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Conceptual Framework for Creation of International Financial Accounting Models

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Abstract: Business globalization results in creation of common business space which successful operation depends to a great extent on awareness of its participants. Accounting plays an important role in this process. The purpose of this study is to reveal a conceptual framework for creation of international financial accounting models under current conditions. A comparative analysis of financial accounting systems was preliminary conducted and priority areas of their development were determined. On this basis, the following principles that underlie international accounting models were determined: traditional, internal and specific. Some accounting items were described. Two major approaches were distinguished with regard to accounting system organization: integration and disintegration. Methodological and managerial aspects of the distinguished systems were considered. The means of control were determined. Creation of a conceptual framework for international financial accounting models is aimed at harmonization of accounting information and financial statements as a basis for competent business management.

Key words: Financial accounting, statements, accounting system, international model, framework

INTRODUCTION

Business growth and globalization result in a requirement of growth of capital and recapitalization of companies. Many companies invest funds in business development worldwide developing international business. According to the United Nations Conference on Trade and Development, foreign direct investments in 2013 amounted to 1.45 trillion US dollars and though a decrease to 1.2 trillion US dollars of the global flow of foreign direct investments was observed in 2014, its recovery and growth are forecasted in 2015.

Business internationalization is observed at all levels of international economy: from international alliances and stock markets to small foreign-funded companies. Belgorod Oblast data shows growth of foreign investments not only in large cities but in Russian regions as well (Nikulina *et al.*, 2013).

International business should have no clearly expressed national tint. Professor Hasbi noted that corporations are participants of neither socialist economy, nor capitalist economy but are society elements and represent corporate economy which is supranational.

Therefore, common business space appears. It may efficiently exist only under common efficient rules, the key element of which is awareness of business participants.

MATERIALS AND METHODS

Accounting acts as the main mechanism of business communication under current conditions. To take advantage of information, it should be based on uniform rules and be understandable for all participants. Uniform international financial reporting standards have been developed. However, national accounting standards remain in force in most of the countries. In some countries, they are based on international standards but along with this almost always they have a national tint. Influence of tax regulations and peculiarities of operation of a fiscal system of each particular country on accountancy requirements shall not be disregarded. This influence generates problems of data transformation upon preparation of accounting statements, taking operating managerial decisions based on operational data and in information understating by different users. Therefore, within integration of taxation, financial and accounting aspects, international financial accounting models are created.

The framework for international financial accounting models has been already shaped under business influences and on the basis of works of a range of economists. Assumptions of Zombart evolved into the creation of an international model of two directions:

financial and operational. The financial direction developed under the influence the works of Limperg. Paton and operational direction under the influence the works by Schmalenbach, Schar, Alexander, Richard and Tkach made an important contribution to the theory and methodology of international accounting models. Thus, anecessity of determination of a conceptual framework for such models, of highlighting their common features and the most important characteristics appeared.

RESULTS AND DISCUSSION

The undertaken studies allowed to partially solve this problem and to form a conceptual framework for international financial accounting models. They include the following areas.

Accounting principles: According to global practice, accounting principles and standards are developed and implemented by professional associations. They also control efficiency of practical application of the established standards. However, other approaches may be offered as well.

Traditional principles are specific for accounting in general and determined by international financial reporting standards: pecuniary valuation, economic unit, conservatism, understandability, timeliness, significance, consistency, comparability, reliability, relevancy, objectivity, continuity, double entry, realization, compliance, etc.

It should be noted that each of the above-mentioned principles may have some distinctive features. For example, the principle of prudence is distinguished as a factor of financial information reliability in accordance with International Financial Reporting Standards (IFRS). According to international practice, this principle means profit recording only after its actual receipt and loss recording if there is a chance of its appearance. It is expressed in creation of reserves with regard to any moments which are risky for a business entity as well as in valuation of assets at the smallest probable value and of liabilities at the biggest one. According to Professor Walton, application of this principle results in undervaluation of assets and therefore, it understates company value. Therefore, any undervaluation may be used as a means of protection. This principle is especially apparent in Switzerland.

Internal principles are formed under influence of national standards and corporate rules. The following principles are distinguished among them: valuation of historical cost and market cost, use of different currencies in valuation of assets and liabilities, financial modeling, a principle of balance between different requirements to

the accounting process organization and qualitative characteristics of accounting information. Following some principles should not be the reason for disregarding any others. In this case, competence and intuition of an accountant play the defining role.

Specific principles reflect international business peculiarities. Accounting is socially conditioned science which develops in accordance with society requirements. Any changes to social environment serve as factors for development of accounting and accounting statements. Therefore, any principles should be revised, supplemented and modified as well which positions the accounting mobility principle to the top.

Approaches to accounting organization should be based on the objective which the accounting system faces. The British and American financial accounting model is aimed at provision of external users with information and at their protection. The continental model focuses on creation of information which allows to run a business and to protect interests of banks and the state. South American and Islamic models generate information which allows to protect creditors. The French and Spanish and Portuguese model is characterized by the focus on income increase (Grey, 1988).

Based on the research we have identified international financial accounting models. The models have specific objectives:

- Reflection of information on manufacturing costs
- comprehensive reflection of economic processes of enterprises
- Maximization of income recorded in accounting statements for attraction of investors
- Simplified reflection of cost information
- Generation of data for determination of taxable items
- Presentation of the uttermost accurate and objective information

Therefore, the financial accounting model focuses on one of the significant principles. The use of international accounting principles makes information more transparent. Large enterprises in countries which are characterized by production, financial, national economic policy and professional optics actively use IFRS rules.

International financial accounting models should combine protection of investors (as a source of capital), the state (as a source of business stabilization) and employees (as a source of financial result). Interest of each party allows to run and develop business in the most efficient way. Distinguishing of a particular group infringes the interests of any others and makes business more risky. It should be noted that the accounting purpose determines procedures and methods of maintenance thereof.

An increase in the number of statutory and legislative acts has been observed in the recent decade. However, statutory acts are developed by theorists. Therefore, a problem arises of a great number of statutory acts with complicated and not always specific interpretations which give rise to discrepancies and problems in practical accounting. For this reason, a necessity to evaluate the accounting system in terms of its understandability and efficiency arises. That is if all provisions of statutory acts are clear, no problems arise with regard to application thereof and you may find answers to practically all questions of accounting, then the system is satisfactory in terms of its quality. Inconsistency of notions is observed which are defined by civil, tax and accounting legislation which results in wrong understanding of financial statements by external users. Therefore, a principle of legal framework understandability and efficiency should be complied with in international models.

A chart of accounts serves as a control mechanism for financial accounting. It means that the next principle is identity of national charts of accounts. The use of a unified chart of accounts offers a number of advantages: accounting understandability and availability, accounting process uniformity, mobility (ability to take into account enterprise's peculiar features), economical efficiency (ability to use standard software products), facilitates external control exercised by auditor services, etc. (Zimakova *et al.*, 2015).

Accounting orientation (accounting optics): Production optics (Austria, China, Germany, Luxemburg); financial optics (Australia, France, Madagascar, Italy, the USA); income optics, cost-based optics (Pakistan, Vietnam), taxation optics (Spain, Portugal, Japan); national economic policy optics (Sweden, Switzerland); professional optics (Great Britain); inflation optics (Latin America, etc.). They are determined by foreground characteristics of the existing systems.

Accounting items: Accounts receivable, accounts payable, equity, investments, income, expenses, financial result, assets, production result, taxable result, business activities, external items.

Let's consider some of them. In terms of the use of approaches to financial result determination, we may distinguish countries for which it is typical to use one approach to financial result determination; these are Austria, China, Germany, Russia and Luxemburg. Two approaches with regard to financial result calculation are used in Brazil, India, Congo, Romania, Pakistan and Vietnam. In such countries as Spain, Portugal, Japan,

Australia, France, Madagascar, Italy, the USA and Great Britain it is allowed to use several ways for financial result calculation.

Application of different approaches to valuation of assets in different countries also affects the financial result. For example, depreciation amount limitation in Germany results in formal financial result increase (Shok, 2013).

The undertaken studies showed a possibility of distinguishing 5 the most important groups of activities, distinguished in international accounting systems.

Determined by macro-economics: Production, business, financial, ongoing, acquired, extraordinary (the French chart of accounts contains accounts for recording operational, financial and extraordinary activities, in the USA 6 activities are recognized: principal activity, beneficial ownership, receivership re-organization activity, joint activity for recording of which accounts (sub-accounts) are allocated.

Determined by industry practices: Industry, agriculture, construction, budgetary activities (sales, profit and assets are accounted sector-based in Canada, Great Britain, Israel, Italy, Singapore; sales only in France, Germany, Belgium, the Netherlands; sales and profit in Korea.

Determined by enterprise's requirements: Types of products, works, services (the chart of accounts of the Swiss accounting system involves separate records for current operational activity with the following breakdown: proceeds from sale of goods, finished products, works and services, wastes, tare, discounts granted by an enterprise to its customers; return on investments is recorded separately, to record any proceeds from long-term operations and any income from asset disposal a separate account is used as well.

Resulting from business segmentation: Geographical segments, business segments, marketing segments a segment may mean a homogeneous total of different activities of a particular enterprise.

Determined by cash flows: Current, investment, financial activities.

Bookkeeping organization and operation: Accounting records maintenance involves collection, summary, grouping of financial and non-financial information. Within the international models used, we may distinguish two approaches with regard to accounting maintenance system organization: integration and

disintegration. Integrated bookkeeping involves availability within accounting of direct and stable relations between different kinds of accounting: financial, management, tax, strategic, etc.

An integrated system is characterized by uniformity of financial and production process accounting, a possibility of three-level cost accounting, single financial result determination (with two-level principle of distribution) that is it is oriented both to macro level and micro level.

Accrual principle lies at the heart of it. There is a possibility of maintenance of management, strategic and tax accounting. In this case small business entities orient to tax legislation and aim at the use of common rules for all kinds of accounting. Large enterprises prepare accounts in accordance with IFRS.

A disintegrated system involves separate maintenance of each kind of accounting (use of several closed systems), multiplecost accounting (there is separate cost accounting in each system) and multiple financial result determination.

J. Richard notes that there is no point to maintain two parallel kinds of accounting, if a company is not quoted and is not going to quote its shares on the stock exchange and when you file your accounts to tax authorities only, it makes sense for you to maintain single accounting which fully meets tax authorities requirements.

Connection with tax accounting is implemented in different countries in different ways. In Belgium strong connection of accounting legislation with tax legislation is observed. In Korea, Germany, Portugal, France and Japan tax legislation prevails. In the USA, Denmark and Great Britain there is connection but accounting legislation is used for accounting records maintenance and tax legislation for calculation of taxes.

Small business entities in all countries try to integrate financial and tax accounting systems. In this case accounting principles are often violated.

Connection between tax legislation and accounting legislation may be achieved at statutory regulation level. In this regard two points may be considered: the first one convergence of tax legislation with documents which govern accounting maintenance; the second one convergence of accounting policy provisions in tax and financial accounting.

Harmonization may be achieved by introduction to tax legislation of a greater number of undetermined standards. Introduction of a greater number of such standards will facilitate concealment of differences in methodological framework in accounting and tax accounting. It will allow to handle a psychological problem which arises due to the fact that many

companies according to accounting statements are unprofitable, according to tax returns are income taxpayers or a company is profitable but lacks money.

A spectacular example is legislation of Nordic countries. For bond market development in these countries, tax regulations were changed which allowed to make valuation of assets at the lowest value, simultaneously with it valuation of assets at high value was introduced. Therefore, companies could independently chose standards convenient for them. Other standards were introduced as well which allowed the companies which expanded and invested its capital in development to decrease tax payments.

Methodological aspect: The key indicators of business company activities which are reflected in its financial statements are cost figures and financial result.

Different kinds of cost price are distinguished: variable, manufacturing, full, target, actual, standard, unit cost, cost of a group of homogeneous products, etc. for calculation of which different indicators may be used.

For international financial accounting models three-level determination of the cost price of products manufactured, shipped and sold but single financial result determination by sales is specific. In this case information on the balance of materials, unfinished goods, finished products, goods, deferred expenses, reserves is recorded.

Managerial aspects of financial accounting: The key element of any company growth is preservation of its capacity for business activity. However, no past events may serve as a guaranty for the future. Therefore, within financial accounting, a managerial aspect should be developed which will allow at the stage of strategic, short-term and operational planning to determine the influence of any scheduled operations on the company's financial position subject to differences in valuation of assets and liabilities.

Strategic accounting becomes the main assistant in any successful business growth, the founder of which is deemed to be the Institute of Management Accountants of Great Britain and the main developers, Bromwich and Bhimani. Ryan, Innsand Drury actively participated in its development.

A distinctive feature of strategic accounting is the fact that it is based on delivery of information which works in a long-term perspective. It means that accounting tools should be aimed at maintenance of general competitive strategy of a company and it is possible only on the basis of a detailed macro-environment analysis.

For approach implementation, it is necessary to use accounting modeling tools and to prepare forecast statements. Depending on managers' requirements and problems for solution of which such forecast statements are intended, different valuations of assets and liabilities may be used and derivative balance statements may be prepared which characterize different aspects of company activities.

Means of control: Basic means of control in all models of financial accounting and control are inventory procedures, accounting and inspection points. Derivative balance statements are used as a means of control only in Germany, the Netherlands and Austria. One or another derivative balance statement is prepared depending on the purpose of control.

CONCLUSION

Identifiers of international financial accounting models are formed considering the purpose, organization and operation of bookkeeping, business internationalization, orientation of accounting systems, global relations and the international financial accounting system.

Examination of the financial accounting condition and development showed a possibility of distinguishing

during a long period under influence of different factors. Conceptual framework for international financial accounting models aimed at harmonization of accounting information and understanding of financial statements as a basis for competent business management was determined.

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