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AN APPROACH TO INTERNATIONAL ACCOUNTING THEORY

—— Comparative Study in the Accounting Systems of Selected Countries ——

by

Yoshio Aida

1. Preface

In accompaniment with the expansion of international economic transactions and the liberalization of capital movement, especially spurred by the emergence of global enterprises, the theory of international accounting has posed a new theme of study in many advanced nations.

Of course, uniformity of an accounting system internationally is as desirable as it is within one country. However, in view of the fact that, as some theorists say, even within a single country harmonization among legislations relevant to accounting is difficult, it will never be an easy path to enforce a unitary system over many nations with diversified legal systems underlying. The present stage of matter is such that we find the phrase of G. G. Mueller: "Complete international accounting uniformity seems undesirable, especially if the patterns of its evolution are taken into consideration."[1] This view of Mueller, of course, should be taken to mean a fear that adoption of such a system in many countries —— assumed to have different laws on commerce, taxation or securities —— might cause unexpected confusion. Supposedly he does not say that uniform accounting is totally undesirable.

To put it another way, it is believed necessary, as a prerequisite to international accounting, to search for possible ways to make accounting rules uniform, that is, legal provisions relevant to accounting involved in commerce, taxation and other laws. And it is said that, in establishing multi-national enterprises, what constitute obstacles are differences of practice, legislation, audit systems and, among others, too strong racial sentiments. The difference in national sentiment may be a matter basic and untouchable, but practices, laws and institutions are artificial. What differences, and where? Herein lies a rich field of study as a precondition for unitary accounting —— a realm to be called an international comparative theory of accounting.

As I have discussed in a previous paper,[2] broadly two fields of study are

1) G. G. Mueller, *International Accounting*, 1967, p. 114.
2) Y. Aida, "Kokusai Kaikei o meguru Shomondai", *Zeikei Tsūshin*, July, 1969.

conceivable for international accounting. The one relates to treatment of accounting stemming from international economic transactions themselves, and another is an international comparative theory of accounting, in other words comparison of accounting systems and rules. As I have already taken up in the former theme,[3] here the latter one, comparison of systems, shall be studied.[4]

II. Nationality and Universality in Corporate Accounting

As corporate accounting is sometimes called "the system of capital calculation in individual economy" or "economics of enterprise," it is primarily nothing but a socio-economic phenomenon itself or what originates from it, and the task of accounting theory is to research in the laws of such a phenomenon. Insofar as this applies, the laws of corporate accounting cannot be conceived to hold world-wide universality, in contrast to the technical laws of natural science. Instead of it they have social-relationship in connection with the society to which an enterprise belongs. For this reason it is undeniable that nationality is involved; in other words, there are borders of states.

Since the bearers of capitalist economy are corporations, and a corporation can be defined as what employs a capital calculation system called double entry bookkeeping, capitalist economy and this accounting system may be said to have been born and developed in an unseparable mutual relation. Again by this fact the feature of nationality is unobjectionable.

In particular such nationality has been intensified since the accounting system of corporation has come to be woven into and regulated by commercial and company laws and affected by tax laws. Observe the development of the balance sheet in Britain; for example, it originated from the reformation of the Assets and Liabilities Table effected through the repeated amendment of the Bankrupt Law (1849, 1861, 1869, and 1883). Again the German balance sheet theory evolved as an explanatory of the Aktiengesetz, mainly on valuation and the Bilanzfähigkeit (competence) of account items. And in postwar Japan, smaller firms made a rapid progress in accounting in conjunction with the so-called blue paper (that is, self-report) taxation enforced under the heavy tax pressure of that time.[5]

Thus, in the birth and growth of a corporate accounting system, even with some scientific regularity as mentioned below, its connection with legal systems of each individual country is unignorable, which forms the ground of nationality, hence individuality or particularity. On the other hand, today it is advocated to realize, or to give, a feature of uniformity or universality from some require-

3) Y. Aida, Kaigai Katsudō no Kaikei ni kansuru Kōsatsu, *Kaikei*, June 1968.
4) In regard to literature on this point, American Accounting Association, Committee Reports, *1967 Report of the Committee on International Accounting;* American Institute of Certified Public Accountants, *Professional Accounting,* 1964; and Mueller's book in footnote 1 may be mentioned.
5) A. C. Littleton, Accounting Evolution to 1900.

ments. Such requirements contain scientific methods such as accounting theory on the one hand and practical methods, such as utility, on the other.

It has long been said that accounting theory, while being a sector of social science, holds character akin to natural science. The reason is that the mechanism of double entry, the object of study, contains superior self-consistent technicality and formal reasoning, and hence the laws working in it also have universality. It is not to be overlooked that recently uniformity and objectivity of accounting are under discussion in order to make its theory more scientific. It is said that, "The more uniform, the more scientific accounting becomes,"[6] and the logical structure of such uniform accounting is studied.

A publication of the AAA, *A Statement of Basic Accounting Theory,*[7] also follows this line of thinking. In this book four basic standards for appraising accounting information were recommended, which may have contributed to raising the utility of financial statements notably through its world-wide study, given universality and objectivity to them, and hence promoted the scientific character of accounting theory. The said four standards comprise (1) conformity to object, (2) applicability of inspection, (3) impartiality and (4) capability of quantitative exhibition. These are naturally significant features in appraising the worth of financial statements, but especially important from an international viewpoint is (3) impartiality. As to Japan's financial statements, a criticism of partiality is given by this AAA's study because they are framed on three grounds —— either (a) commercial law or (b) financial accounting standard or (c) arbitrary rules responding to demands from foreign investors or creditors —— thus not on a single, unitary basis.[8] True, these three grounds each place importance on different points —— (a) on calculation of profits distributable as dividends, (b) on periodic profit calculation and (c) on a wider viewpoint of widely interested groups of an international sphere, e.g., consolidated statements. Accordingly, the lack of impartiality and hence universality are criticized.

In general, Japan's financial statements could increase utility only when they were adjusted with regard to the said three grounds, as well as tax and other laws, and were drawn on a common calculation rule and unitary conceptional framework. And if uniformity is completed not only at home but also with foreign nations, utility will extend over investors abroad, with greater universality.

III. Comparison of Accounting Practices and Principles of Selected Major Countries

Now, if international uniformity of accounting is desirable as explained above, several courses of approach may be conceivable. One is the approach taken

6) Mueller, *op. cit.*, p. 88.
7) AAA, *A Statement of Basic Accounting Theory,* 1968.
8) AAA, Committee Report, *op. cit.*, p. 8.

in the 1967 Report of the AAA, that is, to make an analysis and appraisal on the financial statements of principal companies in major countries using some criteria of value and the search for more desirable ones. This is rather a roundabout way. By such formal comparison alone the results would not always be promising because unification is difficult unless harmonization of underlying commercial, securities and other laws is contemplated.

Another way is to conduct a comparative study of accounting principles involved in the related laws of many countries, to adjust differences as far as possible, and thus to proceed toward unification. This is an effectual approach and the application of logic to an international law is to be expected. Yet since even partial amendment of the commercial law of a single country has usually required several years, an appreciably long time must be foreseen before realization.

The study of accounting practices over twenty-five countries published by the AICPA[9] can be viewed as a compromise of these two ways. This study, made mainly by its Committee on International Relations, has taken up the characteristic features of accounting principles and practices as well as the audit and accountant systems in the United States, and has surveyed these matters in twenty-four foreign countries. In the following statements, I will summarize its contents, itemizing and referring mainly to the principles and practices (putting aside audit and accountant systems).

(I) On the forms and matters of financial statements

(United States)

1) Financial statements are of triadic composition —— balance sheet, income (profit and loss) statement, and surplus account.

2) The balance sheet takes the report form and the current (flexible) arrangement; in public utilities, the capital (fixed) arrangement.

3) The income statement begins with sales and adopts sectional calculation.

4) The method of note is used in many cases (about the principle of asset valuation, the standard of consolidation, the method of depreciation, etc.).

5) Consolidated statements are generally prepared and made public.

(Canada)

1) The composition of financial statements is almost the same as in the United States.

2) The form and arrangement of the balance sheet are also similar to the United States'.

3) The income statement is simpler than the United States'; sectional indication of sales, cost of goods sold and selling expenses are rare.

4) The method of comment is similar to that of the United States.

5) In principle, consolidated statements are prepared, but non-consolidated

9) See footnote 4.

subsidiaries, if existing, are not explained in most cases.

(Argentina)

1) Accounting standards and practices are not so different from the United States'. Some differences arise because of different requirements of commercial and tax laws.

2) Practices of consolidated statements are few. Consolidation has never been demanded by the government.

(France)

1) By the efforts of an accounting standardization committee, a "plan comptable" was formed regarding account items, valuation, costing—a unitary accounting system.

2) The balance sheet takes the capital arrangement as in American public utilities.

3) Unlike American practices, what is presented before stockholders' general meetings is not final unappropriated profits, but profits prior to transferring to dividends, executive's bonus, and various reserves. Plans of their disposition are proposed at general meetings.

4) In the plan comptable all account items are tabulated by decimal classification (group 1=capital, surpluses, allowances; 2=fixed assets and initial expense; 3=inventories and so forth).

5) Preparation of consolidated or group accounts is not legally required although sometimes such statements are drawn up for internal purposes of companies.

(Germany)

1) Contrary to the United States, in Germany detailed regulations are provided by the Aktiengesetz. The law settles only minimum requirements, allowing more detailed statements.

2) The balance sheet takes the capital arrangement. Depreciation is deducted directly from assets, different from the United States' method.

3) The income statement is becoming akin to the United States' more and more. An operations report is legally required, and its sections of explanation correspond with the comment items in the United States.

4) The Aktiengesetz contains provisions on consolidated statements. But today big companies conduct consolidation for their own sake. Opinions are divided on the range of consolidation and the exclusion of unrealized profit when minority interest is involved. (On this point AICPA's study is rather old. Thereafter, the law was amended and currently an appreciably large number of big firms publish consolidated statements.)

(Italy)

1) There are substantial differences in the matters of the balance sheet from those in the United States, excepting that the capital arrangement is adopted.

2) Offsetting among balance sheet items is not permitted. Notes of contingent debts and important leases are few.

3) Consolidated statements are rare. The investment account is usually valued and entered at costs.

(United Kingdom)

1) Sometimes the balance sheet is drawn up on the account form but generally on the report form. The capital arrangement is employed.

2) Art. 149, Schedule 8, of the Company Law stipulates that the balance sheet must exhibit true and fair positions at the term end and the income statement those of operations during the term.

3) Consolidated statements are required to take a group account form set forth in Art. 151 of the Company Law. They need not always be perfect consolidation; choice is allowed from among partial consolidation, attachment of specified subsidiaries' interest, several group forms and supplementation by comment.

(Australia)

1) There are no legal regulations on the forms of financial statements, but generally they resemble those of Britain. Normally assets are shown on the right-hand side and liabilities and capital on the left-hand.

2) As a particular feature of the balance sheet, it is required to make a breakdown of the investment account and to add market prices. With regards to financial figures abroad, the Corporate Law requires exhibition of Australian currency, with the method of conversion.

3) The Corporate Law does not require entry of sales and cost of goods sold, and in practice there are few examples of such exhibition.

4) Attachment of subsidiaries' statements to those of parent, or else preparation of consolidated statements for all companies (parent and subsidiaries), must be made. And an audit report must be attached.

(Japan)

1) After World War II, American systems were introduced, and such stipulations as disclosure, continuity, soundness and entirety were adopted.

2) The system of financial statements resembles that of the United States, including the report form and the current arrangement. Most big firms practise financial settlement semi-annually, usually at the end of March and at the end of September.

3) Consolidated statements are not required either by the Commercial Law or tax laws. The investment account is shown merely by costs. Some companies prepare consolidated statements for internal use.

(II) On the principles of asset valuation

(United States)

1) In principle, asset valuation is practised at costs, but as for securities, market prices are added beside costs. Accounts receivable are valued at estimated realizable amounts, excluding uncollectable ones.

2) As for inventories valuation at costs by means of FIFO, LIFO or

averaging method is most prevalent. Losses by obsolescence, damage and price fall are entered, for which the lower price method is more popular.

3) Valuation of the investment account depends on costs in principle. Costs are revised, however, in the case of lasting failure of a subsidiary.

(Canada)

1) In most cases on the balance sheet no allowances for bad debts are entered partially because the tax law does not require them.

2) On inventories LIFO is not recognized by the tax law and is not used in practice.

(Argentina)

1) Almost all methods of inventory valuation are permissible so long as consistency is maintained. Generally, the lower price method is popular.

(France)

1) In principle, valuation of inventories is practised at costs by law. There is no regulation on LIFO. If current prices fall, these are also taken into account. A method of revaluation avoiding effects on taxable income was allowed (on Dec. 28, 1959).

2) As for the investment account, revaluation without becoming an object of taxation has been approved on various past legislations. Presently revaluation is performed either (1) at market prices or net worth of assets per share or (2) at acquisition costs multiplied by the price index, whichever is lower.

(Germany)

1) In Germany, there is wider room than in the United States for doing low asset valuation lawfully. That is, the maximum of valuation is set at acquisition costs or production costs, and the Aktiengesetz requires write-off of current assets either to re-acquisition or re-production costs or net realizable amounts, whichever is lower. A survey of 100 firms showed undisclosed reserves amounting to 30% of owned capital.)

2) In principle, inventories are valued at costs, on which the averaging method is general. The tax law allows neither FIFO nor LIFO nor the normal-stock method.

3) As regards credits receivable, it is required to eliminate uncollectable ones and to set up an allowance for bad debts. Accounts receivable in foreign countries must be converted by an exchange rate either of the date of balance sheet or that of acquisition, whichever is lower.

(Italy)

1) By private laws, accounts receivable are required to enter by net realizable amounts. The tax law does not permit set-up of an allowance for bad debts.

2) Inventories must be valued at costs or market prices, whichever is lower. As to market prices, ultra-conservatism is general.

3) In the valuation of the investment account, market prices of securities held must be considered. As to investments in subsidiary, valuation must not exceed the share in its book value.

(Great Britain)

1) As to inventories, the cost basis is the standard method on which the Accountant Association has recommended that valuation must not exceed market prices or replacement values. The normal-stock method and LIFO are acceptable but practically are not used because the tax law does not permit them.

2) The recommendation of the Association takes the historical cost basis as for fixed assets but does not prohibit revaluation by professional accountants.

(Australia)

1) As regards inventories, usually LIFO is not employed in financial accounting.

2) It is not rare that revaluation is conducted on fixed assets and subsidiary's stocks. Revaluation reserves born from it are occasionally capitalized by issuing bonus stock or other ways.

(Japan)

1) Even marketable securities temporarily held are valued at costs. Usually no particular explanation is given on the concrete methods on costs or the lower price method.

2) Most companies take the cost basis for inventories in pursuant to the Commercial Law. The lower price method, if employed, follows generally-accepted rules.

(III) On depreciation and revaluation of assets

(United States)

1) Equipment and structures are valued at costs and transformed to expense through depreciation. For depreciation all four methods are allowable—straight-line, fixed rate, progression and output-proportion. Selection depends on industrial fields and lives of equipment.

2) Among intangible fixed assets, patent rights and the like are transformed into expense through the duration of goods, but those that last indefinitely, such as goodwill, are entered at costs until the years become definite.

3) Revaluation for the reason of price change is not permitted for financial accounting. Sometimes its effects on income calculation are exhibited on supplementary statements, but this is not so popular.

(Canada)

1) Depreciation of fixed assets is performed on cost-basis valuation, but sometimes professional wittnesses undertake it. The balances by revaluation are exhibited in a separate account as stockholders' equities. Annual depreciation is often transferred to profit.

2) Depreciation on the tax law must be carried on the cost basis, and for financial accounting depreciation is entered on the revalued amounts, with adjustment.

(Argentina)

1) Any method of depreciation is allowable so long as it is consistent, but

the straight-line method is generally used.

2) Due to the fall of the value of the Argentinean currency, revaluation was admitted for 1959 and 1960 for both taxation and financial purposes, and depreciation on the revalued figures has been conducted.

3) Professional accountants assert that goodwill shall be booked only in the case of acquisition at value and be depreciated on a reasonable basis, but the tax law does not approve such amortization.

(France)

1) Prior to 1960 the straight-line basis had been adopted for both corporate accounting and taxation but thereafter, its partially-revised method was used as a supplementary one.

2) Due to inflation after 1945, revaluations was legally enforced several times. The 1959 revaluation was conducted on the basis of price indexes, and a special 3% tax was levied on the revaluation balances. Allowances were revalued similarly, and depreciation has been increased according to net increments.

(Germany)

1) The German Aktiengesetz simply requires systematic depreciation, rules on the tax law being respected. Thus methods by this law such as straight-line, shipment basis, diminishing basis, and mining-volume basis are employed. The diminishing method has some limitations such as restriction to movable fixed assets.

2) The tax law recognizes special depreciation for various political aims such as business cycle, housing, etc.

(Italy)

1) Normally depreciation is practised at the maximum rate by the tax law, and accelerated depreciation is permissible (annually 15% for the first four years only).

2) Corresponding to the falling purchasing power of money, revaluation had been enforced several times up to 1953. In the 1952 revaluation not only plants and equipment but also investments and inventories were involved. Revaluation of the investment account was also conducted, and a tax was levied on the excess of revalued worth of assets over that of capital. So many firms performed revaluation with the results that such a tax was not assessed.

(United Kingdom)

1) On fixed assets, historical cost is recommended by the Accountant Association, but revaluation by the hands of independent specialists is not prohibited. In this case, depreciation is calculated on the basis of revalued worth, yet for the purpose of taxation, it is based only on costs. The balance by revaluation is capital reserves, not the source of dividends. It is a fund distributable as bonus stocks.

(Australia)

1) The tax law does not admit depreciation of those buildings that neither constitute part of a factory nor aid the reform of agriculture. Few companies

conduct depreciation on a building unless it is exceptionally treated as expense by the tax law. The increment of depreciation deriving from the revaluation balances is not recognized as expense by the law.

2) Goodwill is entered as an asset only in the case of acquisition for value. Depreciation of such goodwill is conducted as disposition of profits, not treated as expense to diminish profits.

(Japan)

1) The method of depreciation generally resembles that of the United States, but a particularity is that the fixed rate method is more popular.

2) Under the influence of the violent postwar inflation an Assets Revaluation Act was enacted in 1950 (later amended in 1952 and 1953). Initially a tax of 6% of revalued worth was levied and thereafter, depreciation has been carried on the basis of revalued worth.

3) Contrary to many foreign countries, depreciation within five years is permitted for goodwill along with initial expenses, etc. (Commercial Law).

(IV) On the liability and capital items such as allowances

(United States)

1) In American practices, foreseen expenses shall be entered, but the leveling-off of profits as well as allowances for contingent losses, such as price-level changes, are not accepted.

2) As for the pension cost, its entry as expense for every term is required. As to employees' past service prior to coverage, the pension cost must be reckoned as costs for appropriate periods on the accrual basis.

3) For the contents of capital surplus, (a) additional in-payment of capital, (b) margins by selling treasure stocks, (c) excesses of market price of dividend stocks over face value and (d) balances by capital decrease are allowed.

(Canada)

1) The Accountant Association has recommended that allowances for contingent losses shall be indicated as stockholder's equities, but about one-third of the big companies enter them as reductions from assets or as an independent item.

(Argentina)

1) Joint-stock companies must accumulate 2% of annual profits as a legal reserve until it amounts to 10% of the face value of capital.

2) Notes on undisclosed reserves are not legally required. The Accountant Association and foreign specialists recommend their indication when the amount is large, but not all companies follow this.

(France)

1) The surplus account includes the following various items: (a) premiums of stock, (b) legal reserves, (c) voluntary reserves, (d) inventory replacement reserve, (e) special revaluation reserve, and (f) donations from the government and public bodies.

2) In the plan comptable, allowances of liability nature are listed in the

capital account. These allowances are acceptable as expenses for tax reports; for example, allowance for product security, self-insurance and pension.

3) In France, usually bills are discounted prior to due date, but attendant contingent liabilities are not entered generally.

(Germany)

1) By law, 5% of net profits must be accumulated to 10% of capital as a legal reserve, but, besides this, undisclosed reserves are substantially set up on account of the above-mentioned rule of valuation.

2) Authorized capital is not shown on the credit side of the balance sheet. Authorized but unissued capital is indicated on the debit side of the balance sheet.

(Italy)

1) Companies must accumulate 5% or more of annual profits as a special reserve until it reaches 20% of capital issued.

2) Customarily, secret reserves had been liberally treated, and the tax law of 1954 confirmed that such reserves, even if disclosed, would not require tax duties unless they were capitalized or distributed.

(United Kingdom)

1) Division is made between provisions (or allowances) that come under current-term expenses and reserves appropriated by profit disposition, and the latter are further divided into those of profit nature (for compensation of deficits or leveling of dividends) and those of capital nature (stock premiums, surpluses by revaluation of fixed assets, surpluses at acquisition of subsidiary's stocks).

2) Due to this division an allowance for leveling of profits is not admitted; the funds are treated as a reserve under stockholder's equities.

3) The Accountant Association has recommended the set-up of an allowance attendant for pension or other retirement benefits of employees, if these exist.

(Australia)

1) Premiums accompanying stock issues are indicated in the group of reserves under stockholder's equities on the balance sheet.

(Japan)

1) Strict distinction exists between capital reserves, reserves of expense nature and allowances of expense nature, but perfect coordination is absent between related laws and regulations.

2) On capital-nature reserves, the commercial and tax laws take a narrow interpretation, limited to surpluses of capital in-payment, balances at firm merging, margins by capital decrease, revaluation reserves and so on.

3) In the Special Tax Treatment Law, reserves to provide for price fluctuation of inventories and securities are recognized, but the Corporate Accounting Council holds the view that these are internal reserves of profit.

(V) On own stock and stock dividend

(United States)

1) Treasury stocks are generally booked at costs and exhibited in a form

of reduction from the total of capital, capital surpluses and reserved profits. Acquisition of own stocks is admitted within the bound of profit surplus, though this differs by states.

2) When profit disposition is made by stock issue and the number of new stocks is smaller than 20% to 25% of capital, it is called stock dividend; if larger, stock split. In either case such stocks are not regarded as taxable income of recipients.

(Canada)

1) Unlike the United States, in Canada, acquisition of own stocks is generally prohibited by law, and so no problems lie in the treatment of income by their disposition. In Ontario, the acquisition of subsidiary's stocks is not prohibited legally.

2) Stock dividend is rather rae. There are two methods concerning its treatment on the side of the recipients. By the cost basis method, only the number of stocks is increased, while by the market price method, the market prices are added on the books. If the recipient is a legal person, the receipts are non-taxable; if an individual, tax depends on the circumstances.

(Argentina)

1) Stock dividends are regarded as profits to both the issuer and recipient and treated as disposition of profits, hence taxable income.

(France)

1) All stocks have a face value, and non-par stock is not known. Stock dividends are treated on face values regardless of market prices. The difference between stock dividend and stock split poses no problem.

(Germany)

1) Treasury stocks are entered on the asset side of the balance sheet as a separate item of "own stock," with face values added. In addition, it is required to explain the reasons for acquisition and the contents of bargains in an operations report. The acquisition of own stocks is allowed only for such exceptional cases as gratis acquisition, execution of entrusted purchase and amortization.

(Italy)

1) Purchase of own stocks is free for paid-up stocks based on the decision of the stockholders' general meeting and within the bounds of disposable profits. Such own stocks must be separately shown.

(United Kingdom)

1) A rigid attitude is taken against acquisition of own stocks, that is, it is prohibited except for invalid stocks, capital decreases or amortization.

2) Stock dividend is conducted at face value on the side of the issuer, and the declared amount is debited in profit reserves or capital reserves. If the recipient is a legal person, no booking is usually made and, if any adjustment is made, the amount of face value is credited in capital reserves.

(Australia)

1) Mostly, stock dividends are disposed on the face value or normal value

of issued stocks.

(Japan)

1) Acquisition of own stocks is rigidly controlled by the Commercial Law. When exceptionally acquired, they are separately entered in current assets. Valuation is usually made on costs (acquisition prices).

2) Opinions are divided on stock dividends, but they are generally treated similarly to cash dividends. Book values and face values are the same.

(VI) On pooling of interest and tax-effective accounting

(United States)

1) As regards business combining and mergers, a choice of two methods of accounting is permitted, pooling of interest and purchase. In the first method, new responsibilities of accounting are not considered to have arisen, and the succession of book values of assets is allowed as they are.

2) Since there are differences of treatment between tax accounting and corporate financial accounting, adjustment is practiced, that is, to calculating the tax to be levied on profits of a term and showing the net profits after this tax.

(Canada)

1) There are no particular opinions on the accounting of pooling of interest. This method is not common in Canada.

2) As regards adjustment between tax accounting and corporate accounting, method (a) is officially recommended, that is, to calculate a tax amount by applying certain rates to profits and to make adjustments against actual payment, but actually, method (b) is used, that is, to enter actual tax payment on financial statements adding a note.

(France)

1) In France the concept of pooling of interest is not known.

2) There are no remarkable differences between tax accounting and corporate accounting. It is necessary, however, to enter depreciation on both books in order for it to be accepted for taxation. And as another exception, remunerations during vacation can be treated as a loss only at the time of payment, a problem of adjustment.

(Germany)

1) A point to be noticed on the adjustment between tax accounting and corporate accounting is that, in the latter, special depreciation on fixed assets and special write-off of inventories must be woven into the final settlement, or else they are not accepted for taxation.

(Italy)

1) Larger companies set up an allowance for tax. This allowance represents general adjustment irrelevant to current-term taxable income or adjustment of taxes payable on a cash basis to income calculation.

(United Kingdom)

1) The concept of pooling of interest is not taken with the same meaning

as in the United States. What is called pooling of interest in the United States corresponds with "acquisition" in Britain.

2) Since in Britain a fiscal year ends on the 5th of May while the 1st of January marks the date of taxation for a calendar year, the Accountant Association recommends to calculate income tax for a fiscal year separately, to enter an allowance for it and to make calculation of period income.

(Australia)

1) Accounting based on pooling of interest is not recognized.

2) Except for the deferred tax system enforced in the mining industry, adjustment for tax accounting is not a common method.

(Japan)

1) In Japan, the concept of pooling of interest in accounting for merger and the like of companies poses no problem in the Commerical Law and tax laws. Actually, accounting based on these laws is carried out.

2) A strong inclination of accounting in Japan is that treatments follow the regulations of tax laws which take final settlement for the basis. So, cases of discrepancy between corporate accounting and taxable income are few and, if any, small. Until a recent amendment of the Commercial Law, taxes have been generally considered to be an item of profit disposition, but today, profits after tax are shown.

IV. Consideration on the Causes for Differences in International Accounting

In the foregoing section, I have made a comparative study of the notable points of accounting practices in nine major countries, referring to AAA's and other literature. The causes for existing differences could not be fully explained without further examination of the commercial laws, the taxation laws and the securities laws of individual countries. And it is impossible to judge superiority and inferiority, or merits and demerits, of financial statements among the countries directly from the contents of comparison. For this purpose, it will be necessary to make comparisons also of the accountant and the audit systems. Here it is not intended to enter into these matters, but some considerations shall made of the differences by the above descriptions.

The first point is that diversified historical backgrounds for the employment of accounting systems have caused differences of provision and treatment. For example, asset revaluation was enforced by law in Japan, Italy, France and Argentina where violent inflation was experienced after World War II, while in the United States, with only moderate inflation, asset revaluation has not been legally recognized. And the significance of consolidated statements in the United States, with a seventy-year history since its introduction, can be realized only against the background of business concentration by means of stock holding, promoted by the permission of stock-holding companies by the Sherman Act of

1890 and the Corporate Law of New Jersey (1888).

Secondly, it is to be pointed out that there exist two currents, broadly-Anglo-saxon and Continental linages. The Anglo-saxon linage pertains to Britain, the United States, Australia and Canada, where, corresponding to the development of accounting and accountant systems on the ground of auditing, consolidated statements were introduced at earlier times and entry of post-service pension and other long-term costs was required from the viewpoint of fair income calculation while, on the other hand, reserves for profit-leveling or undisclosure were disliked.

The opposite Continental linage involves Germany, Italy and France. In Germany, for instance, as a result of stock opening of joint-stock companies, the Aktiengesetz was enacted for the aim of protecting creditors and transactions, and then the theory of the balance sheet was developed by commercial-law jurists. In other words, by the medium of theories of the balance sheet and other statements from a jurisdictional standpoint, a pure theory of accounting came into being. Along with the plan comptable of France and the regulations by private law in Italy, the current of the Continental stands on legalism backed by immaturity. Accordingly, legal-technical character permeates into accounting practices, and creditor protection and transaction safety are esteemed. Notably in these countries, under-valuation of assets is widely allowed and leveling of profits is permitted.

Thirdly, there is a regional commonness of practices —— European and American types —— side by side with the said two linages. From this viewpoint, Britain comes under the European type. In the American type, regulations are not set up as legal provisions, such as the commercial laws, but are entrusted to generally-accepted principles and audit stipulated in the Securities Acts. In contrast, the European-type controls on valuation for the balance sheet and the like are enforced by legal provisions such as the German Aktiengesetz, British Corporate Law and Italian private law. In the American type, the form of the balance sheet takes the current arrangement in principle while in the European type, the capital arrangement is prevalent. Concerning the Japanese practices, it may be said that a compromise, or mixed, system has been adopted; that is, prewar copying of the German system and postwar introduction of the American.

Fourth, the existence of backgrounds of accounting practices can not be ignored —— a nation's character, social thought and economic thinking.

To observe this, for the United States, a precious feature of this country is —— not to speak of pragmatism or materialism —— progressivism or pioneer spirit, and this pioneer spirit is conceived to have promoted the progress of accounting in this country. For instance, the early adoption of consolidated statements seems to express this pioneer spirit since the phenomenon of business combination has also been seen in Britain, Germany and Japan. Again the recognition of identity between stock dividend and stock split as well as the growth of pooling of interest ideas may be taken to tell advanced accounting practices backed by the pioneer spirit.

In France, reflecting her domestic situation that politics takes leadership over economy —— a backward economy centering on agriculture and small scale enterprises —— the plan comptable was introduced, in other words, modernization of accounting was advanced at the hands of government. This plan has been successful on the grounds of people's character —— respect for intuition and fact, ability to combine practice and theory, and hence inclination to compromise and comprehensiveness —— in contrast to progressivism in the United States and apriorism and logicality in Germany. Introduction of foreign practices has been confined to superior ones.

In Germany, people's mode of thinking—creativeness in philosophical concepts, legalism with rich organizational ability, idealism, and emphasis on abstract logic —— has given birth to the dynamic theory of the balance sheet and has also led to excise regulations by the Aktiengesetz. Thus, different from other countires, accounting rules are settled in detail, consolidated statements and valuation methods are legally provided, and accounting theories with logical structure of law interpretation have been evolved.

Lastly, in Japan, respect to authority and power was born from long-sustained feudalism and confusianism and an inclination toward translation, imitation and bureaucratic control is persistent due to her backwardness as an agricultural country. On account of these characteristics, in the prewar times mainly German thought was introduced and after the war, American systems were imported and developed.

So far, maybe I have too strongly stressed differences of institutions, economy and nation's character, and thereupon differences of accounting practices. This is because of the logic that firstly differences must be examined as a precondition to formulate accounting systems and practices with international uniformity and universality. In this sense, this paper is an approach, or introduction, to the theory of international accounting, whose specific themes must be explored henceforward.