

Obstacles for IAS 1

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An Analysis of the Obstacles of Culture, Government, and Lack of Support for International Accounting Standards

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Abstract

With the prevalence of international markets comes the need for universal accounting standards. The International Accounting Standards Board has created a set of these standards, but unfortunately some skeptics have found that the obstacles of culture, government, and lack of support would make these standards impossible to implement. Since the globalization of international standards is inevitable, there must be a way to get past the present obstacles. Through an analysis of the countries of China, India, and Australia, it has been found that it is possible to have the same accounting standards among diverse countries. International accounting standards will become successfully integrated among more and more countries in the coming years if there is an awareness of the differences in cultures and a willingness for the change of standards among governments. There also needs to be an education of the benefits and an openness to the change of standards that are not working efficiently.

An Analysis of the Obstacles of Culture, Government, and Lack of Support for
International Accounting Standards

International markets are becoming more and more common in today's society; people are investing in stocks in foreign countries and doing business overseas with regularity. The world is quickly becoming more interconnected and more involved as technology develops. Cell phones, the internet, and quicker transportation make business opportunities endless. With a quickly changing world, new needs arise that were previously unnecessary or irrelevant. When these needs arise, new standards or laws may be proposed to keep markets running smoothly. In the area of accounting, with international markets comes the need for harmonization of international accounting standards: "Harmonization is the process of bringing international accounting standards into some sort of agreement so that the financial statements from different countries are prepared according to a common set of principles of measurement and disclosure" (Osborne, 2001, para. 4). If harmonization were to occur, companies would no longer have to deal with the hassle of reformatting their financial statements from one country to the next. It would eventually be more cost efficient and certainly time efficient. This would not only aid the specific business, but would also be beneficial to investors, especially in understanding the financial position of a business for stock purposes.

With a huge revolutionary idea there are costs that must be accounted for as well. Although it is not argued that international accounting standards have many benefits to offer companies, there are some negative aspects or obstacles that must be thoroughly examined in order to make accounting harmonization possible. Two of the major problems specific to the differences among countries are cultural diversity and

governmental differences (Osborne, 2001). A third major challenge for each nation that has or is thinking of changing to international standards is the lack of support among some or many of the nation's people. In order to do a thorough analysis of these obstacles, this paper will specifically focus on three countries: China, India, and Australia. This thesis will provide information on cultural values in a general sense through the eyes of a few researchers; it will then apply how these cultural values affect the mindset of a particular country and how this mindset may cause differences to occur on financial statements. The next section of the thesis will present a brief history of the government of each country, an explanation of the government's control, an account for the government's support of international standards, and finally a report of how international standards can work or are working for each country. Last, there will be a focus on the positives and negatives related to the change of accounting standards for the business owners and accountants in the three countries. There will also be an explanation about how to overcome the lack of support for the change in standards in these nations.

The Obstacle of Culture

Those opposed to universal accounting standards have argued that differing cultures would make it impossible to have international accounting standards. According to Timothy S. Doupnik (2004), a professor at the University of South Carolina, "Culture is considered to be a powerful environmental factor that affects the accounting system of a country, as well as how individuals perceive and use accounting information" (para. 1). Culture can have a huge influence in the way that accounting standards are formed and the way that financial statements are prepared. There are specifically three areas in which people have found that culture affects accounting standards. This involves the

reporting of financial information, the auditor's perspective and "attitude," and the system for management control (Doupnik & Tsakumis, 2004). Each of these areas changes from country to country because people are affected by the roles that their nations uphold. For instance, a person from India is more likely to bend the standards for a client than a person from Australia. This is because a person from India would think that pleasing the client is of utmost importance, while a person from Australia may find an ethical duty to uphold the standards set before him (Patel et al., 2002). An analysis on researchers' findings about differing cultures and the effects that it has on accounting standards will allow for a better understanding of how culture affects accounting practices across the world. These findings can then be used to analyze China's, India's, and Australia's cultures and the effects that these cultures have on accounting practices.

Beginning Research on Cultures' Effects on Accounting

It is commonly believed that culture significantly affects how accounting practices are performed in each country. The question is, how much of an impact does culture have on accounting, specifically financial statements? If culture plays a huge role in accounting practices, this could cause harmonization to be considerably difficult. To understand the effects of culture on accounting, it is best to look at research findings on this topic. Doupnik and Tsakumis (2004) explain Harrison's and McKinnon's theory about how culture can limit or allow change in accounting:

Changes occur as the accounting system identifies an intrusion, produces a set of suitable reactions to the intrusion, and then interacts with neighboring systems to develop a culturally appropriate way of dealing with the intrusion. Culture affects the change process in two ways: by influencing the norms and values of the

accounting system and the other social systems with which it interacts, and by influencing the behavior of groups in their interactions within and across systems. Culture can either constrain or facilitate change through its influence on the nature of the interaction between systems. (para. 12)

Doupnik and Salter broadened the structure formed by Harrison and McKinnon. They concluded in their research that if economic, political, and cultural differences in countries exist, then accounting practices should be different as well (Doupnik & Salter, 1995). Although that may be convenient in theory, with the need to have a universal accounting standard, there must be a way to understand culture better to allow the possibility of harmonization (Doupnik & Tsakumis, 2004).

Hofstede's Views

Hofstede gives four societal values that he argues impact the economic, political, and legal systems, including how corporations and markets function (Ong et al., 2004). These include power distance, uncertainty avoidance, individualism, and masculinity (Saudagaran & Meek, 1997): “Power distance (PD) refers to the extent to which hierarchy and unequal power distribution in institutions and organizations are accepted” (Doupnik & Tsakumis, 2004, para. 23). How a society deals with inequality among people differs depending on whether a country is a high PD or a low PD. Low PDs want equality among people, while high PDs accept that there is inequality among people and they see people in different hierarchies: “Uncertainty avoidance (UA) refers to the degree to which individuals feel uncomfortable with uncertainty and ambiguity” (Doupnik & Tsakumis, 2004, para. 24). Countries with low UA are more open-minded in allowing behavior that they may have a different view about, while countries with high

UA want to keep uncertainty at a minimum by using rules to regulate how they process information: “Hofstede suggests that individualism is a preference for a loosely knit social fabric as opposed to collectivism, which suggests an interdependent, tightly knit social fabric” (Doupnik & Tsakumis, 2004, para. 22). A society with low individualism acts collectively, meaning that individuals will make a decision based on what those around them find acceptable. A society with high individualism, by contrast, involves people making decisions based on their own ideas; those around them in society will not necessarily affect their thought pattern: “Masculinity (MASC) refers to the extent to which gender roles are differentiated and the extent to which traditional masculine values of performance and visible achievement are emphasized relative to traditional feminine values of relationships, caring, and nurturing” (Doupnik & Tsakumis, 2004, para. 25). Countries with low MASC focus on having a better value of life, while countries with high MASC concentrate on success and superiority (Doupnik & Tsakumis, 2004). These ideas are imperative to understanding culture in relation to accounting; the researcher Gray took these ideas and formulated four hypotheses based on Hofstede’s work. His work gives a deeper understanding of culture influencing thought patterns, which in turn will influence accounting.

Gray’s Views

Gray has found that cultural values affect accountants’ standards and these values will affect accounting systems (Ong et al., 2004). Gray describes four of his own cultural elements pertaining to accounting: professionalism, uniformity, conservatism, and secrecy. Professional judgment refers to whether a person will exercise his own judgment or base his judgment solely on legal obligations. Uniformity involves whether

a person will enforce the same practices to all companies or judge each company individually. Conservatism involves whether a person is going to be precise and careful about uncertainties or if the person will act nonchalant and take risks with uncertainties. Secrecy takes into account whether a person will act privately with the disclosures of information for a business or act openly and publicly with the information present.

Gray's research links an accountant's culture with the way he is likely to report financial information: "Gray posits that accountants' attitudes or value systems are related to and derived from societal values. Accounting values, in turn, affect accounting systems" (Doupnik & Tsakumis, 2004, para. 37). Not only does culture affect accounting practices alone, but also affects politics which in turn will affect accounting practices.

Gray explains this in his four hypotheses:

1. The higher a country ranks in terms of IND and the lower it ranks in terms of UA and PD then the more likely it is to rank highly in terms of professionalism.
2. The higher a country ranks in terms of UA and PD and the lower it ranks in terms of IND then the more likely it is to rank highly in terms of uniformity.
3. The higher a country ranks in terms of UA and the lower it ranks in terms of IND and MASC then the more likely it is to rank highly in terms of conservatism.
4. The higher a country ranks in terms of UA and PD and the lower it ranks in terms of IND and MASC then the more likely it is to rank highly in terms of secrecy. (Doupnik & Tsakumis, 2004, para. 38)

Gray then divides a culture's accounting system into four characteristics which include authority, enforcement, measurement, and disclosure. Authority and enforcement relate directly to uniformity and professionalism; measurement relates to conservatism;

and disclosure to secrecy. He goes even further and breaks down each country by cultural region to look at the association between culture and accounting. Gray specifically looks at the type of enforcement of accounting standards and how the disclosure of information takes place (Doupnik & Tsakumis, 2004).

Cultural Differences between China, India, and Australia

Now that it is apparent that cultural elements can affect individuals' views and in turn affect accounting practices, a look at specific countries in relation to these elements will make the distinction clearer. To demonstrate how culture affects accounting, three differing countries, China, India, and Australia will be described using historical, psychological, and sociological data (Patel et al., 2002).

China's culture. The first culture that will be discussed is China's culture; their values are mostly based on Confucius and his teachings. Confucius taught that man exists through relationships and that relationships were constructed through what hierarchy one belongs to. Confucius has stated, "Let the ruler be a ruler, the minister be a minister, the father be a father, and a son be a son" (Yu, 1998, para. 15). Confucius found that by each person respecting and honoring the responsibility that each has in his or her relationship with others, the result would be stability and harmony among families, societies, and politics (Patel et al., 2002). Because of the emphasis on relationships in China's culture, there is a collective sense that people do what society dictates them to do, not necessarily what they want to do. In other words, if one person does wrong, it reflects poorly not only on his family, but on the society as a whole (Chang, 1998).

India's culture. In India's culture, the emphasis is on Hinduism, which is actually much like Confucius' ideas. The focus is on hierarchical relationships and having

harmony within those relationships. Because of the caste system in India, the people have stayed incredibly stratified. It is known that an employer will avoid firing an employee even if he deserves to be fired because he is in the same caste system as himself. There is also a stress on loyalty to superiors; people who do not exhibit loyalty are looked down upon. India's culture stresses putting the hierarchy above one's own personal needs; this causes individuals to do what is acceptable, not necessarily what they agree is right or what they want to do (Patel et al., 2002).

Australia's culture. Australia's culture varies much from China's or India's culture; there are no unified religious beliefs in this country. Those who live in Australia are more focused on themselves; they are seen as independent thinkers who make individual choices (Chang, 1998). This could be traced back to the British independents who were the first white settlers of Australia. Those who settled there relied on themselves for survival in what was known as a dangerous, vast region. Individuality in this country causes people to rely on their own moral standards and judgments. The other cultural focus in Australia is an emphasis on how each individual is equal, or better yet, has an equal chance of succeeding in his life (Harris, 2000). This is obviously contrary to China's and India's cultures that stress difference in status depending on hierarchy. The North American culture is much like Australia in this aspect.

Analysis Using Hofstede's and Gray's Research

Now that cultural differences have been presented, a relation can be made between the three countries and the cultural aspects presented by Hofstede and Gray. Hofstede's four cultural values include power distance, individualism, uncertainty avoidance, and masculinity (Patel et al., 2002). As stated earlier, "Power distance (PD)

refers to the extent to which hierarchy and unequal power distribution in institutions and organizations are accepted” (Doupnik & Tsakumis, 2004, para. 23). China’s and India’s cultures are considered high PD, while Australia’s culture is considered low PD (Patel et al., 2002). Individualism was defined as “...a preference for a loosely knit social fabric as opposed to collectivism, which suggests an interdependent, tightly knit social fabric” (Doupnik & Tsakumis, 2004, para. 22). Therefore, China’s and India’s cultures have low individualism and high collectivism, and Australia’s culture has high individualism and low collectivism (Patel et al., 2002): “Uncertainty avoidance (UA) refers to the degree to which individuals feel uncomfortable with uncertainty and ambiguity” (Doupnik & Tsakumis, 2004, para. 24). Australia has high UA, while China and India have low UA: “Masculinity (MASC) refers to the extent to which gender roles are differentiated and the extent to which traditional masculine values of performance and visible achievement are emphasized relative to traditional feminine values of relationships, caring, and nurturing” (Doupnik & Tsakumis, 2004, para. 25). Australia has low MASC, while India and China have high MASC.

With the knowledge of the highs and lows for each cultural value, the three countries can now be evaluated using Gray’s hypotheses. According to the first hypothesis, Australia ranks high in professionalism, while India and China rank low. The second hypothesis ranks India and China high for uniformity and ranks Australia low in this aspect. The third hypothesis deals with conservatism; it ranks Australia high and India and China low. The fourth hypothesis ranks China and India high on secrecy and ranks Australia low. Gray (2004) states that authority and enforcement relate directly to uniformity and professionalism, measurement relates to conservatism, and disclosure to

secrecy. Therefore, India and China are likely to listen to their authorities, while Australia is not; this makes sense since Australia is very individualistic. Australia ranks high with conservatism, meaning that its accountants are not as likely as China's and India's accountants would be to fluff the numbers. This relates to Australia ranking high for measurement as well. China and India are not as concerned with the numbers as much as they are with pleasing their client. Australia ranks low for secrecy which makes them more likely to give detailed disclosures. China and India are highly secretive, and therefore will make fewer disclosures if they find it socially necessary.

The Relation of Culture to Accounting Practices

Finally, an application of these differences with accounting practices will be further developed. It is now obvious that accountants in these societies will act according to their cultural upbringing. The people of China are much more likely to comply with what their clients want, whether or not this follows accounting standards. This is because the culture in this country focuses on relationships and avoidance of any conflicts: "Westerners seeking to do business in China often find the rules...based on personal connections rather than principles of ethics..." (Chang, 1998, para. 1). This is because a person in China will take into consideration the status or hierarchy that the client is in, and this will affect his decision: "This facet of Chinese culture implies that personal connections and loyalties are often considered before organizational connections and ethical requirements" (Chang, 1998, para. 8). The person's ethics in this case are contextual, not personally based, like that of Australia. Those who are from Australia will base their decisions on their own personal ethics, not necessarily taking into consideration what others will think of their decisions. They are also not likely to take

into consideration their client's status as a basis to make judgments for the accounting work that they are doing for the client (Patel et al., 2002). Of course, an accountant from Australia would treat his wealthier clients well, but he will not be more likely to bend the standards for this client as a person from China or India would. Instead, people from Australia are likely to weigh out the benefits and losses in making a decision involving ethics (Harris, 2000). India's culture, which is much like China's culture, focuses on doing what is best for the hierarchy, before doing what is best for oneself. Therefore, people from India will not focus on following the law when it interferes with loyalty and preservation of the hierarchy. Their ethics involving accounting work will be situational, depending on whom they are doing the work for and what is socially permissible (Patel et al., 2002). It is obvious that problems can occur when accounting standards are not enforced uniformly.

How to Overcome the Obstacle of Culture

With the research that has been presented, the question is, how can there be international accounting standards when diverse countries are likely to report financial statements differently? Simply, within the context of culture, people around the world who are observing financial statements from other countries need to be aware of these differences and remember to take them into account when making decisions based on those statements. If a country is known for not having high ethical standards, one should put more consideration into reading the financial statement. If a country is known to have high ethical standards, the financial statements from that country can be seen as more reliable and less consideration would be needed. Obviously, not every financial statement will be specifically impacted by the country that it came from. By having

knowledge in this matter though, people will be able to make more informed decisions which will allow the possibility for better harmonization of international accounting standards. Therefore, although culture may be an impediment towards international accounting standards, it does not make the acceptance of international standards impossible. Rather, it is a factor that must be put into consideration if international accounting standards are to be taken seriously. Overall, awareness of differences and the effects of these differences will most certainly allow international standards to flourish, and as this occurs, markets will be able to keep growing and developing in a systematic and structured fashion (Doupnik & Tsakumis, 2004).

The Obstacle of Government

Some opposed to international accounting standards have argued that the difference in government from country to country would make it impossible for there to be harmonization. For instance, in some countries the government has tight control over its people, while in other countries, the government allows people to trade in the market freely. In most cases, the major countries that do have accounting standards that are largely different from international standards have begun to change their standards to conform to the international version. This is because most large or developed nations are interested in international markets, and being involved with those markets would make it much easier to have accounting standards that are similar to other countries. This not only benefits those nations, but also countries they do business with or will potentially do business with. Foreign businesses have confidence in the reliability of the financial statements when the accounting standards are internationally accepted. When people are putting their investments into a foreign company, they want to be assured of the

dependability of the company's financial statements, and this is a way of making that assurance. Nations' governments have recognized this and have become active in seeking to conform to International Financial Reporting Standards (IFRS). There are currently over a hundred countries that are using IFRS, many of which have different forms of government (Holcombe, 2006). This demonstrates that different types of governments can permit international accounting standards. Although China's, India's, and Australia's governments have their differences, each is still capable of having international accounting standards.

China's Government

Since China is run by a Communist party, one would think that it would be difficult for this country to convert to international standards. China's government has been through many significant changes in the last few decades; these changes have directly impacted this country's ability to have international standards.

History. China is one of the oldest nations in existence today; the nation has been in existence since about 1726 B.C. Today, the People's Republic of China, which functions in a "top down" manner, is run by both the government and the Chinese Communist Party (CCP). The government and the CCP have created their own bureaucracies that run independent of each other. In other words, when a policy is established, it will trickle down until it reaches the common person. This is performed through large organizations that most of the common people are associated with; these organizations include women's associations, writer's associations, trade unions, youth leagues, and other similar organizations. Therefore, when a policy is enacted that affects the people, the organizations that the people belong to alert them of the change. These

policies are uniform throughout the country because the bureaucracies are structured territorially (China, 2007).

In 1958, a major change occurred, which gave more power to the lower level authorities, creating more of a decentralized government; this event was called the Great Leap Forward. Since the 1970s there has been an emphasis on more decentralization and less management by the CCP. China's fourth constitution placed legislative power on the National People's Congress and its Standing Committee: "Were this constitution an accurate reflection of the real workings of the system, the People's Congresses and their various committees would be critical organs in China's political system. In reality, though, they are not" (China, 2007, 59). This is because the authority of the government is in the hands of the CCP and the executive branch (China, 2007). Since 1949, there has been a significant change in the governmental system of China due to the rise of the Chinese Communist party. Mao, a chairman of the communist party, was responsible for centralizing the government and bringing unity with their first constitution in 1954 (China, n.d.). In 1982, the position held by Mao prior to his death was limited by new constitutions; this was in order to prevent future chairmen from making significant changes to the government, such as Mao did. Overall, the job of the CCP is to create and implement policies, while the job of the government is to enforce these policies. (China, 2007).

Government's control. In more recent years, China has pushed to be involved with the international economy. In the past, the government would heavily control enterprises, but now:

enterprises [are] responsible for their profits and losses; reducing the state's role in directing, as opposed to guiding, the allocation of resources... creating material incentives for individual effort and a consumer ethos to spur people to work harder; rationalizing the pricing structure; and putting individuals into jobs for which they have specialized training, skills, or talents. At the same time, the state has permitted a private sector to develop and has allowed it to compete with state firms in a number of service areas and, increasingly, in such larger-scale operations as construction. (China, 2007, p. 39)

Profit remission systems began to be replaced with tax systems, allowing workers to keep much of their pay checks. Managers were given the ability to hire, promote, and fire workers. China's government slowly realized that if they allowed people to trade freely, they would be able to compete and become more profitable. In 1978, there were certain economic zones which were allowed to have foreign investments: "Laws on contracts, patents, and other matters of concern to foreign businesses were also passed in an effort to attract international capital to aid China's development" (China, 2007, 39).

Governmental support. In the 1990s, the Ministry of Finance ordered hundreds of companies to use standards close to International Financial Reporting Standards. China has now also opened this form of accounting standards to other companies with the hope of developing a stronger international market. If China's companies use international standards, foreign nations are more likely to invest in these companies. In turn, China's economy will be boosted (China, 2007).

Using international accounting standards as the standard for all businesses in China would force businesses in China to produce financial statements that are more

ethical. There is no question that China's economy is doing exceptionally well, but the problem is, people do not know how well they are doing. Some of the financial reports of companies in China are rather confusing. Some people joke that companies in this country report one set of statements for the government, one for foreigners, and one that gives an accurate report of what is really happening. By using international standards, there will be 39 principle based standards which will give a consistent, accurate view of how companies are doing across the board. This set of standards forces companies to provide more ethical and accurate financial statements (Cultural revolution, 2007). China desires to have more ethical standards to increase trust with customers which in turn creates more international business.

International accounting standards. The great changes that have come to China's government and the new freedom that it has bestowed upon its people have provided a perfect time to introduce international accounting standards. In addition, the changes that have taken place in the market because of China's government have made it possible to have harmonized standards. China is looking to be increasingly involved in international trade, and their success is apparent. This makes it not only possible, but critical for international accounting standards to be enacted. This is not just a possibility for China, but it has recently become a reality. Because China's government has begun to allow free trade, accounting harmonization should not be a difficult challenge for it. China has recognized this, and is in the process of setting new accounting standards that conform to IFRS. In March of 2006, the country announced that they would be enforcing international standards beginning in January of 2007. Due to the work of the China Accounting Standards Committee and the Ministry of Finance, China will be ready to

convert its standards (China Committed, 2005). For the 2006 year, two annual reports must be completed for mainland-listed companies; this includes a report formatted to their previous procedures and a report formatted to international standards. Some of China's companies are upset about this change because they have used the previous format to make their company appear profitable when it actually has not been profitable. The new standards will show the true profitability of these companies (Anderlini, 2006). Although this may be bad news for some China's companies, this will make international trading and investing more reliable.

India's Government

Since China's government, which is under a communist party, is able to convert to international standards, surely India's government can allow changes to their accounting standards. India's major problem is its many laws and regulations that make convergence rather difficult.

History. India's constitution is a mixture of Britain's parliamentary democracy and the U.S.'s constitution. It is mostly taken from Britain's model, although it does have similarities to the U.S. with its separation of powers, federal structure, and Supreme Court. India's newest constitution describes the nation as "a sovereign socialist secular democratic republic" (India, 2007, 65). The constitution's purpose is to ensure liberty, justice, and equality for each citizen. It also lists the duties of each person as a citizen, as well as describes the powers and structure of state governments and the union. India's constitution is so long and detailed that about two amendments are made every year (India, 2007). India's government structure is considered federal: "Like the U.S., India

is a union of states, but its government is more highly centralized than that of the U.S., and the rights of the states and territories are rigidly limited” (India, n.d., para. 54).

India’s chief executive is its president; this position is considered ceremonial. The real power resides in the council of ministers, which is controlled by the parliament (India, n.d.). The legislative branch consists of Parliament and the House of States. The judicial branch consists of the Supreme Court; its decisions are final and have authority over the legislative branch and the local government (India, 2007). The local government is broken into 28 states. A governor is the head of each state and is in charge for five year terms. Each state consists of districts, blocks, and villages, which act as territorial divisions (India, n.d.).

Government’s control. The government tightly controls India’s market. People are allowed to have private companies and are able to trade freely, but at the same time, there are many rules and restrictions that prohibit larger growth: “The government’s tight control of India’s financial system explains its poor allocation of capital. Regulations oblige banks and other intermediaries to direct a high proportion of their funding to the government, and to its priority investments” (Farrell & Lund, 2006, para. 12). India’s standards prohibit banks from making comparable profits with other countries: “Not surprisingly, Indian banks lend just 60 percent of deposits, compared to 83 percent for Thai banks, 90 percent for South Korean banks, and 130 percent for Chinese banks” (Farrell & Lund, 2006, para. 12). India requires that 50% of assets of life insurance and 90% of provident fund assets are kept in government securities, such as bonds (Farrell & Lund, 2006, para. 13). If these policies were lifted, mutual funds, pension funds, and insurance companies would be a significant contribution of demand for equities and

corporate bonds. The current policies have caused the government, since the year 2000, to take in 70 percent of the funds circulating through the financial system (Farrell & Lund, 2006). Overall, India's financial system is weak in its banking system, its corporate bond market, and its domestic institutional investments.

Governmental challenges. If India was to change its accounting standards, it would certainly be positioned positively in the global market. The problem with a change in these standards would be the impact on India's governmental control and its judiciary. There are several challenges that India must face if it does convert to international standards. The first is that the Central Government currently controls India's accounting standards, and it would lose that control if it changed to international standards. The second problem is the effect on the judiciary by the change. It would have to be informed by experts on the changes that would take place. A third problem is that there will be difficulty with some of the schedules and provisions that India would have to change if it converted to international standards (Narayanaswamy, 2006).

International accounting standards. Towards the end of the year 2006, India announced that it had set up a team to look into the possibility of converting its accounting standards to IFRS (Firms Falter, 2006). This team is the ICAI, Institute of Chartered Accountants of India (Narayanaswamy, 2006). There are mixed reviews on how difficult this will be due to the laws that the government has enforced. Some have found that this process will not be very challenging; this is because India's standards are said to be much like IFRS already (Murali, 2007). Others, who are more skeptical, find that because of the many restrictive laws in India, convergence will be quite difficult (Murali, 2007). Nevertheless, India has put a team together to work on changing India's

standards over to international standards. Some of the challenges that India would have to overcome are in the area of corporate governance, securities regulation, tax/company law, and India's system of accounting and disclosure (Narayanaswamy, 2006). An example of a difference between India's accounting standards and the IFRS is that "Indian accounting standards consider redeemable preference shares as equity even as the international accounting standard considers them as debt" (ICAI mulls full convergence, 2006). The people of India involved in international markets are supportive and have welcomed the idea of conforming to IFRS. The change will be helpful for investors and users of financial statements. People who are doing business overseas will find this useful and less costly because they will only have to report their financial statements once. This is instead of having to convert their financial statements to the country that they are doing business with. Because of the necessity of international standards, India has set up a council to undertake the legal difficulties attached to completely changing to IFRS: "The primary aim of the taskforce is to develop a concept paper to tackle these issues. The taskforce will also examine convergence issues for different types of enterprises and lay out a road map for full convergence" (Firms Falter, 2006, para. 2). This makes it clear that although there are legal hurdles to surpass, accounting harmonization is still possible.

Australia's Government

A good example of a country that has worked past those hurdles and has reached accounting harmonization is Australia. Australia's government has already been through the process of changing its standards.

History. Australia is formally called the Commonwealth of Australia (Australia, n.d.). Australia's constitution primarily reflects that of the United Kingdom and the U.S. It was founded in the year 1900 and the government is considered a constitutional monarchy. Following the example of Britain, Australia implemented the parliamentary form of government mixed with the U.S.'s idea of a federation. Australia has a division of power between the federal government and the states. The federal government is in charge of immigration, the postal service, customs and excise, foreign policy, and defense; the states are in charge of education, health, justice, internal transport and that which the federal government is not responsible for (Australia, 2007). The Australian prime minister is the head of government and the British sovereign is the head of state (Australia, n.d.). The governor-general is in charge of the executive branch; this has become a ceremonial position. The real power is in the prime minister, who is the chairman of the cabinet. The legislative branch is made up of the House of Representatives and the Senate. The head of the judicial branch is the High Court of Australia, which is followed by federal and state courts (Australia, n.d.).

Government's control. Australia is a country that is able to freely trade in the market. The government is funded through taxation. Taxes are imposed by state, local, and federal governments. State tax includes taxes on payrolls, motor vehicles, water and sewage, land, stamp, and probate duties. Local taxes are set based upon property worth. Federal taxes include custom and excise dues, sales tax, income taxes, and a few other taxes (Australia, 2007). Because of Australia's government and the way that this nation is run, it was a perfect candidate for converting to international accounting standards. It has been mentioned that countries who are immersed in international trade would find

IFRS of great importance. Australia is one of these countries: “Overseas trade has been vital to the development of Australia since the early 19th century, and the export-import balance has exercised a direct influence on regional economies and national living standards” (Australia, 2007).

International accounting standards. Unlike China and India, Australia has gotten to see what it is like to change accounting systems. It is obviously a hassle to change to a new system, but once a country gets used to the change, it will create benefits for those involved with international trade. When a company benefits, it makes the country, and more specifically the government, look successful. In Australia, the change in standards was for the 2005 to 2006 financial year. The Financial Reporting Council, which is managed by the Australian Securities and Investments Commission Act, has found that the transition has run “smoothly”: “The FRC believes the overall system is working effectively, though it also identified some areas that are worthy of further consideration for improvement” (Australia Adopts, 2006, para. 5). This would be expected for any country that was making the switch; therefore, it is important for Australia to work out the problems now. This is because if other countries see that Australia has succeeded in the change, they are more likely to make the change themselves. One of the areas that Australia sees need for improvement involves “...the appropriateness of applying the new accounting standards to non-listed entities such as small to medium-sized businesses, non-corporate entities and superannuation funds” (Australia Adopts, 2006, para. 6). Small to medium sized businesses have had specific issues with the new accounting standards. “FRC chairman Charles Macek said one of the key areas facing small to

medium-sized businesses in relation to the new accounting standards was their complexity and the costs of adoption” (Australia Adopts, 2006, para. 7).

Australia as a model. Since Australia has already converted to international accounting standards, it is a prime example of a government that has overcome the obstacles of the change and has foreseen the benefits of making that change.

Governments that are similar to Australia should be able to look to Australia for advice in changing their own standards. Some may question why Australia made the change.

Besides the obvious advantage of international trade in the marketplace, Australia was also looking to condense financial reporting. Previous to the conversion, Australia’s companies had to report two types of financial reports. One report was in agreement with Government Finance Statistics (GFS), and the other was in agreement with Generally Accepted Accounting Principles (GAAP). The two report system was causing those who use financial reports to be perplexed. This is why the Australian Accounting Standards Board issued new accounting standards that complied with IFRS: “The objective of this harmonization is to achieve a single set of government reports that are auditable and comparable between jurisdictions” (New Accounting Standards, 2006, para. 1).

Therefore, Australia’s aim was to make its financial reporting as relevant and reliable as possible. This is imperative for other governments to see. By making the change, a nation’s financial statements will be recognized as more significant and dependable.

When this occurs, people are more likely to invest in foreign companies and trade with these companies. Overall, Australia’s change in standards can be used as an example to other governments of the value of conforming to international standards.

How to Overcome the Obstacle of Government

Judging from this analysis, it is possible for different types of governments to adopt international accounting standards. Whether it is a country running under communist control, a country under strict governmental laws, or a country that gives its people much freedom, it is still possible for accounting harmonization. Obviously not every government would allow this change to occur, but as it becomes more of a necessity, more governments will become open to the idea. Most countries are looking to flourish in the marketplace and will do what is necessary to succeed. At this time, changing to international accounting standards is the trend to make the business world function uniformly. Individuals, as well as companies, are able to make more informed decisions and cut costs when only one type of financial statement has to be prepared. Even though the differences in government are an obstacle, it is one that can certainly be worked out. It simply means that each country interested in converting must look into its own rules and regulations and see how international standards would conflict or change the standards it already has in place. When that analysis takes place, the government has to decide how it can change its laws to conform to international standards without compromising its own values. It is clear that the type of government that a country has can be an impediment to converting to international standards, but it does not have to keep a country from convergence. Because of the positive response of many countries and of the three countries that have been analyzed, the differences in government can still allow a majority of countries to hold the same international accounting standards.

The Obstacle of Lack of Support

While the obstacle of culture and government involve differences between countries, there is an obstacle that should be addressed that is the same among differing countries. This obstacle is a lack of support from people of countries that are looking to change to international standards and from people of countries that have already changed to the new standards. Now that it is clear that culture and government do not have to be obstacles to international accounting standards, it is important to see how the people in these countries have reacted and how they are affected by the change. It is particularly important to look at how business owners and accountants have or will be affected by the change and why there has been a lack of support from some. To get a better understanding of this issue, there will be a focus on the positives and negatives attached to the change of accounting standards for the business owners and accountants in China, India, and Australia. There will also be an explanation about how to overcome the lack of support for the change in standards in these nations. For instance, what does India plan to do or what should they do to gain support? What is China doing or not doing to gain the support of its people? Finally, why did the people of Australia have a lack of support when international standards were first issued, and has that support changed since then? Although there has been a lack of support from the citizens of China, India, and Australia, it does not impede the issuance of accounting standards. Rather, when countries give a clear picture of the benefits of a governmental change, and then in turn are open to hear criticism about how these standards are not working efficiently or correctly, changes can be made to better international accounting standards as a whole for each nation involved.

China

Since China has enacted international accounting standards in the beginning of 2007 and has allowed many companies to begin using these standards prior to 2007, there has been a definite effect on business owners and accountants. These effects have been both positive and negative. Some of the challenges that have occurred have caused there to be a lack of support for the new standards. Whether it is a matter of not understanding how to incorporate the new standards, or not knowing how to craftily manipulate the standards, a lack of support has risen by some of the people. Due to the culture of China though, it is difficult to know where there are problems in the accounting system, and better yet, how to fix those problems. This will cause those who have a lack of support for international standards to keep having a lack of support, that is, unless people are willing to stand up and voice their opinions.

The effects on business owners. It has become common knowledge that the people of China find their loyalty among their people, not their personal ethical beliefs. In the process of this, many of China's companies have openly allowed fraudulent acts to occur. This means that a typical company in this country does not have financial statements that give an accurate account of the worth of the business. International accounting standards will change all of that, and this is why China's government has enforced the change. The government wants China to grow and for it to grow there needs to be greater transparency in the businesses' books. This will allow people to put a greater trust in the companies of this country: "Transparency should lead not just to better economic management, but also to a freer society, because it would cast light on dark corners of the Chinese economy" (Truth about facts, 2007, para. 3). Besides the problem of fraud, business

owners are annoyed that the change occurred within one year, as opposed to a slower change over several years. One year does not give companies much time to make the switch. The lack of support from the people of China, though, is “whispered, not shouted” because they know that if the government hears their complaints, it may punish the company outwardly, or inwardly through blacklisting. Therefore, although the companies in China are not very happy, not much is said or documented for fear of what the government will do.

The effects on accountants. Accountants with an understanding of international accounting standards are in high demand in China. There has been a major shortage of accountants which puts those who are accountants in a good position towards financial success. The problem though is that the accountants of China were also very unhappy about the switch of standards in one year. This puts a lot of pressure on them, and it makes it difficult for them to give a truly accurate view of companies’ financial positions. What creates an even bigger problem for accountants is that when they go to audit a company, the company should have their financial statements in order so that the accountants can do their job and check the system. Many companies, though, are planning to just rely on the accountants to come in and fix everything for them. This is very aggravating for the accountants (Gopalan, 2006). Accountants are also dealing with the strain of whether to be accurate in their accounts or fudge the numbers to satisfy other’s requests. Finally, accountants must do their job without making open complaints when the system that they have been given to follow does not work as it should. This is again due to the power of China’s government and the unspoken threats that they have looming over the accountants.

Overcoming the lack of support. This lack of support could be changed if the companies and accountants felt like they could voice their opinion so that changes could be made that would better international standards in China. If everyone stays quiet, the standards will not work as they are supposed to. People are clearly afraid though. The problem is, “Would a place that jails reporters for unearthing corruption offer any more protection to accurate accountants?” (Truth about facts, 2007, para. 6). In order to have international accounting standards work properly in China, the companies and accountants must be able to voice their opinions and not get in trouble for telling the truth. How will people know if this gets accomplished? The answer is simple – viewing a few companies fail in light of the new standards: “By contrast, if in a year's time Chinese business still seems too good to be true, it probably is” (Truth about facts, 2007, para. 9).

India

A different approach must be taken for India since they have not converted to international accounting standards yet. Since they are still in the process of figuring out how to convert their standards to international standards, there should be a lot fewer problems for business owners and accountants. There are currently procedures being processed by the IASB in order to make the transition smooth and simple for businesses, particularly SME's (small to medium enterprises). In Australia and other countries where international accounting standards have been used for a few years, there has been the problem of how to relate standards set for large public companies to smaller and medium sized companies. The IASB has proposed a draft that would allow smaller businesses to be exempt from some of the regulations that larger businesses have (Lavi, 2007). In

other words, the wait to change systems may be beneficial for India. However, the current accounting system in India has many regulations for both businesses as well as accountants (Jopson & Tucker, 2007). International standards may be a relief to both groups who are tired of the overbearing laws.

The effects on business owners. Business owners of larger companies in India seem to be quite interested in international accounting standards. Currently, businesses must deal with many heavy regulations that hamper growth with product and labor markets. These companies see international accounting as the key to link countries together in the future, and that by switching to these standards, India will have an even larger growth in its market. India's companies also see that the change will allow them to keep and hire quality employees; when current or prospective employees see that a company is doing well financially, they are more likely to stay with that company (Narayanaswamy, 2006). Overall, larger businesses are for the change; the problem that occurs though is with the smaller to medium sized companies. Some of these companies see that there is not much of a benefit for them when they are not trading internationally. Some of these companies also feel that the change will be costly. These companies have seen what has happened with other countries that have made the switch, which makes them pessimistic. As previously mentioned, the IASB has recognized this problem as well and has made a draft to dismiss some of the regulations that are put on larger companies. This would make it much less costly for SME's, as well as make their financial statements simpler (Lavi, 2007). With the complaints that have been made against the possible change in standards, solutions have been quick to follow.

The effects on accountants. Accountants in India are almost unanimously for international accounting standards. These people are currently under so many regulations, that it is difficult to compete with other accountants. Accounting firms can only have 20 partners and each partner can have no more than 30 companies to audit annually: “The restrictions put in place in India are inevitably going to hold back the ability of the profession to train accountants to service a fast-growing economy” (Jopson & Tucker, 2007, para. 8). Accountants in India are not even able to practice their profession overseas because of the restrictions in their country (Jopson & Tucker, 2007). Since the accountants of India have such strict restrictions, a change to international standards would give them the freedom that many of them seek. Some of the accountants have also recognized the inevitability of the change in standards and feel that if India switches now as opposed to later, they will be able to exert some impact on the standards that are being finalized (Murali, 2007). Overall, accountants have reacted positively towards international accounting standards.

Overcoming the lack of support. In India, the business owners and accountants generally have support for international accounting standards. This is mainly because it would allow many restrictions to be lifted and make companies’ financial statements more credible. The lack of support for international standards is mainly by those who are from small to medium sized businesses. Since the IASB is currently taking care of the financial reporting for this matter, the problem is fixing itself, without any harm towards the SME’s of India in the process (Lavi, 2007). The other complaint from the SME’s – that they do not see a benefit for themselves since they do not trade internationally – is plainly their inability to see the big picture. When large companies trade internationally

using international standards, their profits should inevitably rise. When these companies' profits rise, the people who work for them will get larger pay checks, which in turn will cause them to spend more money. Some of this money will go into the SME's.

Although SME's do not directly profit from a change in standards, they will profit indirectly. Finally, although most people are usually against change, India is for it due to overbearing government regulation. Another factor that should be mentioned is that although there is little resistance towards the change in standards now, feelings may change when the standards are changed; but, India has carefully positioned itself in order to make a smooth transition. India's current restrictions have overcome much of the lack of support on its own.

Australia

Since Australia adopted international accounting standards in 2005, its citizens have gotten a good view of what the switch entails. They have seen the good and the bad; they have seen the mistakes and the successes that the new standards have brought. It should be mentioned that at the time of change, an economic boom occurred in Australia. Even with an economic boom, there have been complaints. When the standards were first implemented, there was the problem of reporting for the SME's. These businesses were told "to adopt it wholeheartedly for the sake of national interest" (Ali, 2005, para. 7). As previously mentioned, the IASB has been working on this challenge. The problem though is that the business owners of SME's have dealt with this difficulty for the last couple of years. On the other hand, the larger accounting firms in Australia have had great business in 2006 from the change in accounting standards. Many of these firms experienced significant growth, specifically in auditing (Country

Survey, 2006). Although Australia was one of the first larger countries to change to international standards, they certainly have done it with grace, proving to the world that if a problem in the standards were to occur, they would not be afraid to voice their opinions in order to create change.

The effects on business owners. Although many larger companies have benefited or are beginning to benefit from the change in standards, some of the smaller companies have had more of a challenging time. This is mainly because when the standards were created, they were designed for larger companies who trade internationally. SME's were not brought into the equation, and because of that, they have had a difficult time in Australia. One company, the Heritage Building Society, has had a really difficult time with the new standards. The chairman of the society, Brian Carter, had mentioned, "If there has been some advantage or there will be some advantage from it, will somebody please tell me what it is" (Australian building society, 2006, para. 2). In reference to using the new standards, he stated, "It has cost us an enormous amount of blood, sweat and tears, not to mention dollars in implementing them for absolutely nothing" (Australian building society, 2006, para. 3). Another complaint that was voiced was that Australia implemented the standards too quickly, without hearing much feedback from businesses and accountants (Ali, 2005). Although there were some problems in the beginning of implementation, the only real problem now is with the SME's which is currently in the process of being fixed. Australia, as a whole, has been experiencing an economic boom in the last year, making most businesses very happy.

The effects on accountants. Although accountants had to go through the trouble of learning how conform to new standards, they are certainly seeing the benefits now. This is particularly true for the larger accounting firms in Australia. Since Australia has been experiencing an economic boom, people are spending more money. When more money is spent, accountants are put to work. Accountants have recently made it a priority to merge their firms and hire more accountants to experience a higher rate of growth. Some of the changes that have occurred due to international standards have a good impact on accounting firms. Some of those adjustments include “changes to regulation in tax-effect accounting, the treatment of intangibles, impairment testing and financial instruments” (Country Survey, 2006, para. 27). Overall, after dealing with the initial change, Australia’s accountants are rather satisfied with the change of standards and how those standards impacted their firms.

Overcoming the lack of support. As a whole, Australia has shown the rest of the world that it is possible to change to international accounting standards and that there are certainly benefits to the change. Although it has been costly and time consuming to make the change, larger companies have benefited from the change in standards. One look at Australia’s economy right now says it all. Businesses are increasing their revenues and people are making more money and spending more money. The initial change to international accounting standards was challenging to the SME’s, but with the help of the IASB, hopefully the problem will be a thing of the past. Australia has proven to be an outstanding country that was willing to pioneer a new set of standards and make it work to the best of their ability. In the process, they have shown that they are a power house in trade, especially with China and India. With the change of standards and the economic

boom, accountants have reaped the benefits. Firms have been growing and companies have begun to take a higher value in their audits. This has allowed accounting firms to be able to increase their prices without complaint from their clients. Although there were many skeptics when Australia made the switch of standards, the number of those skeptics has dwindled as this country has proven that it by far has the capability and the capacity to modernize itself as markets continue to globalize (County Survey, 2006). Australia truly has worked to diminish the lack of support from the change of standards and will continue to do so as policies are changed to better fit SME's.

How to Overcome the Lack of Support

The lack of support from countries that have changed or are in the processing of changing to international standards certainly can be an impediment towards globalizing these standards. This is why it is essential for countries that have or are going to change to international standards to listen to its people, particularly business owners and accountants, and make sure that the standards are working consistently and correctly. The people of Australia have stated their grievances and the IASB has responded to the problem. The people of India have been smart to wait and make sure that their current standards will not be compromised when they switch to international standards. Their current system has tiers that avoid the problem that SME's are having with international standards. By the time India does change its standards, the switch should go rather smoothly. China will probably have the largest problem since its people are afraid to voice their opinion. The business owners and accountants are afraid of the punishments that they may receive if they were to complain. This means that if there is a lack of consistency or comparability with the standards, few will know. There will also be a

major problem with fraud in China. If accountants fear what their government might do if they uncover fraud, what good are financial statements in China? To know if international accounting standards are truly working in China, there should be the downfall of at least a few companies to prove that fraud is being handled. With more and more countries accepting international standards, the problems that come along with these new standards will be brought to light and fixed as quickly as possible. It is clear that as businessmen and accountants reap the benefits of the change to international accounting standards, the lack of support will be minimized and markets will continue to flourish on a global scale.

Conclusion

Through the analysis of the obstacles of culture, government, and lack of support, and the use of the countries of China, India, and Australia to demonstrate these obstacles, it is clear that many countries can still have international accounting standards. Even though each country has a unique culture, it does not prohibit the use of international standards. It is important that accountants and businesses understand that there are cultural differences and that those differences must be accounted for when looking at the financial aspects of a company. Although there is worry that some cultures will be more inclined to have fraudulent practices, fraud can occur anywhere in any country. This is why it is important to evaluate each company that one wants to do business with or work for. Even though each country has a unique government, if that government decides to allow international accounting standards, it is possible to do so. It is only when the government prohibits allowing accounting standards that it becomes a true obstacle. The process can only really work when a government is willing to give up control of its

accounting standards and implement the new standards. Even though there has been a lack of support by some people, the IASB is willing to listen to those complaints and make sure to take those thoughts into consideration to try to formulate international accounting standards into the best structure possible. It is also very important that people do understand that these standards can benefit everyone, whether directly or indirectly. International accounting standards can allow markets to unite, trade to flourish, and businesses to boom.

It is likely that ten years from now, many of the problems with international standards will have been fixed; people will have come to realize that by changing to these new standards, they took a step forward towards globalizing the market which not only has looked to prohibit fraud, but also bring success to each country through international businesses and trade. People will be able to see clearly that the IASB worked diligently to eliminate the obstacles set before it. With international change, there will always be obstacles; it is what one does with those obstacles that make all the difference.

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