of IAS No. 9 are met.

IAS No. 9 requires disclosure of the total of research and development costs charged to expense.

Disclosure of total research and development cost charged to expense also required.

Disclosure of total research and development cost charged to expense not required. Only disclosure of movements in deferred development cost is required.
Provisions of the Fourth Directive of the European Economic Community

<table>
<thead>
<tr>
<th>Accounting Standards in Australia</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Provide that research and development costs are expensed, or, insofar as national law permits, may be deferred and amortized over a maximum period of 5 years.</td>
<td>Australian rules on accounting for research and development cost are only recommendations not an accounting standard</td>
<td>Also require that all research costs are charged as an expense in the period incurred</td>
</tr>
</tbody>
</table>

In the case of a deferral, the company is only permitted to distribute the income to the extent that accumulated retained earnings are in excess of the amounts of deferred research and development costs shown in the balance sheet. In exceptional cases member states may permit departure from the rules regarding the 5 year amortization period and the retained earnings retention.Disclosure of total research and development cost charged to expense also required

Rules allow deferral of research and development cost where it can be clearly identified as contributing to the revenue earning capabilities of the business in the future and amounts deferred will be absorbed by future revenues, or if capitalized, would at least realize their book value on disposal. Require that all development costs are charged to expense as incurred except in circumstances where specified criteria are satisfied. Where specified criteria are satisfied, deferral and amortization on a systematic and rational basis are required. Matter not ruled upon. Require that all development costs are charged to expense as incurred except in circumstances where specified criteria are satisfied. Where specified criteria are satisfied, deferral and amortization on a systematic and rational basis are required. Matter not ruled upon. Matter not ruled upon.

[389]
<table>
<thead>
<tr>
<th>International Accounting Standard</th>
<th>Controversial Issues</th>
<th>Accounting Principles Generally Accepted in the United States</th>
<th>Standard Accounting Practice in the United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Accounting for Taxes on Income</td>
<td>IAS No. 12 provides that the full comprehensive method of tax allocation, i.e., deferred tax accounting, should normally be applied.</td>
<td>Comprehensive method of tax allocation, i.e., deferred tax accounting, is required</td>
<td>Also provides that comprehensive method of tax allocation, i.e., deferred tax accounting, should normally be used.</td>
</tr>
</tbody>
</table>

IAS No. 12 permits that the partial approach of deferred tax accounting may be applied when there is reasonable evidence that:

- Timing differences will not reverse for some considerable period (at least 3 years)
- There is no indication that the timing differences are likely to reverse after that period.

Requires adoption of the partial approach to deferred tax accounting, if criteria for the application of the partial approach (same as under IAS No. 12) are met.

IAS No. 12 provides that either the deferral or the liability method be used for the calculation of deferred taxes.

Deferral method is required. Liability method is presumed but by implication deferred method also allowed.
<table>
<thead>
<tr>
<th>Provisions of the Fourth Directive of the European Economic Community</th>
<th>Accounting Standards in Australia</th>
<th>Accounting Principles Generally Accepted in Canada</th>
<th>Accounting Practice Generally Accepted in the Republic of South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application of deferred tax accounting</td>
<td>Comprehensive method of tax allocation, i.e., deferred tax accounting, is required</td>
<td>Comprehensive method of tax allocation, i.e., deferred tax accounting, is required</td>
<td>Comprehensive method of tax allocation, i.e., deferred tax accounting, is required</td>
</tr>
<tr>
<td>Optional. However, disclosure of unrecorded deferred tax credits or debits, if material, is required in the notes to financial statements.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matters not ruled upon</td>
<td>Partial approach of deferred tax accounting not permitted</td>
<td>Partial approach of deferred tax accounting not permitted</td>
<td>Partial approach of deferred tax accounting not permitted</td>
</tr>
<tr>
<td>Liability method is required. The liability method is not acceptable.</td>
<td></td>
<td></td>
<td>Also provides that either the deferral or the liability method be used.</td>
</tr>
</tbody>
</table>