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ACCOUNTING MODELS: A CONCEPTUAL REVIEW

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ABSTRACT

This study examines the Accounting models operational in different countries of the world. It employs library research which forms the basis for the Researchers' conclusion. Accounting is developed and nurtured by its environment. The financial reporting activities of companies in a country for a specific period constitute the accounting system of that country. However, accounting system can be exported from one country to another, just as socio-political ideas are exported among different countries. The study took an overview of the following models: the British-American model, the Inflation-Adjusted Model, the Legal Compliance Model, the Communist Model, the Mixed Economy Model, and the International Accounting Model. The study concludes that despite the differences in these accounting models, they have helped in the uniformity among the various aspect of financial presentation of the countries practising them. However, although environmental factors and other emerging factors affect the universal acceptability of a particular model, for global comparison of financial statements, a unified accounting model- reflected in the International Accounting Model should be adopted globally.

Keywords: British-American Model, Inflation-Adjusted Model, Legal Compliance Model, Communist Model, Mixed Economy Model, International Accounting Model.

1.0 INTRODUCTION

The financial reporting activities of companies in a country for a specific period constitute the accounting system of that particular country. In this perspective, the accounting systems can be classified on the basis of a large range of factors, varying from the method adopted in recording financial events to how these events are audited, the qualifications of the accounting professionals and the accounting rules followed (Feyyaz, Cemal, & Mustafa, 2008). However, the diversity exists throughout the countries in respect to the form and substance of individual financial statements, the rule(s) used to measure assets and liabilities and the magnitude and nature of the disclosures provided in a set of financial statement. Many environmental, historical, economic, socio – cultural, institutional, and other non – accounting factors are thought contributing to the differentiation in financial reporting that exist across countries or that affect a particular country's accounting system (Ksenija, 2012). This implies that Accounting as a social science is affected by the environment in which it is operated, but simultaneously, it is one of the factors that has the impact on this same environment. This is a fact that points to the interdependency of accounting and its environment. Ezejelue (2008) opine that there are many environmental factors which are thought to contribute to the dissimilarity in financial reporting that exist across countries. Some of the commonly mentioned factors include Legal System, Cultural, Political, Economic, and Inflation factors.

According to Valeriu and Cristian (2010), the explanations regarding the causes of the accounting systems multiplicity and also their classification by some experts in compared accounting systems has constituted a strongly debated issue in the second half of the 20th century. The accounting classifications have always created interest to the researchers, practitioners either for the explanation of the major differences which exist in the case of apparent accounting options due to cultural influences, or for making possible comparisons between the countries which have the scope of accelerating international harmonization. The first attempts of classifications dates back in the year 1911, when Hatfield began with establishing the differences between the accounting practices in four countries, suggesting a classification in three groups: United States of America, United Kingdom, Northern Ireland, and Continental Europe. Accounting as an independent discipline, approach at which level the accounting is considered as a distinct function which is derived from the business practice, with the inflection being placed on practice, it is without neglecting the conceptual side (United Kingdom and USA); The "uniform accounting" type approach is characterized by the fact that it appreciates accounting as an efficient control and administration means (Sweden , Germany, France, and Switzerland). It's in line with the above that this study tends to examine the various types of accounting models operational across countries globally.

2.0 LITERATURE REVIEW

2.1 The Concept of Accounting Models / Clusters

Accounting Model is a set of basic principles, concepts, assumptions, and procedures that determine the methods of recognizing, measuring , recording, and reporting as an entity's financial transactions. Accounting model is a type of model that classifies accounting practice in different countries into different categories (Okoye, 2009). Aside the differences in the accounting system of countries, accounting practices or system can still be found to be comparable among countries due to historical or economic relation between these countries. Accounting cluster is the grouping of countries or nation according to accounting similarities, i.e. countries that share common accounting orientation and practices are grouped together and considered to belong to the same accounting clusters or model. However, Mueller, Germon and Meek (1997) states that no two countries have identical financial accounting practices; hence each country is a unique mixture of environmental variables that collectively have influenced the pattern of accounting development in that country. Thus, in order to cluster countries, one must blur some dissimilarities. Valeriu and Cristian (2010) assert that the different modality of making the grouping or classification in the field of accounting which they considered educed, are those based on morphologies, such as those belonging to Buckley, in the year 1974, or American Accounting Association (AAA) in the year 1977, which entails classification by drawing up a morphology and using empirical data to obtain clustering, as well as the classifications based of the influence spheres, among which Seidler (1967), is remembered for, identifies three groups: the British, the Americans and the Continental Europe. According to Hellmann, Perera and Pate (2011), another classification in the year 1997, based on influence areas was made up by the AAA, It was staring from 8 parameters (the objectives of the financial accounting , the political system, , the economic system, the origin of the accounting norms, the level of economic development, , accounting education and forming, norm applications, ethics and client), establishes the following areas of influence: the British, the French, the Spanish, the Portuguese; the German and Netherlands; the Americans; the Communist countries. It is identified that the variables shaping the development of financial accounting overlap to some degree. For example, most Code law countries (e.g. France, Germany, Japan, Cape Verde, Angola, Argentina, Brazil, Benin Republic, Chad, Chile, Hungary, Italy, Mexico, etc.) have historically relied on either banks or the government to supply capital to businesses, whereas Common law countries (e.g. Australia, Canada, England, New Zealand, Scotland, South Africa, USA, Jamaica, Namibia, etc.) have historically relied on their more developed stock and bond markets to satisfy business capital needs. If this is the fact, it is logical to expect accounting similarities among countries with comparable business environments.

However, Gernon and Meek (as cited in Okoye, 2009) grouped Accounting into three major models based on certain distinguishing features of accounting, with close identification of national patterns that conform to the identified features such as Legal Compliance Model, Fair Presentation Model, and Inflation-Adjusted Model.

Other models of Accounting include the Communist Model, the Mixed Economy Model; and the International Standard Model. These models are discussed below.

2.2.1 Fair Presentation/Full Disclosure Model

The Fair Presentation/Full Disclosure Model which could also be referred to as the British-American model or Anglo-Saxon or Anglo-American Model, is used to describe the approach applicable in the United Kingdom and United States, where accounting is oriented toward the decision needs of large numbers of investors and creditors. According to Okoye (2009), this model of accounting is oriented toward the decision needs of external investors. Under this model, financial statements enable the investors to evaluate management performance and to predict future cash flows and profitability. On their part, Mukoro and Ojeka (2011) opines that the Anglo American Model is characterized by a system of accounting that is strongly influenced by professional accounting bodies rather than government, emphasizes the importance of capital markets (these are the entities within the countries where this model of accounting are usually very reliant on public sources of equity and debt finance), and relies upon terms such as fair and true or presented fairly, which is in turn and based upon deliberations of economics substance over and above legal form (legal form being bund by legislation).

This model is used mostly in countries of English-speaking and some other countries which are heavily influenced by the United States or the United Kingdom. Most of these countries follow a Common law legal system (Anne, 2000). Common laws also referred to as Case laws are laws enacted based on court rulings. According to Ball (1995), Common law is so called because it arises originally from the commonly accepted practices of the market-place. Ball (1995) further observed that Common law allows parties to a transaction who shares no close ties to reach an agreement with the assurance that an independent body (the court) will interpret it against a rich background of common practices. If a contract does not unambiguously provide for a particular eventuality, then common practice fills in such gaps. The major source of fund for this kind of model is basically the stock exchange market. The financial market enables ordinary shares and bonds to be exchanged frequently, hence enabling companies to raise large amount of capital. The United Kingdom, United States, and the Netherlands are the trend–setting countries for this cluster. Beside all these the level of education is very high and users of financial accounting information tend to be quite sophisticated. These countries also have many large multinational corporations.

Some of the countries using this model outside the Britain, United States of America and Netherland include Australia, Mexico, Hong Kong, India, Indonesia, Israel, Kenya, Nigeria, Philippines, Singapore, South-Africa, and Zimbabwe among others.

2.2.2 Inflation-Adjusted Model

The Inflation-Adjusted Model also referred to as the South-American model, is found predominantly in South America (Adela & Anuta, 2011). This model is similar to the Continental European model in its legalistic, tax, and government-planning orientation. However, this model distinguishes itself through the extensive use of adjustments for inflation. According to Ball (1995) in most South American countries, the dominating influences are the legal and administrative systems inherited from Spanish (Portuguese) colonisation, and the highly political environment that results from such systems. Mueller et al. (1997) however affirmed that Spanish is the common language of the countries using the South American Model, except Brazil which speaks Portuguese.

Historically, South-America is made up of 12 independent countries and 3 dependent territories, with Spanish being its major language. Brazil is the most populated, with Suriname being the smallest independent state and the only nation with Dutch as an official language. However, the South-American countries have a great deal of experience coping with inflation and their accounting systems have been developed to reflect this characteristics, which is generally oriented toward the government planners and uniform practices are imposed on business entities. Under this model, financial statements are not prepared based on Historical Cost (Okoye, 2009). According to Ball (1995), inflation requires extensive modification of accounting rules. For instance, countries like Brazil and Argentina have been forced to implement accounting rules to provide constant dollar financial statements, with inflationary gains and losses clearly and separately identified. Countries in this region have had more inflation than any other part of the world. For instance, throughout the 1980s and the 1990s, the average annual rate of inflation in this region was approximately 50% (Barros & Cutler, 2010). Thus, rendering historical cost meaningless and writing-off assets and related expenses. Some of the countries in this cluster include the following: Argentina, Bolivia, Peru, Paraguay, Colombia, Brazil, Ecuador, Uruguay, Honduras, Chile, etc.

2.2.3 Legal Compliance Model

Legal Compliance Model, also called the Continental European model, is a type of accounting model designed to satisfy government imposed requirements as demonstrating compliance or computing income taxes with the national government's macroeconomic plan (Okoye, 2009).This model consists of a variety of countries in which the legal system and the accounting rules are codified by government ministries (Ball, 1995). On their part, Mukoro & Ojeka (2011) asserts that the Continental European Model of Accounting is characterized by relatively little reliance upon qualitative requirements and small input from the accounting profession such as true and fair, and stronger reliance upon government. The accounting information tends to be of a temperament to guard the interest of creditors, rather than investors per se (the entities within countries where the use of the Continental European Model is inclined to obtain most of their funds from lenders, often banks). methods and they tend to be heavily associated with the tax rules in place. The Central European system is based on two determinants, (a) accounting controlled by commercial law, focused on protecting creditors; and (b) tax law focused taxation; in contrast, the Anglo-Saxon or Anglo-American accounting systems are appropriate for the use of financial decision-makers and are capital market-oriented (Walton, Haller, & Raffournier, 2003). This is the type of accounting system that is practice in the EU nations (e.g. Austria, Belgium, Bulgaria, Croatia, Italy, France, Spain, Cyprus, Hungary, Portugal, Sweden, Germany, Denmark, etc.) (except UK) and in most countries in Continental Europe and Japan where businesses have very close ties to their banks which supply most capital needed to finance businesses. The primary source of capital or fund for this kind of model is basically the bank. Mueller et al. (1997) opine that financial accounting in this model is legalistic in its orientation and practices tend to be highly conservative. Also, in this model, Accounting is not primarily oriented toward the decision making needs of the capital provider. Rather, it is usually designed to satisfy such government-imposed requirements as computing income taxes or demonstrating compliance, with the national governments macroeconomic plan.

This type of accounting model has developed where governments have used accounting as part of the administrative control of businesses (Hellmann, Perera & Pate, 2013). Thus, Accounting in this case can be used to measure performance, allocate funds, assess the size of industries and resources, control prices, collect taxation, manipulate sectors of business, and so on. It involves standardization of definitions, measurements and presentation. Some of the countries that falls into this group include but not limited to the following: France, Germany, Italy, Norway, Spain, Sweden, Belgium, Denmark, Ivory Coast, Sierra Leone, Senegal, Cameroon, Togo etc.

2.2.4 Communist Model

A communist economy is a direct opposite to the market capitalist economy. Communism, also known as a command system, is a kind of an economic system where the government owns all of the factors of production and make resources allocation decision about what products and services should be provided. The most important originators of communist doctrine were Karl Marx and Frederick Engels. The primary concern for command or planned economy is to coordinate production to directly satisfy human needs as opposed to generating profit. Chiappello and Ding (2005) states that communist model of the economy has been assembled on the basis of collective ownership by all the people. All production resources belong to the people, represented by the State that manages and controls them in the name of the people. Under this system, private ownership of productive resources is prohibited.

Communist accounting model is practiced in China, Cuba, and North Korea where government own all the productive resources and supply all capital needs. Under this model, high uniformity in accounting practice is required for tight central economic control and the primary users of accounting information are government planners (Mueller et al., 1997). Financial statements (which normally include budgetary information) are not prepared for outside users but for various agency administrators and government planners. However, there is no concept of fair presentation or true and fair view in a command economy (Nobes & Parker, 2008). Also, there is a very little emphasis on accountability, which is a crucial element in accounting of a market-based economy in which managers are delegated with the control of resources by shareholders of companies who are granted limited liability in order to encourage investment.

In contrast to capitalist economies, the basic inputs to production in the Command economies are not purchased nor are output sold on open markets. Rather, the Government allocate firms a specified quantity of resources, and firms are expected to produce a predetermined level of output. Also, under this model, success is not measured by the amount of income earned; rather the emphasis is on achieving production quota and no determining production costs. Since there is no private ownership of productive resources, valuing fixed assets is not emphasised as much as it is in the capitalist economies. Hence, Mueller et al. (1997) observed that Financial accounting as such does not exist; rather what is regarded as accounting in illustrating the overall accounting scene in the Communist countries are closer to Management accounting.

2.2.5 Mixed Economy Model

The collapse of the Soviet Union in 1991 brought into existence the mixed economic model. A mixed economic system is an economic system that features characteristics of both capitalism and socialism. It allows a level of private economic freedom at one hand in the use of capital, on the other hand , it also encourage the governments to interfere in economic activities in order to achieve social aims. This type of economy is less efficient than capitalism, but more efficient than socialism. However, advancement in technology has brought about a reduction in the gap between the Capitalist and the Socialist economic system. This is reflected in the Convergence theory which was first put forward by Clark Kerr and Colleagues in the 1960s. Convergence theory states that all the industrial systems, whether Communist or Capitalist would converge in their social, political and economic systems due to the determinant effects of technological development. In other words, Convergence theory states that as societies become increasingly industrialized, they begin to resemble other industrialized societies. That is, they converge towards other forms of social organization. Mueller et al. (1995) states that where this model applies, enterprises typically operate dual accounting systems, One part produces information for managers used to the former system oriented toward a command economy and relying heavily on uniform charts of accounts and budgeted rather than actual financial statement. The other part has a capitalist markets orientation, which tries to emulate the British American accounting model (with special reference to International Accounting Standards) and seek to provide information primarily for Investors, Bankers, and Corporate financial analyst from capitalist countries. Among the big challenges for the mixed economy model are joint venture accounting, establishing values for productive assets for the privatization of economic unite, education and organisation of effective local and national accounting professions, and regulatory control over needed accounting development. It should be noted that the United Nations Centre for Transnational Corporations is particularly active in supporting the mixed economy model. The period between 1989-1990 when the political upheavals in Eastern Europe and the former USSR spawned a very environment-specific accounting model seeking to be responsive to both remnants of tight central economic planning and control as well as market-oriented enterprise activities. In this type of accounting model, the privately-owned companies use the International Financial Reporting Standards (IFRS), while the government-owned organizations use the developed accounting model from Ministry of Finance in their financial reporting. Some of the countries using this model include the following: Russia, Vietnam, Hungary, Slovenia, Armenia, Bulgaria, Albania, and Serbia.

2.2.6 International Accounting Standard Model

In view of the globalization of the economy and internalisation of firms, adoption of uniform standards has become an imperative necessity. A comparison between financial statement of enterprises of different countries or within a country or an industry can be better made, if the accounting standards are uniformly applied in all countries. Investors can make wise and rational decision if the financial statements in all the countries are prepared following the same accounting and reporting guidelines (Porwal, 2003). According to Mueller et al. (1997) an emerging model of distinct accounting practices is termed international standards model. Its root lay in the international harmonization of financial accounting-especially for multinational corporations and international financial markets participants. Ilaboya (2015) states that against the backdrop of the need for the global standard, the International Accounting Standard Committee (IASC) of professional accounting bodies of over 85 countries was replaced in the year 2000 by the international accounting standard board (IASB). IASB is based in London, United Kingdom. It is saddled with the responsibility of developing principle based standards, which emphasises the economic purpose of accounting transaction with its underlying rights and obligations. Unlike the IASC which was made-up of representatives of professional accounting bodies worldwide, the IASB is made of 16 professionals appointed based on their technical skills and background experience. African continent is currently represented by South Africa. IASB meets on a monthly basis, unlike IASC, which used to meet quarterly. Owojori and Asaolo (2010) observed that international accounting standard have impact on the preparation of financial statement of multinationals organisations when complied with in improving comparison among different countries. However, Bake (2012) noted that the purpose of the use of international accounting information system is very similar to that of accounting transactions are treated the same by companies around the worlds, resulting in globally comparable financial statement. According to Ezejelue (2008) there are factors which gradually led to the existence and development of international accounting as an indispensable sub-discipline of the accounting discipline. These include Globalisation of the Economy, Emerging Market, the World Bank, Foreign Direct Investment, the Multinational Corporation, and Regional Trade Arrangement. Mueller et al. (1997) asserts that the move toward a free standing international standards model gathered momentum when the European Union (EU) embarked on a major thrust to align its accounting directives with the International Accounting Standard Board (IASB).

3.0 Conclusion

From the above, accounting models- British/American, the South- American Model, the Continental European Model, the Communist Model, the Mixed Economy Model, and the International Accounting Model have an explicit role to play in the economy and in the accounting profession in General. The largest group is referred to as the Continental European System, since all the countries in this group (except Canada) are in Europe and these countries (except England) have played an important role in the development of the Continental European accounting system (Feyyaz et al., 2008). Despite the differences in these accounting models, they have helped in the uniformity among the various aspect of financial presentation of the countries practising them. However, although environmental factors and other emerging factors affect the universal acceptability of a particular model, for global comparison of financial statements, a unified accounting model-reflected in the International Accounting Model should be adopted globally.

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