Available online at http://www.journalcra.com

International Journal of Current Research
Vol. 3, Issue, 09, pp.171-177, September, 2011

INTERNATIONAL JOURNAL
OF CURRENT RESEARCH

ISSN: 0975-833X

RESEARCH ARTICLE

ACCOUNTING GLOBALIZATION WITH INTERNATIONAL STANDARDS

Jeno Beke

Associate Professor, Department of Accounting, Corporate Economics and Finance, Institute of Business and Management, Faculty of Business and Economics, University of Pecs, Hungary, Europe
Postal Address: No.58, Magaslati Street, H-7625, City of Pecs, Hungary, Europe
Tel.: 00-36-72-313-681, Fax:: 00-36-72-312-075

ARTICLE INFO

Article History:
Received 6th May, 2011
Received in revised form
30th July, 2011
Accepted 13th August, 2011
Published online 17th September, 2011

Key words:
Globalization,
Harmonization,
Standardization,
Influencing factors,
Economic effects,
Hungary.

ABSTRACT

This study investigates the effects of the transition from national accounting rules to globalized international standards on the financial results of Hungarian listed firms on the Budapest Stock Exchange. The goal of this paper is to describe and summarize how the accounting standards can promote business decisions and influence economic environment.. The author analyzed and valued the effects of international standards on the business economic environments. The study showed that both businesses earnings and stock returns effect on the management turnover. The businesses with lower labour productivity compared to their industry peers have greater incentives to adopt international accounting system. However, the results on turnover are sensitive to this change in variable specification. So the increase in the sensitivity of turnover to accounting performance post-adoption is primarily driven by heightened turnover sensitivity to accounting losses. The results of applied regression model support that the greater demand for more informative and conservative accounting earnings due to performance evaluations at more widely held by businesses stimulating to adopt international accounting standards. The author hopes that his article provides evidence to sign of IFRS adoption more value relevant accounting measures.

INTRODUCTION

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world. The globalization of international financial markets has increased after establishment of world-wide comparable accounting standards and regulation (Zarzeski, 1996). The required implementation of International Financial Reporting Standards (IFRS) by listed firms on the Stock Exchanges that operate in member-states of the European Union, as of January 1, 2005, should assist investors in their decision-making and enhance stock market efficiency (Leuz, 2003). At the same time, the international acceptance of IFRS – now more than 100 countries in the world introduced them – may indicate their high quality (Tandeloo and Vanstraelen, 2005). The well-founded opinion of the author is that first economically the accounting globalization with using of international standards has to be today's task and will function in the future too. That is the reason of this article written by an academic and practical accountant at the same time. The accounting globalization will does not work without employed international standards. International Financial Reporting Standards (IFRS) are accounting principles, rules, methods ('standards') issued by the International Accounting Standards Board (IASB), an independent organisation based in London, U.K. They purport to be a set of standards that ideally would apply equally to financial reporting by public companies worldwide. Between 1973 and 2000, international standards were issued by IASB's predecessor organisation, the International Accounting Committee (IASC), a body established in 1973 by the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland, and the United States. During that period, the IASC's principles were described as 'International Accounting Standards' (IAS). Since April 2001, this rule-making function has been taken over by a newly-reconstituted IASB. From this time on the IASB describes its rules under the new label 'IFRS', though it continue to recognise (accept as legitimate) the prior rules

***Corresponding author:** bekej@ktk.pte.hu

(IAS) issued by the old standard-setter (IASC).The IASB is better-funded, better-staffed and more independent than its predecessor, the IASC. Nevertheless, there has been substantial continuity across time in its viewpoint and in its accounting standards. With increasing globalization of the marketplace, international investors need access to financial information based on harmonized accounting systems and procedures. Investors constantly face economic choices that require a comparison of financial information. Without harmonization in the underlying methodology of financial reports, real economic differences cannot be separated from alternative accounting systems and procedures. Harmonization is used as a reconciliation of different points of view, which is more practical than uniformity, which may impose one country's accounting point of view on all others. With the growth of international business transactions by private and public entities, the need to coordinate different investment decisions has increased. This would also lead to the reduction of the information diversity between managers and investors. The information diversity is a costly and can be blamed for the decrease of the managers' bonus, the increase of the equity's cost and the inaccuracy of the economical and the financial forecasts

Historically, standardization of the international accounting methods has tended to follow the integration of the markets served by the accounts. For example, the move to unified national accounting in the US in the early 20th century followed the integration of the national economy. Similarly the present impetus for global accounting standards follows the accelerating integration of the world economy. Without the common accounting standards the cross-border portfolio and direct investment my be distorted, the cross-border monitoring of management by shareholders obstructed, and the cross-border contracting inhibited and the cost of these activities may be needlessly inflated by complex translation. The purpose of the use of international standards is that similar accounting transactions are treated the same by companies around the world, resulting in globally comparable financial statements. However, using the unified accounting information system consistently by firms we will find that they are changeable, because they are depend on the varying economic, political, and cultural conditions in one state. Accountants, auditors and information scientists around the globe are planning to harmonize accounting information systems with the goal of creating one set of high-quality accounting rules to be applied around the world.

The transition to IFRS presents firms with difficulties including technical differences, the cost of change and adjustment, the time factor, and the insufficient experience and knowledge. In addition the fair value orientation of IFRS is likely to introduce volatility in book values and reported earnings, and consequently, distort the financial profile of adopting firms. These considerations may influence the financial behaviours of businesses and may motivate them to redefine their strategies and decision-making processes in order to mitigate the adverse impact of adoption on their accounting numbers. Standardization is the process of developing and agreeing with accounting standards. Some standards are mandatory while others are voluntary. Voluntary standards are available if one chooses to use them. Some are de facto standards meaning a norm or requirement which has an informal but dominant status. Some standards are de jure meaning formal legal requirements. Formal standards organizations such as the International Organization for Standardization or the American National Standards Institute are independent of the manufacturers of the goods for which they publish standards. In social sciences, including economics, idea of standardization is close to the solution for a coordination problem, a situation in which all parties can realize mutual gains, but only by making mutually consistent decisions. Standardization implies the elimination of alternatives in accounting for economic transactions and other events. Harmonization refers to reduction of alternatives while retaining a high degree of flexibility in accounting practices. Harmonization allows different countries to have different standards as long as the standards do not conflict. For example, within the European Union harmonization program, if appropriate disclosures were made, companies were permitted to use different measurement methods: for valuing assets, German companies could use historical cost, while Dutch businesses can use replacement costs without violating the harmonization requirements.

The purpose of the use of international accounting methods is that a single set of standards ensures similar transactions are treated the same by companies around the world, resulting in globally comparable financial statements. However, using the accounting standards consistently by firms we will find that they are changeable, because they are depend on the varying economic, political, and cultural conditions in one state. Accounting standard-setters and regulators around the globe are planning to harmonize accounting standards with the goal of creating one set of high-qua In countries whose culture is characterized as small power distance and weak uncertainty avoidance, one would expect a greater tendency to use accounting measures as an indicator of the results of the manager's decisions. Thus, the profit of a profit centre is more likely to be used as a measure of manager performance than to indicate the effectiveness of policies and procedures prescribed for the manager. Likewise, cost is more likely to serve as an indicator for the results of decisions made by a cost centre manager. For example, in the US and Taiwan found that managers in many Taiwanese firms did not have the full range of general management skills because the boss virtually all of the decisions. Taiwan's strong uncertainty-avoidance and long-term orientation are consistent with this tendency toward centralization. Germany's strong uncertainty-avoidance culture also suggests a tendency toward centralization. Evidence of such a tendency is provided by an automobile industry expert. „Of the top 100 managers - at Volkswagen -, 50 are not used to making their own decisions or thinking on their own." (Lere, 2009: 5).

An analysis (Ormrod and Taylor, 2006) of non-economic entities among the 100 larges companies listed on London stock market was performed and published by the University of Liverpool, UK. This research created according to international accounting gave unique opportunities to retrieve comparable data. Financial performance of given period was examined and introduced according to international as well as British accounting standards indicating that in case of 50 out of 100 economic entities, conversion into IFRS would increase EAT by 39%. Analysis was performed to find out which standards are reliable for that and turned out that only several of them caused the differences. In most of examined standards, results differed in a small proportion. Results were weighted on the bases of economic entities' size. Significant difference (24%) was indicated by the review of goodwill. Financial investments accounted for the second important factor, resulting 13% changing. Applying to international accounting standards could decrease shareholders fund by 23%. Converting to IFRS would indicate the most significant decrease in allowances (including pension), namely 26%. Surprisingly most of the standards had minor deviations were indicated by dividend (3%) and finite tax change (1%). Allowances – especially pension – was expected to have significant effects, but it rather reflected the changes of British regulations instead of IFRS. Deviations of financial statement derived from different accounting system could hardly measure in case of such large companies like British Petrol. International accounting literature provides evidence that accounting quality has economic consequences, such as costs of capital (Leuz and Verrecchia, 2000), efficiency of capital allocation (Bushman and Piotroski, 2006) and international capital mobility (Guenther and Young, 2008). The accounting system is a complementary component of the country's overall institutional system (Ball et al., 2006) and is also determined by businesses' incentives for financial reporting. Li and Meeks (2006) provide the first investigation of the legal system's effect on a country's financial system.

The financial reporting quality include the tax system (Shleifer and Vishny,. 2003) ownership structure (Easton, 2006; Ball and Lakshmann, 2005), the political system (Leuz et al., 2006), capital structure (Daske et al., 2006) and capital market development (Botsari and Meeks, 2008). Therefore, controlling for these institutional and firm-level factors becomes an important task in the empirical research design too. One study (Meeks and Swamm, 2009) characterises of accounting amounts for businesses that adopted international standards to a matched sample of companies that did not, and found that the former evidenced less earnings management, more timely loss recognition, and more value relevance of accounting amount than did the latter. They found, that international standards adopters had a higher frequency of large negative net income and generally exhibited higher accounting quality in the post-adoption period than they did in the pre-adoption period. The results suggested an improvement in accounting quality associated with using international standards. Another study (Jermakowicz *et al.,* 2007) found that first time mandatory adopters experience statistically significant increases in market liquidity and value after international standards reporting becomes mandatory. The effects were found to range in magnitude from 3 % to 6 % for market liquidity and from 2 % to 4 % for businesses by market capitalization to the value of its assets by their replacement value.

The influencing factors of accounting globalization

In order to globalize the different kind of financial statements, the International Accounting Standards Board is working on creating accounting principles which can be used in the whole world (Epstein and Mirza, 2007). Although the aim seems to be easy, the execution might be problematic due to the diversity of the current principles. The accounting harmonization establishes a system where the financial statements are standardized therefore they are transparent. However it does not mean that the use of standards would result in an operating consistent accounting system, because there are other factors which have influence on the harmonization process, for instance the national legislation system, the regulations by auditors or by the courts. The reason for differences in accounting principles between certain nations could be that they vary in the level of economic development, in the legal system, in the taxation system, in the intensity of capital market, so as in the level of inflation, in the typical methods of financing an enterprise, in the shareholder background, finally in the political and cultural traits. These are all determining the regulatory aims and philosophy behind them.

Legal system

The legal system of a country mainly influences the accounting principles. There are two main clusters: the 'civil law system', based on codification (typical in almost all European countries except for United Kingdom and in Japan) and the so called 'common law system' which is precedent based (typical in the United Kingdom, in the USA). According to certain researches (e.g. Radebaugh and Gray, 2007) the principles of the financial reporting system and the accounting standards (especially regarding the principle of being careful or the discrete evaluation) differ very much from each other.
In the 'civil law system' the accounting standards are laid down in laws by the elected deputies. It is not common that companies in these countries (continental Europe and the historical colonies of Belgium, France, Germany, Italy, Portugal and Spain) are registered on stock exchange therefore the publication of financial statements is not a priority. This system derives from the Roman Law (jus civile) the first description of which was the Codex Justinianeus in 529. The codification is done in accounting regulation as well (e.g.: the Hungarian Law of Accounting 100/2000.) however the company law contains the most important rules for the operation of a company such as the publication of the financial statement and its formal requirements. In such countries the accountant professionals motivate the introduction of the international accounting standards. In the 'common law system' only the frameworks are determined in the company law and the special regulation is done by the independent committee of accounting. Doing so, the committee focuses on the experience based solutions elaborating in details the accounting rules for profit oriented and non profit oriented companies.

In the 'civil law system' the Accounting Law is rather general, it does not contain special regulations, therefore if the companies face with special problems, they ask for help of auditors or search for other laws e.g. tax laws. The 'common law system' develops much more detailed regulation. For the special cases common general rules are applied (in the USA, Canada, Australia or New Zealand). These countries are very market oriented and the investors trust much more in financial statements than in other states. The publication of this information is crucial. The regulation is clear and much more supporting the information needs of the shareholders, of stakeholders and of analysts. This is the best environment for international accounting standards.

Financing methods

The legal forms of companies and the proprietors are different. In Germany, in France, in Italy, the banks give the financial background. However in the United Kingdom or in the USA the companies are financed mainly by shareholders. Generally speaking, in the latter countries the capital markets are quite strong and there is a sounder defence of the shareholders. The company structure could be influenced by the political interests as well. It is worthwhile to analyze the proprietors and the financing companies in the EU. In Germany it is common that banks own shares of the national companies and they are financing them at the same time. There are several national public limited companies in which Deutsche Bank has a significant portion of shares. The situation is similar in France and in Italy where the banks take part in decision making and in the execution of them too due to their significant amount of shares. In the United Kingdom and in the USA the main proprietors of national companies are rather the institutions than private shareholders. In the continental EU countries there are not many foreign shareholders, so for them it is not crucial to regulate the prompt publication of the financial statements there is no need for as much audit and the tax laws overwrite the accounting requirements. On the contrary the private financing system induce need for adequate accounting information, therefore the accounting rules are more separated from the taxation regulations and they are not in a hierarchical context. There is a strong need for more auditors.

Taxation system

In France and Germany the taxation laws function as accounting rules too. E.g. in Germany the tax account (Steuerbilanz) equals the accounting accounts (Handelsbilanz). Belgium, Italy and Japan apply similar principles and the taxation laws have strong influence on the financial statements. In the USA and in the United Kingdom the accounting regulation totally differs from taxation regulations and they handle it by deferrals, calculating the difference between the tax payable according to accounting regulation and taxation regulation. This also applies to Holland. There are examples also in Hungary for deferrals of tax payable when it is about consolidation.

Inflation

The effect of inflation can be measured in connection with the evaluation of assets or when calculating the profit. The historical accounting principle of evaluation can cause problems in periods when there is a high inflation rate. The main problems come when a multinational company wants to make a consolidation in countries where there is a high inflation rate. The effects of inflation can be seen when evaluating the fixed assets or most directly when converting foreign currency. Measuring profitability can be done in the currency of the parent company or of the affiliate company. For instance, if there is an acquisition, the accounting of the goodwill is a crucial issue. According to the US GAAP after goodwill no amortization can be accounted; they calculate it through the net present value of the capability of producing income.

Globalization problems caused by accounting diversity

Preparation difficulties of consolidated financial statements

The diversity in accounting practice across countries causes problems that can be quite serious for some parties. One problem relates to the preparation of consolidated financial statements by companies with foreign operations. Consider General Motors Corporation, which has subsidiaries in more than 50 countries around the world. Each subsidiary incorporated in the country in which it is located is required to prepare financial statements in accordance with local regulations. These regulations usually require companies to keep books in local currency sing local accounting principles. Thus, General Motors de Mexico prepares financial statements in Mexican pesos using Mexican accounting rules and General Motors Japan Ltd. Prepares financial statements in Japanese yen using Japanese standards. To prepare consolidated financial statements into U.S. dollars, the parent company must also convert the financial statements into U.S. dollars the parent company must also convert the financial statements of its foreign operations into U.S. GAAP. Each foreign operation must either maintain two sets of books prepared in accordance with both local and U.S. GAAP or, as is more common, reconciliations case, considerable effort and cost are involved company personnel must develop an expertise than one country's accounting standards.

Asses to Foreign Capital Markets

A second problem caused by accounting diversity relates to companies gaining access to foreign capital markets. If a company desires to obtain capital by selling stock or borrowing money in a foreign country, it might be required to present a set of financial statements prepared in accordance with the accounting standards in the country which the capital is being obtained. Consider the case of the Swedish appliance manufacturer AB Electrolux. The equity market in Sweden is so small (there are fewer than 9 million Swedes) and Elektrolux's capital needs are so great that the company has found it necessary to have its common shares listed on stock exchanges in London and on the NASDAQ in the US, in addition to its home exchange in Stockholm. To have stock traded n the US, foreign companies must either prepare financial statements using U.S. accounting standards or provide a reconciliation of local GAAP net income and stockholder's equity to US GAAP. This can be quite costly. In preparing for a New York Stock Exchange (NYSE) listing in 2008, the German automaker Daimler-Benz estimated it spent $ 120 million to initially prepare U.S. GAAP financial statements, it expected to spend $30 to $40 million each year thereafter.

Comparability problems of financial statements

A third problem relates to the lack of comparability of financial statements between companies from different countries. A lack of comparability of financial statements can have an adverse effect on corporations when making foreign acquisition decisions. There was a very good reason why accounting in the communist countries of Eastern Europe and the Soviet Union was so much different from accounting in capitalist countries. Financial statements were not prepared for the benefit of investors and creditors to be used in making investment and lending decisions. Instead, financial statements were prepared to provide the government with information to determine whether the central economic plan was being fulfilled. Financial statements prepared for central planning purposes have limited value in making investment decisions.

Lack of high-quality accounting information

A fourth problem associated with accounting diversity is the lack of high-quality accounting standards in some parts of the world. There is general agreement that the failure of many banks in East Asian financial crisis was due to three factors:

- a highly leveraged corporate sector,
- the private sector's reliance on foreign currency debt,
- lack of accounting transparency.

International investors and creditors were unable to adequately assess risk because financial statements did not reflect the extent of risk exposure due to the following disclosure deficiencies:

- the actual magnitude of debt was hidden by undisclosed related-party transactions and off-balance-sheet financing,
- high levels of exposure to foreign exchange risk were not evident,
- information on the extent to which investments and loans were made in highly speculative assets was not available,
- contingent liabilities for guaranteeing loans, often foreign currency loans, were not reported,
- appropriate disclosures regarding loan loss provisions were not made.

This study examines the impact of the adoption of international standards on the business environment on firms listed on the Budapest Stock Exchange. The author tried to measure the effects of the new international accounting methods on the Hungarian economic environment. The research work also seeks to identify the financial attributes of enterprises that national rules employed by the requirements of the Hungarian Financial Ministry. The paper investigates whether international accounting methods reduces the level of management performances and enhances the value relevance of standards-based numbers.

METHODOLOGY AND RESULTS

To analyze business adoption decision the employed sample consists of Budapest Exchange Trade (BET) companies who compulsory adopted international financial reporting standards in Hungary, from 2009. In this research the pre-adoption examination period is in year of 2008 and the post-adoption is in year of 2010. The final sample comprises 65 IFRS adopting and 260 local (Hungarian) accounting rules user firms. For the chosen of the national accounting rules user enterprises the author introduced mathematic-statistic methods. An alternative approach it to create a matched sample of local rules businesses based on criteria such as year and industry. It is chosen to incorporate all local rules firms due to methodological concerns about the matched-pairs research design. Financial data are from published accounting statements in Budapest Exchange Trade and Hungarian Business Information database. In the sample the businesses are classified into those following IFRS and those following national accounting rules. The adoption decision models are expanded relying Nobes (2006) researches and test if the demand from internal performance evaluations is a factor in businesses decisions to adopt international accounting standards under the global financial crisis situations. It is estimated in the following logistic regression model (1) after the prior literature (Wu and Zhang, 2009):

$$Prob\ [Adopt=1] = Logit\ (a_0 + a_1\ Close\_Held_0 + a_2\ Labor\_Prod_{-1} + a_3\ RET_{-1} + a_4\ ROA_{-1} + + a_5\ Size_{-1} + a_6\ Lev_{.-1} + a_7\ Growth_{-1} + a_8\ Foreign\_Sales_{-1}).$$

Where:

Close Held:	Percentage of closely held shares at the end of event year (event year of 2009 for the management turnover and employee layoffs analyses)
Labour Prod:	Labour productivity (sales per employee) minus the median labour productivity
RET:	Annual raw stock return
ROA:	Return on Assets, accounting earnings is defined as net income before extraordinary items.
Size:	Natural logarithm of market capitalization
Lev:	Leverage, defined as long-term debt divided by total assets
Growth:	Sales growth, current year's sales change divided by prior year's sales
Foreign Sales:	Foreign sales divided by total sales.

The dependent variable *Adopt* is equal to 1 for adopting firms and 0 otherwise. All the independent variables are measured around event year 0. This model includes year and industry dummy variables. The author included lagged variables on businesses performance (RET_{-1} and ROA_{-1}), firm size ($Size_{-1}$), leverage ($Lev_{.-1}$), growth ($Growth_{-1}$) on the right-hand side of the regression model and I expected the coefficients on firm size, leverage and growth to be positive. There is also included that foreign sales as a percentage of enterprise total sales ($Foreign\_Sales_{-1}$). The author expected these variables to have positive signs.

Table 1. Logistic analysis of accounting standards adoption decision

Analysis	Estimate	Standard Error	Marginal Effects*
Close_ $Held_o$	-0.00445	0.0026**	-0.64%
$Labor\_Prod_{-1}$	-0.00005	0.0003 **	-1.08%
RET_{-1}	-0.1134	0.1447	-0.30%
ROA_{-1}	-0.5609	0.7148	-0.31%
$Size_{-1}$	0.2659	0.0461***	4.21%
Lev_{-1}	1.3004	0.4882***	1.12%
$Growth_{-1}$	-0.2883	0.2021	-0.50%
Foreign_ $Sales_{-1}$	1.2085	0.2301***	3.08%

(Source: Author's own construction)

,* Indicate that a coefficient is significantly different from zero at the 10 percent, 5 percent, 1 percent levels, respectively (one-sided tests for coefficients with predictions and two-sided tests for those without a prediction)

*Marginal effects measure the changes in the predicted probability from a one standard deviation increase from the mean for a continuous variable and form 0 to 1 for an indicator variable with the other variables measured at the mean.

In Table 1 the coefficients estimates, standard errors, and the marginal effects are reported in columns (1) to (3), respectively. The $Close\_Held_0$ has a negative coefficient, -0.00445, and significant at the 0.05 level. The percentage of closely held shares can also vary with business' incentives to access the capital market as more closely held business may have lower demand for external capital. This is the reason why the research controls for various factors related to business financing needs in the regression model. The coefficient on $Labor\_Prod_{-1}$ is -0.00005 negative as expected and significant as the 0.05 level. The marginal effect indicates that a one standard deviation increase in labour productivity reduces the likelihood of adoption by 1.08 percent. Regression has reasonable predictive power with a *Pseudo* R^2 of 32 percentages. It was expected that the coefficients on the percentage of closely held shares ($Close\_Held_0$) and labour productivity (industry-adjusted sales per employee, ($Labor\_Prod_{-1}$) variables to be negative, because prior researches suggested that these variables associated with disclosure incentives have predictive power for the adoption decision (e.g. Ball and Shivakumar, 2005, Whittington, 2008). The control variables signed that larger businesses, those with higher leverage, with more substantial foreign sales are more likely to adopt international standards. It was found that *Close Held* is consistent with compensation contracting demands affecting business decisions to adopt international accounting standards.

The marginal effect suggest that a one standard deviation increase in the percentage of closely held shares decreases the adoption likelihood by 0,64 percent, or 5 percent of unconditional adoption probability of 20 percent (65/325). This supports a greater demand for more informative and conservative accounting earnings due to economic performance evaluations at more widely held by businesses stimulating to adopt international accounting standards.
This practical research showed that both businesses earnings and stock returns effect on the management performances. The businesses with lower labour productivity compared to their industry peers have greater incentives to adopt international accounting system. However, the results on turnover are sensitive to this change in variable specification. So the increase in the sensitivity of turnover to accounting performance post-adoption is primarily driven by heightened turnover sensitivity to accounting losses.

DISCUSSION

Globalization of accounting methods has tended to follow the integration of the markets served by the accounts. The present impetus for global accounting system follows the accelerating integration of the word economy. The global accounting system would enable the world's stock markets to become more closely integrated. The more closely world's stock markets approach a single market, therefore, the lower should be the transaction costs for investors and the cost of capital for firms in that market. The differences in international reporting practice prior to IFRS constituted a palpable barrier to efficient international investment, monitoring and contracting. And the literature suggest that being confined to small segmented capital markets imposes a substantially larger cost of capital on firms and transaction costs on investors, which would inhibit much worthwhile investment. Although we do not have all elements for the cost-benefit calculation, the evidence points to substantial net gains for smaller economies which have joined to the IFRS regime. There is certainly empirical research evidence to support the notion that uniform accounting system will increase market liquidity, decrease transaction costs for investors, lower cost of capital, and facilitate international capital formation and flow. And there is a sufficient basis to endorse IFRS and begin the challenging task of educating users, auditors, and regulators. Educators and practicing accountants alike have significant roles to play in this exciting future. International accounting standards are also becoming more popular and tend towards integration as the global economy. The global standards have many benefits that are supported by many factors. However, there exist also some restraining factors. Due to the globalisation of the markets, international investors need access to financial information of companies that is easier by harmonized accounting system. Many economic choices are done when investors realise their activities. These economic factors mostly favour international harmonization. Clear information is needed in order to facilitate investments in all sectors.

REFERENCES

Ball,R., Robin,A. and Wu, S. 2006. Are timeliness and conservatism due to debt or equity markets? An international test of „contracting" and „value relevance" theories of accounting. Manuscript, University of Chicago.

Ball,R. and Laksmann,S. 2005. Earnings quality in UK private firms. Journal of Accounting and Economics 39: 83-128.

Ball,R. and Shivakumar,L. 2005. The effect of international institutional factors on properties of accounting earnings. Journal of Accounting and Economics 29: 417-434.

Botsari,A. and Meeks,G. 2008. Do acquirers manage earnings prior to share for share bid? Journal of Business Finance and Accounting, 35: 633-670.

Bushmann,R. and Piotroski, J. 2006. Financial reporting incentives for conservative accounting: the influence of legal and political institutions. International Journal of Business and Management, 27: 148-161..

Daske,H., Hail,L., Leuz,C. and Verdi,R. 2006. Adopting a Label: Heterogenity in the economic Consequences of IFRS Adoptions. Journal of Business Finance & Accounting, 33(3)&(4):. 329-375.

Easton, P. 2006. Use of forecasts of earnings to estimate and compare cot of capital across regimes. Journal of Business Finance & Accounting Research, 23/ 2: 49-71.

Guenther,A. and Young,P.. 2000. Financial Reporting Environments at International Capital Mobility. Journal of Accounting Researches, 08:. 41-57.

Jermakovicz,K., Kinsey,P. and Wulf,I. 2007. The Value Relevance of Accounting Income Reported by DAX-30, German Companies. Journal of International Financial Management & Accounting, Vol.18.(3):. 611-641

Lere,J.C. 2009. Benchmarking Accounting Practices in a Global Economy. The CPA Journal, 10: 10-12.

Leuz,C. and Verrecchia,R.E. 2000. The economic consequences of increased disclosure. Journal of Accounting Research, 38:. 91-124.

Li,K. and Meeks,G. 2006. The impairment of purchased goodwill: effects on market value.

Working Paper. Institute of Chartered Accountants in England and Wales. Centre for Business Performance.

Meeks,G. and Swamm,P. 2009. Accounting standards and the economics of standards. Accounting and Business

Nobes. G. 2006. A Survey of National Accounting Rules Benchmarked Against International Accounting Standards. Ninth Edition. London. p. 354.

Ormrod, P. and Taylor, P. 2006. A study of the impact of IFRS adoption has looked beyond the early adopters for evidence, Journal of Accounting, 12: 82-84.

Radebaugh, L. and Gray, S. 2007: International Accounting and Multinational Enterprises. 4th Edition. London.

Shleifer,A. and Vishny,R. 2003. Stock market driven acquisitions. Journal of Financial Economics 70: 295-311.

Tendeloo, B. and Vanstraelen, A. 2005. Earnings management under German GAAP vesus IFRS. European Accounting Review, 14(1): 155-180.

Whittington,G. 2008. Harmonization or discord? The critical role of IASB conceptual framework review, Journal of Accounting and Public Policy, 27: 495-502.

Wu, S. and Zhang, P. 2009. International Accounting Standards and Internal Performance Evaluation. The Accounting Review, 37: 1283-1311.

Zazeski, M. 1996. Spontaneous harmonization effects of culture and market forces on accounting disclosure practices. Accounting Horizons, 10: 18-37.

****