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Abstract

Financial reporting mostly depends on the micro and macro environment. The emphasis is primarily on the institutional environment with specific differences between countries. Namely, that is one of the facts contributing to the detected gap in the implementation of financial reporting standards. From the accounting point of view the detected gap becomes more emphasised as certain national economies do not develop equally. On the other hand some authors claim in their research that implementation of standards in financial reporting has an impact on the increase of competitiveness for equal participation on the global financial capital market and they are of opinion that the implementation of International Accounting Standards and International Financial Reporting Standards is necessary for transparency and balanced presentation of balance sheet items. This paper considers the selected external factors (or environmental factors) that have impact on the diversity of financial reporting practices. The main purpose of this paper is to investigate the impact that selected external factors have on financial reporting systems. From methodological point of view, dependent and independent variables have been taken into consideration, where the results of comparative analysis show significant relation between external factors and financial reporting.

Keywords: Financial reporting system, political system, economic system, inflation, accounting profession, taxation system

1. Introduction

Academic literature frequently depicts factors and impact of factors on specificities of accounting system design, which (in)efficiently participate in the design of the financial reporting system. Comparative research of accounting contributed to raising awareness on the impact of external factors on the development of accounting (Gray, 1988: 2). That research contributed to the increased recognition that the fundamental cause of diversity in accounting arises from environmental differences and that various international classifications might have significant implications for international harmonisation and promotion of economic integration (Nobes, 1983: 15). This paper presents the impact of the following factors on financial reporting practices: impact of the political and economic system, impact of inflation, impact of the accounting profession and impact of the taxation system.

2. Impact of external factors on financial reporting systems - results and discussion

2.1 Impact of the political and economic system on the diversity of financial reporting practices

Political factors have had a considerable impact on economic systems which is reflected in a different understanding of the role of accounting in both central-planned economies and market (capitalistic) economies. The basis of central economies is that the government (administration) defines the clear requirements of the society by prescribing plans within a certain timeframe while this is not true in market economies. Market economies are, on the other hand, impacted by market forces (supply, demand, capital) which define the needs of a society with the government's latent activity. The level of government interference directly determines the characteristics of the economic system, and the position of accounting profession respectively.

Roberts et al. (2008: 202) state that different political systems have impact on the structure of the economy depending on the way the economy is organised and controlled, which consequently reflects on the accounting objectives and role. Particularly important for accounting is the manner in which each individual country organises economic relations. According to one model, all production processes may be in joint ownership and under the control of the society, which basically means that supply and demand are determined by centralised plans due to which accounting serves as assistance in centralised planning and in the control of the economy. According to other models, there are capitalistic economic systems where price, supply and demand are determined on the market without interference of the government. Similar considerations have been noticed in other authors as well.

For example, Radebaugh, Gray and Black (2006: 16) emphasise the very important impact of the political system on the nature of the accounting system where that accounting system reflects the political philosophy and objectives by comparing central planning in relation to private entrepreneurship. The accounting system in controlled (centrally planned) economies differs from accounting systems in market-oriented economies. In centrally planned economies the government is the owner of all resources and lands, there is no private ownership, external auditors are governmental agencies' officials, and the existing political systems export and import national accounting standards and practice.

There is a firm connection and interaction between political and economic system factors, where it is impossible to make a clear distinction between politics and economy, or a systematic interpolation of impact of the mentioned factors. However, the solution to this problem needs to be sought within the historical context.

The process of establishing accounting systems in former colonial countries took place in two different phases. Throughout history the majority of countries adopted accounting systems of other countries, voluntarily or by force. In some cases the countries voluntarily chose to continue a close cooperation in accounting issues with former colonial government (such as Singapore and Malaysia which chose accounting systems of former colonial governments or the Philippines which selected the American accounting system, even after they gained independence). In other cases, postcolonial countries replaced the enforced accounting systems of colonial forces, for example Indonesia which rejected the Dutch accounting system after gaining independence and adopted the American accounting model (Saudagaran, 2004: 8). For instance, the

impact of British accounting at the beginning of the 20th century considerably impacted other Commonwealth countries. The Dutch impact was noticed in the accounting systems of the Philippines, Africa and Asia. The German political system is characteristic for Japan and Sweden (Choi, Mueller, 1992: 40-41).

Colonised countries commonly adopted the accounting system of a larger, overpowering country (for example countries within the British Commonwealth). A similar process has been observed in other countries, former colonies, such as the Philippines whose accounting system is based on the American system as a heritage of colonial history (Saudagaran, 2004: 8). The United States of America (the USA) had an impact on accounting in Canada, primarily due to geographical vicinity and closed economic relations and the number of Canadian business entities that sold shares or borrowed money in the USA. Furthermore, the USA is the main trading partner to Mexico and, again due to vicinity, the accounting in Mexico is identical to the USA accounting. Recently, the American standard has had an increasing impact on the accounting in Japan since Japanese business entities have increased capital and established production facilities in the USA. Great Britain used to be a considerable force in the world of accounting (England and Scotland). Almost each former British colony based their accounting profession and financial accounting practice on the Great Britain model. Alongside colonial accounting, the British have also exported their accountants. Former French and German colonies were similarly under the impact of "parent countries" even if not so strongly as the former colonies of Great Britain (Mueller et al., 1987: 12).

Hence, in terms of colonisation, colonies had very slight or almost no possibility to choose their own national and independent accounting system due to predominance of the colonial empire. Colonial countries accepted the process of implementation of the dominant policy with more or less resistance. Recently it has become increasingly popular for countries to enter regional economic associations such as the European Union, the North American Free Trade Agreement (NAFTA) and the Association of Southeast Asian Nations (ASEAN) in order to gain stimulus of economic activities through harmonisation of a number of business regulations such as financial reporting for the purpose of decreasing business transaction costs and ensuring economic profit (Saudagaran, 2004: 8). Since the early 1970s, the European Economic Community (EEC, today the EU) has been trying to align accounting practices of member states because of similar economic interests for the purpose of convergence and harmonisation of accounting practices.

2.2 Impact of the inflation level on the diversity of financial reporting practices

Accounting in many countries rests on the historical cost principle. The historical cost principle is based on the assumption that monetary units used to present results in financial reports are rather stable, which presupposes that the value of a monetary unit does not change under the impact of inflation. Hence, the historical cost principle is counter proportional to the inflation level (Mueller et al., 1987: 14). As the inflation rate grows, the problem of the historical cost principle implementation increases. Developed western countries have rarely been affected by high inflation. Historical cost accounting is common for the majority of countries in continental Europe and North America (Roberts et al., 2008: 205).

According to the historical cost principle, economic transactions are expressed by value which was predominate on the day of transaction; thus an asset bought many years ago shall be expressed in financial reports at the original purchase price. Countries with low inflation, such as Great Britain and the USA, base the historical cost principle on the assumption that inflation has no considerable impact on financial reporting. The countries suffering a high level of inflation, such as Bolivia and Mexico, abandoned the historical cost principle in financial reporting (Saudagaran, 2004: 8). In the early 1980s, Bolivia saw inflation of over 20.000% a year which resulted in the decline of value of the Bolivian national currency from 25 pesos for one American dollar to 1.13 million pesos for one American dollar in a relatively short period of time (Saudagaran, 2004: 84).

Countries fight inflation problems differently. A high level of inflation caused certain economies to collapse. For example, Germany and Japan have had a very low inflation level in the last several years, while South American countries have been destroyed due to high inflation levels and have aban-

doned the historical cost principle a long time ago since business entities routinely determined asset value based on changes in general price levels (inflation) (Mueller et al., 1987: 14).

The inflation rate is one of the key elements in the Doupnik-Salter model. Hence, historically, the inflation rate in certain countries has had various impacts and the following may be concluded: (1) accounting, in the English speaking area, has proved to be extremely immune to inflation, (2) in several South American countries the most obvious characteristic, as a measure for decreasing inflation, is utilisation of the general price level adjustment method and (3) government, as the key factor which may respond to inflation in a timely manner, as it was done in certain European countries (France, Spain, Italy Greece) emphasises the legislative impact on regulation of accounting. In those countries where accounting is dominant, the level of inflation is influenced either by professional accounting associations or by the government within the taxation system (Nobes, 1998: 174-175). The implementation of the Corporations Act in 1976 enabled the return of power to the stock market. One of the basic tasks of the Corporations Act is the protection of small shareholders by introducing the rule of mandatory payment of dividends. Hence the income category had to be clearly defined and this was achieved through the system of monetary corrections, i.e. monetary prices index for updating asset value, depreciation, sales costs and capital. The Corporations Act was withdrawn ten years later (1986) as a part of the anti-inflation economic measures (Roberts et al., 2008: 205).

According to Roberts et al. (2008: 205), Central and South American countries used different forms of current cost accounting. There are two main accounting models for adjusting inflation. The first is the General Price Level Adjusted Model (GPLA) that uses the price index as a correction factor due to general changes in purchase power of the national monetary unit. The objective of this model is the conversion of nominal amounts from different periods showed according to historical cost on a general, joint amount on balance sheet date so that all amounts in financial reports are shown in monetary units of the same purchase power. The Current Cost Adjusted Model (ACC) takes into consideration the perspective of material assets for measuring the financial position and focuses on certain changes in the price of the company's assets. Expenses are recorded based on the current cost of engaged asset replacement, and not based on the historical cost principle (Saudagaran, 2004: 86).

Davis-Friday and Rivera (2000: 113, 118-119) in "Inflation Accounting and 20-F Disclosures: Evidence from Mexico" analyse characteristics of the Mexican accounting model and the reporting model with emphasised problems in inflation accounting. One of the characteristics of Mexican accounting, inflation, leads to basic differences between Mexican and American accounting principles from the aspect of restatement of inflation. Mexican accounting standard B-10 – Effects of inflation is obligatory for Mexican companies since 1984 in the function of fine inflation adjustment by means of prescribed accounting conduct. The Standard includes three concepts. Namely, effects of inflation on net monetary position (assets minus liabilities) of profits and losses arise from non-monetary assets and capital conservation under financial conditions. The method demands repeated recognition of all financial data in monetary units from the end of the current reporting period. All comparable financial reports from previous years need to be corrected from the date of the most recent balance sheet. This standard introduced the concept of 'integral financing costs' included in the income statement which is a net result of nominal interest cost, profit or loss prior to taxation due to changes in price levels and exchange differences of monetary assets and liabilities expressed in foreign currency. Thus, maintaining the national currency under the conditions of inflation and exchange differences is achieved through achieved net profit, and non-monetary items in the special account within the equity principal in the balance sheet is expressed through cumulative result in order to maintain capital under real conditions. This method is similar to the Brazilian integral correction method implemented until 1994 where the consumer price index published by the Central Bank was used as the inflation correction factor.

Substance (capital) of a business entity needs to correspond to the equivalent value at the moment the entity was established regardless of the inflation level of a certain economy. Although minimum inflation level is desirable and beneficial with regard to stimulating economy development, in accounting terms certain changes were required, which were described by Gulin (2002). Contemporary valuation principles are the result of accelerated development

and globalisation of financial markets at the end of the 20th century and at the beginning of the 21st century. Discrepancies and differences in valuation concepts, due to abandonment of historical cost as a unique valuation basis, especially manifested in 1998 with the occurrence of the International Accounting Standard 39 – Financial Instruments – Recognition and Measurement. That standard, together with the American Standard Statement 133 Accounting for Derivatives and Hedging Activities, demands innovations and questioning of accounting assessment policies for all business entities, and especially for financial institutions. Within various committees of the EU discussions have been opened on assessment principles and on the possibility to use IAS 39 on publicly traded entities (Gulin, 2002: 479-480) and the obligation of financial reporting by fair value which is of exceptional significance to traded entities due to the real assessment of the value of the other business entity.

2.3 Impact of the position of the accounting profession on the diversity of financial reporting practices

The accounting profession tends to be observed on the margins of accounting harmonization, although the influence of the accounting profession is of great significance. Thus the role of the accounting profession is described in different ways which, on one hand, depends on the degree of the development of a particular national economy, and, on the other hand, on the degree of involvement of accountants in the global harmonization processes. However, the accounting profession has not always had a significant role.

Table 1 The number of accountants and auditors in emerging markets and in developed markets

Emerging markets	Number of auditors per 100,000 residents	Developed markets	Number of auditors per 100,000 residents
Chile	87	New Zealand	550
Argentina	71	Australia	539
Malaysia	48	UK	352
South Africa	35	Canada	350
Philippines	31	Singapore	273
Taiwan	17	Ireland	262
Mexico	15	USA	168
Poland	14	Hong Kong	110
Greece	12	Italy	110
Zimbabwe	11	Denmark	106
India	9	Switzerland	53
Sri Lanka	9	Netherlands	52
Nigeria	8	France	45
South Korea	7	Sweden	41
Thailand	5	Belgium	38
Colombia	2	Germany	26
Indonesia	2	Spain	18
Pakistan	2	Finland	10
Brazil	1	Japan	10

Source: Saudagaran and Diga (1997), "Financial Reporting in Emerging Capital Markets: Characteristics and Policy Issues", Accounting Horizons, Vol. 11, No. 2, p. 10. Available at: Business Source Complete, according to Communication with IFAC Secretariat, Aug. 13, 1996.

The relevance of the accounting profession has changed throughout history; not until market business conditions took hold did the accounting profession gain its well-earned dignity.

In the common law countries (USA, Canada), despite the problems of financial reporting and audit, the accounting profession has been deeply respected. In such countries, the accounting profession is largely independent and has a major role in setting accounting and auditing standards, as well as the role in determining educational requirements and licensing requirements for entering and remaining in the accounting profession. In the countries of the legal rights (France and Germany), the accounting profession holds a markedly lower status and power, with the government taking over the leading role in regulating the profession. In other countries (Russia) throughout history accounting has been associated with church practices, implying a lower status of accounting.

The reputation of the accounting profession has an important impact on the quality of financial statements, i.e. where there is a stronger impact of accounting profession audit reports are more independent and reliable. Thus, countries with weaker influence of the accounting profession have questionable quality of financial statements (Saudagaran, 2004: 9).

Accounting cannot be highly developed in countries where general accounting education is of a low level, unless the country imports accounting talents or directs the existing accountants to necessary training. Such countries have sophisticated accounting systems and highly qualified professional accountants. The level of education in most developing countries is low with simpler needs for accounting. Accounting responds to information needs, thus accounting of underdeveloped countries may be at an appropriate level of sophistication under certain circumstances. Some accountants believe that the lack of sophisticated accounting skills in less developed countries hinders the potential for economic growth (Roberts et al., 2008).

For example, the role of accountants in Germany is significantly lower than in the UK as the role of professional accountants in the UK can be replaced by engineers, lawyers, other professional accountants or other experts. In most parts of Western Europe the term accountant is identified with the role of auditors (Great Britain). The number of accountants (auditors) in Germany is surprisingly insignificant in comparison with most other countries since in Germany there are a lot more tax experts (Steuerberater) than accountants (Wirtschaftsprüfer). Thus, the accounting profession has greater significance in the Commonwealth countries and the United States than in Western Europe and Japan. (Roberts et al., 2008: 217) as shown in Table 1.

The quality of education is affected by a number of factors such as the degree of economic development, political and economic ties with other countries and the reputation of the accounting profession. Certain countries have a long history of accounting and accounting education at tertiary institutions of higher education. In other countries, the quality of accounting education is relatively weak as accounting is often equated to bookkeeping and is considered a vocation rather than a profession, and restricted to secondary education (Saudagaran, 2004: 11).

2.4 Impact of the tax system on the diversity of financial reporting practices

Reviewed literature shows that there is a tripartite model depending on what is given priority to - accounting or tax system. There is no doubt that the accounting and tax system are mutually related, to a greater or lesser extent, with the degree of connectedness depending on a number of different factors. In this regard, it is important to emphasize that the functions of the tax and accounting system depend on the permitted methods of presenting and evaluating certain areas equally interesting for both the tax and accounting system, which is why most authors talk about deferred taxes and depreciation as the two main factors which are the point of contention between two systems - the tax and accounting. Therefore, the function of tax policy goes along with the rules of financial reporting (Accounting Standards) or requires a dual presentation system in compliance with the needs of accounting and tax sectors. On the other hand, it is important to observe the impact and position of the accounting profession and system in relation to the tax sector, ceteris paribus, when it comes to the tax or accounting system as an extended arm of the state government. Both Bushman and Piotroski (2006: 116) argue that taxation can be seen as an alternative mechanism for the state to extract the wealth of corporations

and shareholders, thus increasing the influence of the political cost reporting practice, whereas, on the other hand the Internal Revenue Code - IRC seeks to ensure an effective and equitable framework for determining tax liabilities for more effective control of compliance and tax collection, limiting the selection of application of accounting methods (Manzon, Plesko, 2001: 5).

The historical aspect of the impact on the accounting and tax system is extremely important in understanding the diversity of tax rules and financial reporting rules, in terms of deferred tax in particular. Hoogendoorn (1996: 787) held that there is a strong link between the tax and accounting system of Great Britain and Ireland because of specific mutual relations between these countries. As Ireland was under the political control of Great Britain, until 1922 there existed a single system. After the dissolution of the United Kingdom in 1922, various separate systems were developed in a similar way. Then, Sweden particularly affected the systems of Denmark, Finland and Norway through the so-called Nordic model (for example, non-taxable reserves in business accounts are evidence of an explicit link between the tax and commercial accounting). The Anglo-American approach to deferred taxes, in the last two decades, has been adopted in Denmark, Norway and France. Furthermore, German and French influence has been noticed in countries such as Belgium, Italy, the Czech Republic and Sweden.

Hoogendoorn (1996: 785) distinguishes two different structures of connection between accounting and tax as - "independence" and "dependence". Independence (United Kingdom, Czech Republic, Denmark, Ireland, Netherlands, Norway, Poland) means that the accounting determination of gain is independent from determining profit for tax purposes. Namely, companies can choose different accounting policies for tax and accounting purposes. However, there is never a complete independence between accounting and taxation. Accounting rules affect the taxation rules, while tax rules can be voluntarily applied for accounting purposes, especially by small business entities. The main characteristic is the freedom of the subject in the application of different accounting policies for commercial and tax purposes. The dependence (Belgium, Finland, France, Germany, Italy, Sweden) means that financial statements comply with tax regulations and it is to be expected that companies strive to reduce or delay the payment of taxes, which leads to reporting lower profits. Although tax rules are followed only by choices made in financial statements (German "Massgeblichkeit", i.e. authority), they in fact, determine tax consequences ("umgekehrte Massgeblichkeit" or reverse authority). The dependence exists only in certain reports while the group financial statements are not (directly) affected by tax regulations, but the subject may decide on the application of the same accounting policies in the individual and consolidated reports as shown in Table 2.

Regarding a different importance of connection between accounting and tax systems within national frameworks, Hoogendoom (1996: 793) proposes a classification in seven areas of 13 European countries on the basis of relative independence and interdependence of the tax and financial reporting in terms of deferred taxes:

1. Dependency of accounting and taxation with no regulation of accounting of deferred taxes. Countries that belong to the group are Belgium and Italy.
2. Dependency of accounting and taxation where there is regulation of the accounting of deferred taxes. The said group includes France and Germany.
3. Dependency of accounting and taxation with a view to developing individual independent structures, but with no strict regulations regarding the accounting of deferred taxes. Countries that belong to the group are Finland and Sweden.
4. Dependency of accounting and taxation with no regulation of accounting of deferred taxes. Countries that belong to the group are Belgium and Italy.
5. Dependency of accounting and taxation where there is regulation of the accounting of deferred taxes. The said group includes France and Germany.
6. Dependency of accounting and taxation with a view to developing individual independent structures, but with no strict regulations regarding the accounting of deferred taxes. Countries that belong to the group are Finland and Sweden.
7. Accounting and taxes are formally independent, but in practice are still firmly connected. There are no strict rules on accounting of deferred taxes, such as in the Czech Republic and Poland.

Table 2 Examples of accounting areas that cause differences between tax rules and financial reporting rules

Area	Den-mark	Ger-many	Norway	Sweden	Nether-lands	Ireland	Poland	Great Britain	Finland	Italy	France	Belgi-um
depreciation	•	•	•	•	•	•	•	•	•	•	•	•
profit from sales of fixed assets			•		•	•		•			•	•
long-term construction contracts			•	•	•							
pension costs and other income from pension		•	•			•		•			•	
unrealized exchange rate differences							•					
unrealized losses on securities			•									
provisions for main-tenance, warranty and restructuring		•	•	•	•		•	•	•	•		
write-off claims	•		•			•	•	•				
expenditures interest						•	•	•				
research and development costs						•		•				
business start up and expansion costs		•										
stock evaluation	•	•	•	•								

Source: Hoogendoorn, M. (1996), "Accounting and taxation in Europe - A comparative overview", European Accounting Review, Vol. 5, No. 1, pp. 5783-5794.

8. Accounting and taxes are independent. Regulations for deferred tax liabilities allow several alternatives, as is the case in Denmark.
9. Accounting and taxes are independent. There is a special regulation regarding the accounting of deferred taxes with optional use of partial tax distribution. Countries that belong to the group are Ireland and the United Kingdom.
10. Accounting and taxes are independent. There are specific provisions on the accounting of deferred tax similar to IASC E49, which is characterized by full recognition, application of the liability method, deferred tax revaluation and recognition of deferred tax assets. Countries that belong to the group are the Netherlands and Norway.

Lamb et al. (1998: 173) propose a model for assessing the degree of connectedness of tax rules and practice as well as the rules and practice of financial reporting where they identified five types of connections in 15 accounting regions for four countries (UK, USA, France, Germany) for testing and detecting the differences between the Anglo-Saxon countries and countries of continental Europe because of the possibility of a significant association between the two models. The observed countries were divided into five groups with regards of the degree of connectedness (connection / lack of connection) of the tax system with financial reporting in the following categories (IV): group I - disunity, group II - identity, group III - emphasis on accounting, group IV - emphasis on taxes and group V - dominance of taxes.

Group I implies the disunity of tax and financial reporting in terms of different rules being allowed. Group II is characterized by uniformity of rules for tax and financial reporting. In Group III financial reporting rules follow the purpose of tax and financial reporting due to the absence of tax rules. Group IV is opposite to the group III and this implies that the tax rules follow the purpose of tax and financial reporting because of being understated or due to the lack of financial reporting rules.

Table 3 Areas of connection of tax and financial reporting

Area	connection/lack of connection			
	Great Britain	USA	France	Germany
fixed assets recognition	I	II (IV)	II	III (IV)
finance and operating lease	III	II	II	IV
depreciation	I	I	IV	IV
liability reservations	I	I	II	III
incentives and subsidies	I	II	III	IV
research and development costs	I	III	III	III
stock valuation	II	IV	II	IV
long-term contracts	III	I	IV	III
interest costs	I	I	IV	III
foreign currency operations	I	I	I	III
goodwill	I	I	I	V
pensions	I	I	IV	IV
changes and politics and basic errors	I	I	III (I)	III
group scope	I	I	I	I
fines, donations, representation	I	I	I	I

Source: Lamb, M., Nobes, C., Roberts, A. (1998), "International Variations in the Connections Between Tax and Financial Reporting", Accounting&Business Research, Vol. 28, No. 3, pp. 173-188.

In the final group, group V, tax rules follow the requirements of tax and financial reporting. The impact of the above mentioned groups on the connection between the tax system and financial reporting were tested for 15 accounting areas as presented in Table 3.

It can be seen from the observed relationships of accounting areas that there exist differences between the countries of Anglo-Saxon areas compared to the countries of continental Europe. In this regard, it is concluded that the Anglo-Saxon model implies a weaker connection of tax and financial reporting in relation to the continental model, which is characterized by higher accounting or tax impact on financial reporting. It is interesting to note that neither of the models allows for a complete domination of the tax system over financial reporting, but rather the impact of tax provisions is restricted (narrow) to certain areas.

The latter is justified by the fact that accounting in the Anglo-Saxon countries is traditionally characterized by relative freedom of choice in accounting methods due to the lack of connections between tax and financial reporting, claims Lamb et al. (1998: 186). However, unlike in the observed Anglo-Saxon countries, in the countries of continental Europe prevails the system of connectedness of accounting and tax practices, regulated by the state through state mechanisms, usually in the form of laws and regulations. In countries like Germany and France, the impact of tax laws on financial statements is traditional and pronounced, with a consent between financial and tax reporting resulting in a reduction of taxes and reported profits. In other countries, such as the UK, a much weaker link between tax and financial reporting is observed, since revenues are the highest starting point for the calculation of taxable income (Joos and Lang, 1994: 145).

Based on the aforementioned, Roberts et al. (2008: 208) distinguish the following types of tax systems:

1. systems with independent tax rules and regulations of financial reporting
2. common systems, which underline the necessity of financial reporting rules as prior to the tax rules and
3. common systems based on tax regulations in interaction with the rules of financial reporting.

According to Roberts et al. (2008: 208), the first type implies two separate sets of rules - tax rules and financial reporting rules set by the different authorities. For example, depreciation of fixed assets should be systematically allocated over the useful life of assets, and the depreciation method should reflect the real utilization of the assets. Depreciation for each period should be recognized as an expense in the profit and loss account, unless imputation to the carrying amount of other assets is allowed. Tax collection is based on a system of predetermined deductions from the tax base due to depreciation. Furthermore, Manzon and Plesko (2001: 5), point out that the depreciation life of fixed assets is determined by the company statute for tax purposes. For financial reporting purposes, depreciation life reflects management's assessment. If the depreciation life for tax purposes is shorter than the depreciable life used for financial reporting purposes, then the taxable income is less than the indicated income in financial statements in the previous depreciation life span of the asset, i.e. higher in the later years. Accounting for taxes does not permit certain approaches of recognition of revenues and expenses, which are, on the other hand, mandatory rules with financial reporting. However, even when both systems enable the same cost measurement, rules may be different. For example, for financial reporting purposes businesses can calculate depreciation based on the determination of a specific life span and residual value, which reflects the economic value of the assets. In contrast, for purposes of taxation, depreciation is based on an explicit classification of the assets, which normally allows faster reduction.

Many countries of the Commonwealth follow the example of the UK in terms of financial reporting rules. Financial reporting rules are set without the influence of the direct control of tax authorities, i.e. tax authorities do not have detailed rules for the calculation of taxable income but, fully or to a large extent, depend on the amounts of reported income as a basis for calculating the tax liability. Thus, financial reporting rules are used by tax authorities, which is typical for common systems, in which the necessity of financial reporting rules is underlined as prior to tax rules. If there are no accounting rules or if regulations allow a choice it is possible that managers choose methods that minimize the reported amounts of revenues and thus tax liability. In this sense, managers are not going to choose the

method that best reflects the "true and fair" position of the subject, and such subjects are more resistant to new accounting rules (Roberts et al. (2008: 219)), which is characteristic of systems that underline the necessity of financial reporting rules as prior to tax rules.

The third alternative provides a common system based on tax regulations in interaction with financial reporting rules. Tax authorities set detailed rules for calculating taxable profit in business reports (tax form) and financial statements (for example, in Austria the Commercial law regulates financial reporting). In the mentioned systems most of the subjects provide information in the form of presenting tax relief, as well as special items in the balance sheet, rather than as a change in the value of assets (Roberts et al., 2008: 209).

Thus, a major hindrance in bringing national standards closer to IFRS, with most European countries, is the fact that most of the countries have connected financial reporting and tax laws, as pointed out by Eberhartinger (1999), Eilfsen (1996), Holeckova (1996), Jaruga (1996), Lamb et al. (1998).

Eberhartinger (1999: 93) examines the impact of tax regulations in financial statements by analyzing the differences between tax and commercial reporting in Germany, France and Great Britain within the provisions of the Fourth EU Guidelines. Differences show that disharmonization of national tax systems leads to the disturbance of the effects of the comparability of subjects from different countries, whereas non-compliance with the requirements for a true and fair representation exists with the impact of tax regulations on financial statements. In Germany, the influence of tax regulations on financial statements is heavily present, as opposed to Great Britain, where such influence is minimal in relation to France, where a moderate impact was noticed. All of the above can be considered an obstacle to comparability. According to the author, the publication of the requested additional information in the notes does not compensate for the lack of impact of tax regulations on annual financial statements.

Ellefsen (1996: 844-835) examined the association between accounting and tax rules in Norway. The Norwegian Accounting Standards Board (NASB) proposed clearer and more detailed accounting rules and codification of fundamental accounting principles, which means that alternative reporting of entities for tax purposes, will no longer be possible. The NASB proposed a distinction between the demands of financial reporting among business entities by allowing smaller subjects to prepare simplified financial statements. More stringent accounting requirements and innovation in financial reporting in the mid-1970s gradually reduced tax conditionality of financial reporting. The adoption of a large number of specific and standardized tax rules in 1992 enabled the separation of taxable income and accounting profit, as well as the recognition of deferred taxes in financial statements.

In the past, the accounting system of the Czech Republic used to be associated with tax reporting, in aspect of content and technical terms, marked by the absence of consistent application of accounting principles. The current accounting system has failed to achieve its primary task - create a realistic picture of the financial condition of a business entity, due to which the need for accounting changes has arisen. The new accounting concept is based on generally accepted accounting principles of the occurrence of event by which the subordination of accounting to tax system was discontinued. Accounting gains an independent function in accordance with the provisions of the EU Directive, and the connection of financial statements and tax becomes a thing of the past, as concluded by Holeckova (1996: 860-861).

3. Conclusion

The formation of the organizational structure of accounting is affected by various factors as the accounting structure under the influence of environmental factors shows atypical behaviour which is, at most, conveyed through particular factors. Based on the above mentioned it is concluded that the said factors, first and foremost, affect the accounting practices of measuring and disclosing, which ultimately reflects on the preparation and evaluation of the financial statements positions.

Accounting has a long tradition of activity and existence, yet under the influence of various environmental factors, not uniform accounting systems, i.e. inconsistent accounting practices, have been developed, thus creating the need for convergence and harmonization. In addition to internal factors acting upon the accounting system, there are external factors of higher impact as well, as shown and confirmed by the opinions of many authors. The

degree of intensity of external influences is disproportionate and conditioned by historical heritage, culture factors, as well as connectedness of tax and accounting authorities.

Interaction and dependence of the observed factors affect business entities as they are forced to draw up a dual set of financial statements, which is reflected through reduced quality of information due to disharmonization of accounting and financial reporting. A parallel reporting system reduces the competitiveness of businesses and increases the capital procurement costs, resulting in increased information redundancy. In addition to disharmonization of the accounting system, an essential factor is the asymmetry of information, which determines the level of disclosure and transparency of information, i.e. responsibility of the entity in preparing financial statements. Under such assumption a greater need for audit is created in order to reduce the sense of doubt and mistrust in released financial statements.

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Računovodstveno vrednovanje sustava financijskog izvještavanja kroz međuovisnost vanjskih čimbenika

Sažetak

Financijsko izvještavanje, uvelike ovisi o mikro i makro okruženju. Naglasak je, prvenstveno na institucionalnom okruženju sa specifičnim razlikama od zemlje do zemlje. Naime, to je jedna od činjenica, koje idu u prilog uočenom *gapu* u primjeni standarda financijskoga izvještavanja. Promatrajući, s računovodstvenoga gledišta uočeni *gap*, postaje naglašeniji kako se pojedina nacionalna gospodarstva ne razvijaju u jednakoj mjeri. S druge strane, neki autori navode u svojim istraživanjima kako primjena standarda u financijskom izvještavanja utječe na povećanje konkurentnosti za ravnopravno sudjelovanju na globalnom financijskom tržištu kapitala te su mišljenja kako je implementacija Međunarodnih računovodstvenih standarda i Međunarodnih standarda financijskoga izvještavanja neophodna za transparentnost i ujednačeno prikazivanje bilančnih pozicija. U radu su razmatrani odabrani vanjski čimbenici (ili čimbenici okruženja) koji utječu na različitost praksi financijskoga izvještavanja. Glavna svrha ovoga rada jest istražiti utjecaj određenih čimbenika okruženja na sustave financijskoga izvještavanja. Metodološki promatrano, u obzir su uzete zavisne i nezavisne varijable, pri čemu rezultati komparativne analize pokazuju značajnu povezanost između čimbenika okruženja i financijskoga izvještavanja.

Ključne riječi: sustav financijskoga izvještavanja, politički sustav, ekonomski sustav, inflacija, računovodstvena profesija, porezni sustav