



Problems Caused by Accounting Diversity

Consolidated financial statements

- U.S. MNEs often have subsidiaries in a large number of countries.
- Accounting records in local GAAP and local currency are consolidated into U.S. GAAP. Require conversion from local to U.S. GAAP.
- Require translation from the local to U.S. currency.

Difficulties with access to foreign capital markets

- · Companies often need to go outside their home country in order to access financing.
- Raising foreign capital often requires reconciliation to comply with different accounting rules or needs of investors and creditors.

Non-comparability of financial statements

- International investors need to make their own reconciliations or adjustments to financial statements.
- International investors also must face differing levels of disclosure, quality of accounting standards, and quality of auditing.



Environmental Factors Leading to Accounting Diversity

Providers of financing

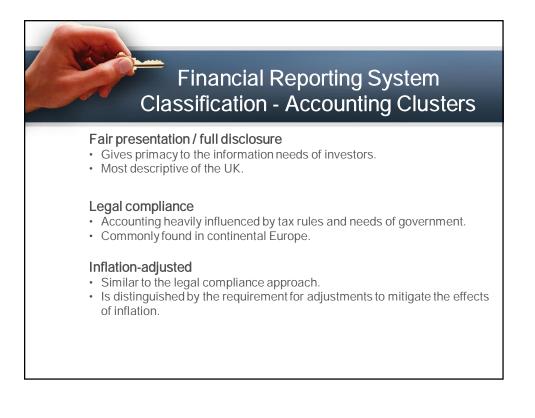
- In many countries major sources of capital are families, banks, and the government.
- Accounting and disclosure in those countries tend to be less important.
- In the U.S. and UK the providers of financing are diverse shareholders, so accounting and disclosure are more important.

Inflation

- · Some countries have historically high rates of inflation.
- Accounting in these countries often requires adjustments to offset the impact of inflation. This is common in Latin American countries.
- Given extended periods of low inflation in the U.S., inflation accounting is not required.

Political and economic ties

- · These linkages tend to make information sharing easier.
- · Nations that share relationships often have similar accounting systems.



The Influence of Culture on Financial Reporting - Hofstede's Cultural Dimensions

Individualism (vs. Collectivism)

- Degree of interdependence among individuals in a society.
- More interdependence equates to less individualism (more collectivism).

Power Distance

• Level of acceptance of unequally distributed power within and across the society's institutions and organizations.

Uncertainty Avoidance

• Degree to which members of a society feel threatened by uncertain or unknown situations.

Masculinity

• Emphasis on traditional masculine values of performance and achievement vs. feminine values of relationship, caring and nurturing.

Long-term Orientation

• The extent to which the society values persistence, thrift, observing order and respect for tradition.



The Influence of Culture on Financial Reporting - Gray's Accounting Values

Conservatism vs. Optimism

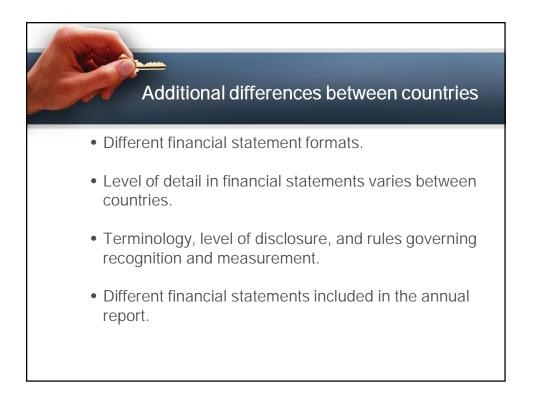
- Conservatism indicates preference for caution and prudence.
 - Optimism tends more toward fair presentation.
 - Germany has traditionally reflected a strong tendency toward conservatism.

Secrecy vs. Transparency

- Secrecy reflects a preference for minimal information disclosure.
- Transparency reflects openness and full disclosure.
- Countries with predominantly family-owned and bank financed firms tend toward secrecy.







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