



HARMONIZATION AND CLASSIFICATION OF THE ACCOUNTING SYSTEMS: THE CASE OF THE UNITED KINGDOM

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ABSTRACT

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Social, political and economic reasons cause variations in the accounting systems developed and implemented by each country. However, the globalization that characterizes the world nowadays and the opening up of the national markets make necessary the elimination of these accounting differences and the need to homogenize the financial statements of business units, both at national and international level. The urgency of the need to apply uniform accounting standards at global level is evident particularly in the context of the recent market crisis and the ever-increasing competition between businesses. The importance of accounting harmonization with a global common accounting framework of methods and principles has become imperative. In this paper we are trying to highlight the accounting system of the United Kingdom, its features and its classification. The UK was one of the first countries which developed the accounting profession. However, the literature on accounting has been embryonic for many years. The most powerful influences of the financial information of businesses - both from international and local factors - came from published Companies Laws and by professional accountants and less than stock exchanges and tax system.

1. INRODUCTION

Accounting harmonization refers to the process of reducing differences in accounting systems between two or more countries using specific forms of intervention. Accounting harmonization has been addressed by its defenders as an effective mean for the facilitation of cross-border economic activities and the reduction of the general costs of compliance with different accounting standards (Saudagaran et al 1997). The harmonization can be operated at different levels: concepts, principles, regulations and practices. Nevertheless, the harmonization achieved at a level (such as regulations) does not necessarily imply harmonization at a different level (such as accounting practices) (Frost and Carol, 1994). Harmonization allows comparisons of international financial transactions with greater ease, speed and economy. Through harmonization the free flow of comparable economic information, which is an essential condition of the EU's target of a common market, is becoming even more accessible (Baker & Barbu 2007). Thus, accounting harmonization aims to make financial statements more comparable than previously.

There are two types of harmonization: 1. "De facto" Harmonization: Refers to the harmonization of the accounting practices applied by different companies (Salim Uddin, 2005). It concerns consistency in actual implementation. 2. "De jure" Harmonization: Refers to the harmonization of rules and regulations (Garrido et al. 2002). It is a theoretical approach to harmonization which it means that the similarities and

differences between the rules and regulations of the different countries, categories or groups are reviewed and harmonized.

Accounting harmonization rules can be applied at both local (national) and global (international) level. Harmonization at a global level refers to the actions taken by global regulatory factors in order to achieve an ideal level of harmonization. On the other hand, local harmonization concerns the methods of accounting harmonization applied by neighboring countries. Figure 1 shows a harmonization approach in terms of achieving a higher level of accounting harmonization in a progressive manner. In this approach, local harmonization is an intermediate step towards global harmonization.

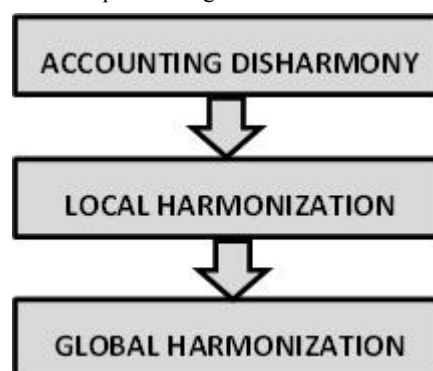


Figure 1: Levels of Accounting Harmonization

2. REASONS FOR ACCOUNTING DISHARMONY

There is a wide variety of differences between the accounting practices adopted in different countries. According to Jahangir Ali Muhammad, (2005) the underlying reasons for these differences are essentially environmental because “accounting is a product of its environment, and a particular environment is unique in terms of time and place”. The accounting environment in a country may differ from that of a different country in terms of a variety of factors including political, economic, social and religious environments. These differences are particularly important between developed and developing countries. Global harmonization may become difficult because countries cannot agree to a change in accounting practices as long as the underlying environmental factors are significantly different.

In 1977, the American Accounting Association identified eight important “parameters” in understanding the comparative international differences in Accounting: The political system, the economic system, the level of economic development, the objectives of the preparation of the financial statements, the source or authority for the adoption of accounting standards, education, training and licensing, Accounting Standards and Ethics and finally the customer.

According to Bocqueraz and Walton (2006), among the most important causes of accounting practices in literature are: 1) The sources of finance, 2) The existing legal system, 3) The link between accounting and taxation, and 4) The cultural differences between societies.

2.1 Financing sources

The difference between financiers (creditors / members) and finance customers (shareholders / owners) is the main cause of international differences in financial reporting (Nobes and Parker, 1998). Businesses in different countries respond differently to the growing need for funding. According to Bocqueraz and Walton, in Germany, France, Italy and Belgium, banks became the major supplier of additional funds. As a result, businesses have been more reliant on debt financing. On the contrary, in the UK and the United States, the shareholders granted the additional funds.

2.2 Existing legal system

Two types of legal systems have been developed in the past in the West: 1) the common law system and 2) the code law system. The system of common law was developed in the UK by case law and is a typical case of a legal system developed on a case by case basis. In countries under the legal system of the Common Law, accounting rules are in the hands of professional private sector organizations. Company law is limited to the minimum and the detailed regulation is produced by the private standard regulator (Ball et al. 2000). The code law system has its roots in Roman law and has been developed in continental Europe. It is characterized by a wide set of rules that are trying to provide guidance in all situations. In the code law countries, company law is very detailed and accounting standards are often incorporated into company law. Responsible for the adoption of accounting standards in this case is the government.

2.3 Cultural differences

Cultural differences between nations are identified as an important factor influencing the process of submitting and publishing financial statements (e.g. individualism versus

collectivism, strong versus anti-avoidance, professionalism versus legal control, uniformity versus flexibility, and disguise against transparency).

2.4 Link between accounting and taxation

In some countries the tax authorities use the information provided in the financial statements to determine the taxable income. In some countries, expenditure is only deductible tax. This may lead to the risk that financial reporting is affected by taxation. This link is often found in those countries that do not have an explicit investor approach, e.g. Germany, Belgium, and the Czech Republic.

In the UK, the US and the Netherlands the link between taxes and accounting is much less possible. Separate accounts are archived for tax purposes. Measurement and recognition rules are different from the assessment rules used in financial reporting. This relationship between accounting income and tax revenue varies over time.

3. HARMONIZATION BENEFITS

It is useful in this analysis to highlight the reasons for accounting harmonization from two viewpoints, the preparation of financial statements and the users. Companies are preparing financial statements for its users who are interested on the company. But it is not the only reason. It is so hard for a company, any time making an investment in a country, to deal with a new set of accounting standards. A uniform set of accounting standards, adopted from all the countries, provide efficiency gains both internally and externally (Epstein and Mirza, 2001). So, the accounting department will best serve the client if harmonized principles and practices are followed. A similar internal reporting system gives the chance of better comparisons, less confusion and mistakes between the parts of the company. Also, cost savings can be achieved, because the preparation of financial statements will be easier for companies. With Accounting Standards the credibility of the externally reporting could be raised. All the reported figures would be shown in the same way. The access to main financial markets will become easier for companies and the capital would be appeared simpler for them.

At the other hand, we have the employees, investors, banks, and owners. Harmonization brings a lot of advantages. Investors, banks or owners are interested in obtaining information, which enables them to take investment decisions. Financial statement based on harmonized principles would make easier the comparison between companies because similar transactions take place in the same way everywhere in the world. In other words, similar accounting practices lead to a better comparability between companies. It is a major theme, the fact of better understanding the reports because the risk is lower and the selections of investments is more efficient. Choi et al. argue that “financial statement users have difficulty in interpreting information produced under non-domestic accounting systems. They claim that harmonization will make it more likely that users will interpret the information correctly, and thus make better decisions based on that information” (Choi et al., 2002). For the employees, we can claim harmonized accounting standards are important because they can better understand the development of the company they work in and operate its functions efficiently. Harmonization is a movement away from total diversity of practice. According to Fredrick Choi (1999), harmonization is a process of increasing the compatibility of accounting practices by

setting limits on how much they can vary. From this definition, harmonization of standards will minimize logical conflicts and improve the comparability of financial information from different countries. Harmonization is flexible and open. R.D. Nair and Werner G. Frank, in their article "The Harmonization of International Accounting Standards, 1973-1979", wrote that in the 1970s, serious attempts were made to harmonize international accounting practices. This effort was important because the growth of international trade and of multinational corporations necessitated the comparison of accounting data across national boundaries.

Finally, the tax authorities are benefited by the harmonization because it is easier to calculate tax liability of a company, including multinational and foreign companies where the accounting practice is well understood. From all the above, it is clear that international harmonization of accounting standards is vital to promote the international capital market and it is also necessary to overcome the difficulties. In spite of differences in international financial reporting, harmonization of the accounting practices were used in the preparation and presentation of financial information.

4. THE ACCOUNTING STANDARDS IN THE EUROPEAN UNION

4.1 Community Instructions

According to the Treaty of Rome, which was signed in 1957, the primary incentive to harmonize the accounting systems of the Member States of the European Community (now the European Union) was "to achieve economic integration in the Community". The ultimate goal was to promote trade and thereby to liberalize trade and the flow of capital within the European Union. The EU's objectives were fulfilled to a certain extent through the Community Directives, in particular through the Fourth and Seventh Community Directives, which should be incorporated into the legislation of the Member States within a specific timeframe. However, the European Community stressed that the aim of accounting harmonization through the Directives was to encourage comparability and equivalence of financial information despite absolute uniformity (Joos P., Lang M., 1994).

The Fourth Directive, which aimed at harmonizing national laws on accounting arrangements for both public and private businesses, was adopted by the EU Council of Ministers on 25 July 1978. This Directive covers accounting points at the level of an individual enterprise rather than a group of companies, as the issue of groups is dealt in the Seventh Community Directive. According to Alexander et al (2018) this Directive introduces the concept of "fairness" of the disclosure of assets, liabilities, the financial position of the company and two of the most important accounting principles have been established: the principle of continuity of business and the principle of "co-existence" of the results.

The Seventh EU Directive, adopted on 13 June 1983, deals with consolidated accounts. According to this, the parent company should prepare, in addition to its own individual accounts, consolidated accounts and a consolidated annual report showing the financial position of the group as a single entity (Canziani, 2017). The adoption of directives by national law has led to significant changes in the legislation of the European members. In some cases it has changed even the purpose of the financial statements. These changes resulted in the separation of different financial reporting practices into two broad categories: the Anglo-Saxon countries group,

including the UK, Ireland, the Netherlands and Denmark and the Continental Group, consisting of countries of Western Europe (Karwowski & Stockhammer, 2017). A feature of the first group of countries was the right to a free and therefore subjective choice between alternative accounting practices and the loss of linking financial information to taxation. In addition, the Anglo-Saxon accounting system is characterized by compliance with accounting standards rather than legislation.

On the other hand, the second group - of the Continental countries - is characterized by the state interventionism, resulting in a strong link between accounting practice, and information with taxation. In addition, the practices of drafting financial statements follow strict rules which are included in trade codes, corporate rules and general accounting plans, and there is a frequent absence of accounting standards bodies and committees.

Influenced by the national accounting traditions of certain countries, the Directives have been applied differently in the European territory. That was the reason why the expected degree of comparability and equivalence of financial statements across Europe was not achieved (Leblond Patrick, 2005). Despite the differences in the application of the Directives in national legislation, the impact of these directives was enormous as it led to a mandatory codification of accounting rules through national legislation, significantly improving the quality of financial information provision in the Members of the Union.

4.2 Accounting Standardization in the United Kingdom

The UK was one of the first countries which developed the accounting profession. However, the literature on accounting has been embryonic for many years. Regarding financial information for businesses, the most powerful influences - both from international and local factors - come from published Companies Laws and by professional accountants and less than stock exchanges and tax system.

The role of professional associations was initially to issue instructions to their members regarding financial reporting practices. Later, of course, they gained more power as they adopted the standards that should be adopted by the majority of companies. However, the role of professional accountants remained catalytic as they are responsible for auditing financial statements in order to determine whether the accounts meet the requirement of presenting a "fair" image.

Generally, it can be said that although the standardization process existed until the 1880s, these standards did not get the same formality because they developed through the practice and the ability to adapt to the needs. There were no mandatory requirements or rules on the presentation of corporate financial statements, and the Handbook of Recommendations on Accounting Principles which was published -initially in 1942 and revised in 1969 - the Institute of Chartered Accountants in England and Wales - ICAEW for auditing and accounting issues relating to its members, was purely advisory and in no case was not mandatory (Blake J, 1995). In essence, it was a summary of current accounting practices and did not encourage research into developments based on formal research.

This situation continued for almost a century, until the decade of 1970s, where a series of scandals in England forced the responsible bodies to reconsider the issue of adopting accounting standards, which would be mandatory this time. In particular, these scandals concerned the companies of

Pergamon Press, General Electric Company and Vehicle and General Company. The way in which these business cases have literally sharpened the accounting profession can be ascertained by the example of General Electric Company (Glautier & Underdown, 1997).

In 1967, General Electric Company (GEC) made a takeover bid to Associated Electric Industries (AEI). The latter produced a profit forecast - for that year - of £ 10 million, which was based on real 10-month gains and two-month budget earnings. GEC's takeover bid proved successful, and GEC reported that in fact the AEI suffered a loss of £ 4.5 million for that year. According to GEC's auditors, 9.5 of the difference of 14.5 million pounds between the two earnings calculations of 1967, was due to a divergence of view on the accounting practices that were followed. A series of articles in local newspapers strongly criticized the failure of the accounting profession to establish standards for the depiction of financial statements. The Institute's response to the strong reaction of the press was the establishment of Accounting Standards Committee, which was the starting point for the introduction of accounting practices.

4.3 The Regulatory Framework in the United Kingdom

In the UK the term "Generally Accepted Accounting Principles" is not used in a

"strict framework", as it is adopted by other countries.

The reason for that is because GAAP do not have the relevant regulatory or institutional meaning, such as in the case of the United States. Therefore, the term "Generally Accepted Accounting Principles" is rarely found in British literature, but even when it is used as an expression it is not accompanied by sufficient explanations or interpretations (Pereira et al 1992).

As stated above, "Generally Accepted Accounting Principles" is a dynamic concept that requires continuous renewal and adaptation to the changing circumstances and needs of the business and financial environment. Consequently, the limits of the UK's Generally Accepted Accounting Principles extend beyond the accounting standards, encompassing the requirements of the Corporate Transactions and the London Stock Exchange, as well as modern, accepted accounting practice.

In British literature, the term "Generally Accepted Accounting Principles" refers to accounting practices which are considered legitimate by the accounting profession. In particular, the Accounting Standard SSAP 2 refers to four of the well-known principles: the principle of the continuity of the entity's business activity, the principle of accounting consistency, the principle of conservatism and the principle of accrual of uses and the relationship between revenues and expenditure. To summarize, the issue of financial reporting in the UK is regulated by accounting requirements, which may be either mandatory or advisory.

4.3.1 Mandatory Sources

According to Wild et al. (2000) the sources of mandatory nature for accounting requirements include the following:

1. Legal requirements contained in Corporate Acts and Rules adopted by other Regulatory Bodies. Community directives become mandatory only if they are incorporated into legislation by Parliament.
2. Accounting Standards adopted by the Accounting Standards Committee (ASC) and the Accounting Standards Board (ASB). A set of standards contain

provisions that exclude cases of enterprises of a certain size from certain disclosure requirements.

3. Urgent Issues Task Force (UITF).
4. Requirements included in the Listing Agreement of the Stock Exchange. The "Listing Agreement" increases the disclosure requirements for listed companies but also and for companies whose shares are listed on the Alternative Investment Market.

4.3.2 Advisory Sources

The Advisory sources include the following:

1. Issues of Recommended Practice (SORPs). They are providing guidance on current best practice on issues that are not of fundamental importance.
2. Financial Reporting Exposure Drafts- (FREDs)
3. Other Standards Issued by ASB.
4. Legal publications of various bodies dealing with accounting issues and which issue opinions on various topics. Although these publications are not mandatory, they are taken into account by the general accounting community.
5. The Cadbury Committee's report on Corporate Governance Financial Issues, issued in December 1992,
6. The Greenbury Committee's report on compensation to directors, issued in July 1995.
7. The Hampel Committee's report on corporate governance, issued in January 1998.
8. The Combined Code issued in June 1998 and since then has undergone many changes.
9. Changes occurring from the international scene and from international accounting standards Committees.

Some of the abovementioned sources are briefly outlined below.

4.4 Corporate Acts

The most popular way of adopting rules was to publish Corporate Act, which covers England, Wales, Scotland and Northern Ireland. The first one was published in 1844 (Companies Act 1844) and required from listed companies to prepare a balance sheet, which had to be audited by a person who, unfortunately, most of the time did not have the professional status of accountant-auditor. The same Act did not specify the type of information that should have been included in the balance sheet and did not require the publication of Income Statement. That fact was somewhat improved by the 1856 Corporate Act, which proposed specific asset and liability titles, but it was at the discretion of the company the option of applying the proposed categorization.

The Corporate Act of 1900 makes once again the control mandatory for listed companies, although at that time separate legislation was in force for most business entities (such as railway stations, banks and insurance companies) in which they have to publish in more details their statements rather than for other businesses (Alexander D., Archer S., 1992). Seven years later, the Corporate Act of 1907 made a separation of businesses in public and private, a separation that exists even today. The Corporate Act of 1929 render mandatory the publication of the Income Statement for first time and the concept of the subsidiary is introduced, since the inter-company funds were the new reality in the UK.

However, nineteen years has to be passed in order the publishing of the consolidated accounts alongside with the

accounts of the parent company to be obligated. This became a reality with the Corporate Act of 1948, in which for first time emphasized the importance of providing information through the financial statements in order to facilitate investment decisions. Among the largest contributions of the Act, apart from the claim of group accounts, the obligation to audit the Income Statement and the auditors' obligation to report whether the financial statements present a "fair" view of the company's assets and profitability.

This Act prevailed for almost forty years with some amendments that introduced a series of Corporate Acts such as that of 1967 which made disclosure of information on business turnover obligatory and at the same time removed the privilege of family-private companies not to disclose information. The Act of 1976 has tightened up the legislative measures to preserve and publish information, while at the same time it strengthened the position of auditors.

The Corporate Act of 1981 adopted the requirements of the Fourth Community Directive, while the 1985 Corporate Act includes all Acts until that period, consisting of 747 sections and 25 projects. One of the most important requirements introduced by the 1985 Business Act is the preparation of the annual financial statements in a way that provides a "true and fair" view of the company's assets. Unfortunately, the provisions of the Act do not provide a precise interpretation of the term "true and fair" but could perhaps be interpreted as the request that all accounts should be fair in all aspects and that there should be a fair presentation of them which is consistent with the generally accepted accounting practice of United Kingdom. The accounting and auditing provisions of the Corporate Act of 1985 were improved and reformulated by the 1989 Corporate Act, which inter alia was in line with the Seventh and Eighth Community Directives.

4.5 The Contribution of Accounting Profession

The impact of the accounting profession on the adoption of rules on financial reporting has been decisive from the beginning of those efforts. Professional accountants have occasionally been members of committees to amend the Corporate Laws, exercising even a dominant influence.

According to PriceWaterhouseCoopers, (1999) report, contrary to many European - mostly continental - countries, where the prevailing view is that rules should be adopted by committees subject to government control, in the UK it is considered that the companies should become responsible for providing financial information to investors and the public. Many times the state intervention is considered a "necessary", as this brings balance to situations of crisis and business scandals. Despite of these interventions, the establishing of accounting rules remains in the hands of the accountants, and not the government, which has led to strong public criticism in the sense that the accountants' interests, who are considered the representatives of the major audit firms and companies differ from those of the public interests, and in particular the users of the financial statements.

In order to meet the requirement to provide adequate but most accurate information, Committees and Professional Agencies have been set up to assist accountants in this important task of establishing rules, which sometimes interfere, like the Government, to restore balance, offering guidance to their members on the best accounting practices. The most important entities are described below.

4.5.1 Institute of Chartered Accountants in England and Wales – ICAEW

The Institute of Chartered Accountants in England and Wales (ICAEW) is the largest professional body of Accountants in Europe, with more than 125,000 members. Prior to the introduction of accounting standards setting program, ICAEW provided guidance to its members through a series of declarations, named Recommendations on Accounting Principles. The adoption of these recommendations begins by establishing the Taxation and Financial Relations Committee, which was later renamed Taxation and Research Committee, in 1942, and by 1969 had issued 29 recommendations. The role of this Committee was to prepare draft recommendations that were translated into real recommendations following a decision by the Institute. The "Recommendations on Accounting Principles" were in fact summaries of current accounting practices and did not trigger the development of new rules and were not supported by formal research. To this end, the Institute launched a Statement of Intent on Accounting Standards in 1969, which aimed at the development of accounting standards through a program in which it was expected (Leach R., Stamp E., 1981):

- The minimizing of differences and different approaches of the accounting practices.
- The disclosure of information on the accounting methods used.
- The requirement to disclose information about the deviation from the defined accounting standards in the notes on the accounts.
- The introduction of a system for drafting accounting standards, which would be studied and approved by the relevant representative associations.
- The process of continual improvement on disclosure requirements that would be provided by corporate laws and regulatory bodies, such as the Stock Exchange.

At that time, there were some allegations that, if the ICAEW intervention was not immediate, the government's involvement was expected, to set up a competent body that would be called upon to resolve the problem. Therefore, it can be said that the accounting standards program was created in response to the request for improved and consistent financial reporting standards by the accountancy profession.

4.5.1The Accounting Standards Committee

Following the publication of the Accounting Standards Program of ICAEW in 1969, the ICAEW set up the Accounting Standards Steering Committee, which was consisted of a 11 members, and later was renamed as the Accounting Standards Committee. One of the reasons for which ICAEW decided to set up the ASC was that at that time there were proposals for the merging of the largest accounting associations, the Scottish Institute of Chartered Certified Accountants and the Institute of Chartered Accountants of Ireland. These proposals were rejected by the members of the ICAEW, while in June 1970 the Consultative Committee of Accounting Bodies (CCAB) was established to coordinate the activities of the profession in specific areas.

Among the objectives of the ASC were:

- The Revision of Financial Reporting Standards.
- The publication of advisory documents to maintain and improve accounting standards.

- The creation of standard accounting practices reports at the Board of Governors' Associations.
- The consultation with representatives of the Financial Sector, Trade, Industry and Government as well as with other persons involved in financial information.

In order to achieve the objectives of the ASC, with a view to narrowing the differences between the various accounting methods that were in use, a specific procedure was followed, which was based on the adoption of an "Exposure Draft" for a specific issue which the accountants and the public were studied. The comments made in the Draft Law were taken into account for the introduction of a formal report on the accounting method to be applied to address this particular issue. This official reference is known as "Statement of Standard Accounting Practice" (SSAP). These Standards have been adopted by the accounting community at the earliest, and indeed any significant deviation from the Standard used in the preparation of a financial report, should refer to this report.

The process of adopting SSAP has been evolved over time and has been a complex and time-consuming multi-stage process. Twelve stages were included only in 1990. Until today the Standards (prior to attempts to comply with International Standards) are as follows:

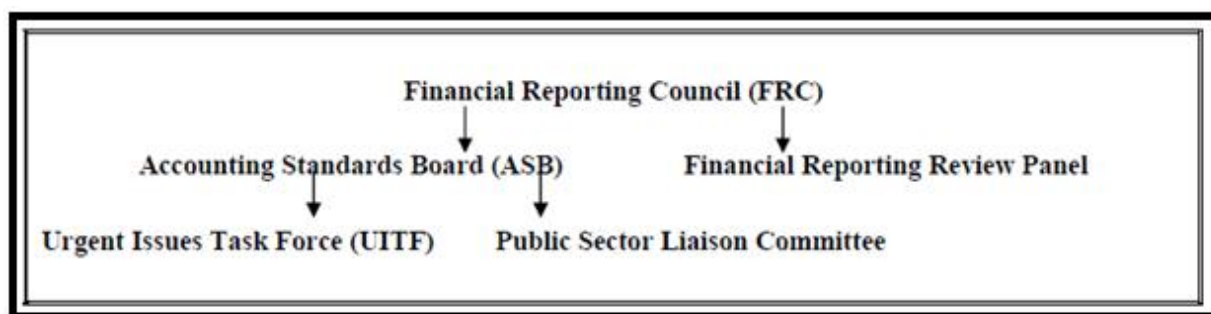
- SSAP 1 "Accounting for the Results of Associated Companies"
- SSAP 2 "Disclosure of Accounting Policies"
- SSAP 3 "Earnings per Share"
- SSAP 4 "Accounting for Government Grants"
- SSAP 5 "Accounting for Value Added Tax"
- SSAP 6 "Extraordinary Items and Prior Year Adjustments"
- SSAP 7 "Accounting for Changes in the Purchasing Power of Money"
- SSAP 8 "The Treatment of Taxation under the Imputation System in the Accounts of Companies"

- SSAP 9 "Stocks and Long-Term Contracts"
- SSAP 10 "Statements of Source and Application of Funds"
- SSAP 11 "Accounting for Deferred Tax"
- SSAP 12 "Accounting for Depreciation"
- SSAP 13 "Accounting for Research and Development"
- SSAP 14 "Group Accounts"
- SSAP 15 "Accounting for Deferred Taxation"
- SSAP 16 "Current Cost Accounting"
- SSAP 17 "Accounting for Post-Balance Events"
- SSAP 18 "Accounting for Contingencies"
- SSAP 19 "Accounting for Investment Properties"
- SSAP 20 "Foreign Currency Translation"
- SSAP 21 "Accounting for Leases and Hire-purchase Contracts"
- SSAP 22 "Accounting for Goodwill"
- SSAP 23 "Accounting for Acquisitions and Mergers"
- SSAP 24 "Accounting for Pension Costs"
- SSAP 25 "Segmental Reporting"

If an issue was not sufficient and widespread to justify an SSAP, then a SORP (Issue of Recommended Practice) was issued instead, which would only be valid in a specific industrial or business sector. Initially, SORPs were issued by the ASC or the industry sector concerned after the adoption of the ASC. This process ceased to apply after the establishment of the ASB, which now empowers recognized Associations to establish SORPs and intervenes only in cases where the SORP is not in accordance with, or conflicts with, the current accounting practice.

4.5.1 The Dearing reforms

In 1987, CCAB set up a committee chaired by Sir Ron Dearing to review and formulate recommendations on the standardization process. This Committee was the new Standards Organization and replaced the ASC Committee. The new structure is shown below:



The development of this new framework was expected to achieve greater consistency between accounting standards. It would also be particularly useful to those involved in the preparation of the statements, as they will now be able to better understand accounting standards.

The Commission stated in its report that the accounting standards should remain the primary responsibility of auditors and preparers of financial statements and therefore should not be incorporated into legal provisions.

The process of setting standards is supervised by the Financial Reporting Council (FRC). The role of the Council is to:

- Promote the best accounting practices and make recommendations to the Government to improve legislation on accounting.

- Guide the Accounting Standards Board - ASB on procedural issues.
- Oversee the implementation of the arrangements, address the issue of funding and consult with ASB and the Financial Reporting Review Panel.

The ASB has assumed the role of ASC in setting standards using a similar advisory process but instead of the terms "Statements of Standard Accounting Practice" (SSAPs) and "Exposure Drafts" (EDs) the terms "Financial Reporting Standards" (FRSs) and "Financial Reporting Exposure Drafts" (FREDs) are used. ASB adopted all the Standards issued by the ASC, while at the same time give them the appropriate legal force.

The accounting standards that are now issued are in line with the 1985 Corporate Governance and, unlike the ASC

Standards, have been recognized and incorporated into legislation. Another benefit of this review proposed by Dearing is that ASB (as opposed to the ASC) has the power to issue standards directly, making this process less time consuming.

The procedure laid down by the ASB for the adoption of standards is as follows: Initially, the Working Drafts for Discussion are being drafted and converted into Financial Reporting Exposure Drafts, which in turn result in the publication of the Financial Reporting Standards. Until the adoption of International Accounting Standards, the following Standards have been adopted:

- FRS 1 “Cash Flow Statements”
- FRS 2 “Accounting for Subsidiary Undertakings”
- FRS 3 “Reporting Financial Performance”
- FRS 4 “Capital Instruments”
- FRS 5 “Reporting the Substance of Transactions”
- FRS 6 “Acquisitions and Mergers”
- FRS 7 “Fair Values in Acquisition Accounting”
- FRS 8 “Related Party Disclosure”.
- FRS 9 “Associates and Joint Ventures”
- FRS 10 “Goodwill and Intangible Assets”
- FRS 11 “Impairment of Fixed Assets and Goodwill”
- FRS 12 “Provisions, Contingent Liabilities and Contingent Assets”
- FRS 13 “Derivatives and other Financial Instruments”
- FRS 14 “Earnings per Share”
- FRS 15 “Tangible Fixed Assets”
- FRS 16 “Current Tax”
- FRS 17 “Retirement Benefits”
- FRS 18 “Accounting Policies”
- FRS 19 “Deferred Tax”
- FRSSE (effective June 2002) - Financial Reporting Standard for Smaller Entities
- Amendment to FRS 5 ‘Reporting the Substance of Transactions’: Revenue Recognition

The role of the Financial Reporting Review Panel is to examine the deviations from the accounting requirements of the 1985 Corporate Act, including the deviations from applicable accounting standards. The Commission is authorized by the Secretary of State for Trade and Industry

to discuss such deviations with business executives. Usually it tries to reach a voluntary agreement with the executives for the revisions of the financial statements in question. But where it is necessary, it invokes the involvement of the courts in their rehabilitation.

The Urgent Issues Task Force (UITF) is a sub-committee of the ASB and its main concern is to provide a formal opinion and to assist the ASB in issues where the Standards and Corporate Acts cannot be resolved, as these two sources may contain provisions that have been interpreted differently and lead to conflicting results.

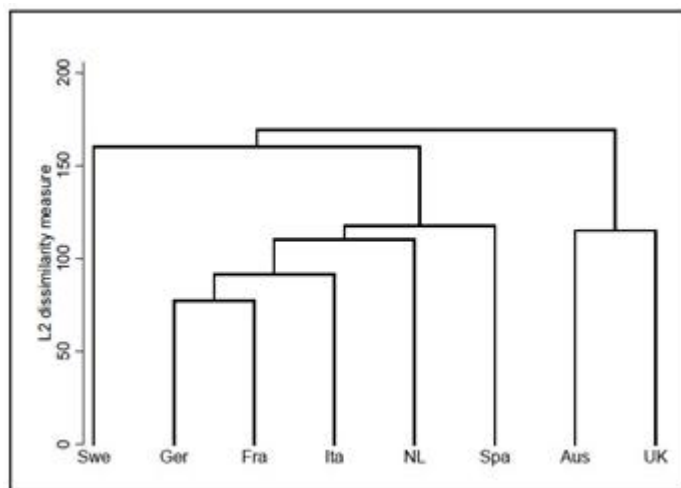
Finally, the Public Sector Liaison Committee is a smaller sub-committee with the power to advise ASB for the impact of its projects on the public sector in order to minimize the differences in public and private practices.

5. THE CLASSIFICATION OF THE UK’S ACCOUNTING SYSTEM

During 2008, Nobes started to wonder if the previous accounting classifications are still relevant in the “IFRS era”. Therefore two years later in 2010, with Erlend Kvaal, performed a study in which they have examined the IFRS practices of five countries Australia, France, Germany, Spain and Great Britain.

They have collected and analyzed the financial statements for the financial years 2005 and 2006 for the major companies listed in these countries. The financial statements were from a number of 232 companies of various fields of activity). The authors stated the existence of national practices different from the IFRS ones. Then they analyzed the financial statements for the years 2008-2009, and they found the same occurrence. In 2011, Nobes research attempt to investigate whether the classification made in 1983 leading to the creation of two groups is still valid even after 30 years. Out of the 14 countries included in the classification, Nobes gathered data for eight of them. In this research his sample was from Australia, France, Germany, Spain, the United Kingdom, Italy, Sweden and Holland. For the 287 of the financial statements, 13 criteria were used. Six of them referring to the presentation practices and seven referring to measurement practices.

Figure 2-Accounting system classification by Nobes.



Source: Nobes, C., (2011)

Figure 2 represents the results. All statistical techniques have led to the same conclusion: the Anglo and continental European groups can be identified in the IFRS practices of large companies. The national accounting practices are being resistant to the harmonisation process. (Nobes, 2011). As we can see from Figure 1, Germany and France form the first pair of countries and together form a single unit. Germany and France together with Italy form another pair. They, in turn, form another unit which, coupled with Holland. Thus, another unit is formed which, together with Spain form the other pair. Australia and Great Britain form a pair in the Anglo group.

6. CONCLUSION

The process of adopting and applying new accounting principles and practices was not an easy task for the United Kingdom, because for the accounting world of the country many of these principles were unprecedented. The UK regulatory framework has changed significantly since the 1844 Companies Act marked the first formal control over accounting. In contrast to the majority of other European countries which have a Roman system of law, accompanied by detailed provisions or commercial codes, the UK has a commercial legal system relying on a limited amount of statute law. However since the 1981 Companies Act, which incorporated the 4th Directive of the EC, the UK is thought to be moving towards a more codified system.

Nowadays, efforts towards harmonization and standardization of accounting systems have gained speed. However, it cannot be suggested, that national differences have been totally eliminated and that accounting systems have been standardized. Moreover, diversity in standardization shows that national accounting systems will continue to exist at a specific level under any circumstance and efforts.

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