

# The Impact of Adopting International Accounting Standards on the Harmonization of Accounting Practices

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**Key Words:** International accounting standards; Comparability; Harmonization

**Abstract:** Over the past few decades numerous organizations have been actively participating in the efforts to improve the comparability of financial reporting. Many studies have discussed the benefits and drawbacks of comparability. This study investigated the affect on the harmonization, or comparability, of accounting practices when a sample of companies choose to use international accounting standards (IASs) when preparing financial reports.

This study analyzed trends in the *I* index, a measure of concentration for the use of a particular accounting practice introduced by van der Tas, to determine if the choice of accounting methods by a sample of Swiss companies became more aligned with a sample of companies from three other countries. The study included a control sample of Swiss companies that did not switch from reporting using local Swiss standards during the same time period, 1988 through 1995. Four accounting practices were included; depreciation, inventory, financial statement cost basis, and consolidation practices. The practices used were compared with a sample of companies from three countries; Japan, the UK, and the US.

The results indicated that across the 8-year period, the majority of the *I* indices comparisons were positive and statistically significant. However, the results did not support that these increases were due primarily to the adoption of IASs.

The expansion of international trade and the accessibility of foreign stock and debt markets have been an impetus in increasing the debate of whether or not there needs to be a global set of accounting standards. As companies compete globally for scarce resources, investors, and creditors, as well as multinational companies, are required to bear the cost of reconciling financial statements prepared using national standards. It has been argued that a common set of practices will provide a “level playing field” for all companies worldwide.

Efforts have been made by a number of organizations<sup>1</sup> to reduce the differences between accounting systems. The coordination of efforts, to compile an international set of

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standards, was formalized in 1973 by the International Accounting Standards Committee (IASC). Their objective is to “work generally for the improvement and harmonization of regulations, accounting standards, and procedures relating to the presentation of financial statements” (IASC, 1995, p. 29). The members believe that with the adoption of international accounting standards (IASs) “the quality of financial statements will be improved and there will be an increasing degree of comparability” (IASC, 1995).

As Epstein and Mirza (1997) discuss, the IASC’s progress can be seen as taking place within three phases, (1) 1973–1988, development of a common body of standards; (2) 1989–1995, the comparability/improvements project; and (3) 1995–current, the core standards project. The early development years were devoted to establishing and codifying a set of international standards. The comparability project was the result of criticism regarding the numerous alternatives allowed by the IASC standards. The comparability project resulted in the revision of 10 standards. The core standards project has been encouraged by the IOSCO. The efforts of this program focus on the development of high-quality standards, which could be used for cross-border reporting.

With two primary objectives, (1) increase the quality of standards and (2) increase comparability, there are two areas to study. Other articles will address the question of quality (see Murphy and White, 1999). The purpose of this article is to determine whether or not the degree of comparability among companies from different countries has increased with the use of IASs. Some prior studies have examined whether accounting standards at a country level are in compliance with international standards. Other studies have examined the degree of harmony, or comparability, of the accounting practices utilized by companies from different countries. No other articles have been identified that examine the effect of companies’ adoption of IASs on the level of harmonization among companies. The research question addressed is:

Has harmonization of accounting practices occurred as companies have adopted IASs?

Briefly, harmonization is concerned with reducing the diversity that exists between accounting practices in order to improve the comparability of financial reports prepared by companies from different countries. Harmonization occurs as more companies choose to prepare financial statements using the same accounting practice. The terms increased comparability and harmonization will be used interchangeably.

This article should provide data that will aid the IASC in determining the impact of their efforts towards the comparability of financial reporting.

## **LITERATURE REVIEW**

Research on harmonization can be directed at either a country level or company level. Studies that compare the accounting systems of two or more countries have done so using a variety of techniques. One approach has been a purely descriptive comparison of the standards (e.g., pensions (Needles et al., 1991), foreign currency translation (Mehta and Thapa, 1991), software costs (Scarborough and Sakurai, 1993), leases (Vergoosen, 1992), and segment reporting (Ahadiat and Stewart, 1992). This method provides for a discussion of the similarities and differences in the current standards. Studies also document how

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