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MEASUREMENT OF ACCOUNTING HARMONIZATION AND STANDARDIZATION

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Summary:
Harmonization and standardization can be traced to two interrelated levels: harmonization and standardization as a process at the level of accounting standards and accounting practices. If the harmonization of accounting standards is observed, then a formal (de jure) harmonization which is operationalized through stages of disclosure (so-called formal harmonization of disclosure) and through evaluation (so-called formal harmonization of measurements) exist. In relation to accounting standards it is necessary to harmonize accounting practices and create a demand for material (de facto) harmonization. Effects of harmonization and standardization can be measured by using generally accepted index (C, H, I) which was successfully presented by various examples and opinions of the many authors. Although, there are certain contributions and controversies of statistical indices use for the purpose of measuring processes and states, it is necessary to develop a unique generally accepted index after accounting harmonization process with the goal of achieving global convergence degree.

Keywords:
harmonization, standardization, accounting practices, generally accepted indices (C, H, I)

1 Introduction

Lately there has been more and more discussed about the need for statistical measurement and determination of harmonization impact. Although the default premise may be considered too complicated, Leo van der Tas, excellent expert in

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statistical characteristics in the field of harmonization measurement, reassures us. Existing research studies depending on the measurement types harmonizing the van der Tas and Tay and Parker, can be divided, at least, into two major groups: material research study (*de facto*) harmonization and formal research studies (*de jure*) harmonization. Most significant research in the field of measuring material harmonization are: Emenyou and Gray (1992, 1996), Canibano and Mora (2000), Aisbitt (2001), Hermann and Thomas (1995), Archer, Dekaville and McLeay (1995), while in the area of formal harmonization measurement the most significant papers are: McKinnon and Janell (1984), Doupnik (1987), Rahman et al. (1996), Aisbitt (2002), Chen et al. (2002) and Fontes, Rodrigues and Craig (2005). Review of these studies in the accounting literature is shown in Table 1.

2 Measuring harmonization with generally accepted index

In the accounting literature (Table 1) there are several possible approaches which can be measured by the degree of harmonization using three different indices: (1) H index for measuring harmonization within the country, (2) C index for measuring harmonization within the country with multiple reporting systems (extent of international harmonization) and (3) I index to measure the international harmonization. Most research studies measuringing material harmonization are are based on van der Tas thinking (Mustaţă, Matis, 2007:5) although in recent years derived approaches appeared which basically elaborate and expand Tas's assumptions.

Therefore, Tas thinking (1988, 1992) is a crucial starting point in the process of clarifying the generally accepted index of measuring harmonization. Comparability can be considered as an increase in the degree of consensus in the choice of alternative accounting methods for the items of financial statements. Increasing the degree of consensus can be forced (mandatory), stimulated or spontaneously. In the first case, the mandatory provisions prescribe or prohibit one or more accounting methods. In the second case it is recommended to use one or more accounting methods. In the third case, the increase in the degree of consensus can not be labeled as intentional introduction of mandatory and optional provisions. (van der Tas, 1988:159). When measuring accounting harmonization, usually, are used Nair-Frank categories (1981) measurement and disclosure: (1) required (use of accounting methods or practices of disclosure certain information is required), (2) dominant practice, (3) minor practice (4) without the use or (5) is not allowed. (van der Tas, 1992:213-214). Comparability increases when business entity choice among alternative accounting methods becomes concentrated in one method or a limited number of accounting methods (van der Tas, 1988:159). Roberts et al. (2008:291) as previously mentioned facts explain that there are many different ways by, which can be measured concentrations, but the generally accepted method is Herfindahl index or H index. H index is used to measure the comparability of the accounting methods used in preparing the financial statements. Basically it is a simple method of measurement comparability which ignores additional information and facts from the financial statements, and because of the simplicity index mentioned above allows multiple interpretations of the results and incomplete results. H index of the form:

$$\sum_{i=1}^{n} p_i^2$$

where:

- p_i proportion of business entities that use accounting method *i*
- *n* largest possible number of available methods.

The main disadvantages of H index are certain difficulties in calculating the degree significance level of harmony and the inability to apply more multiple alternative measurement methods. (van der Tas, 1992:73). Limits interval H index, according to van der Tas (1988:159) are between 0 (disharmony with the infinite number of alternative methods) to 1 (harmonization where all business entities use the same method) which move H index, an interval, indicating level of (non)compliance. For example, an item of the financial statements can be represented, at least, using two different methods (A and B).

Table 1. Review of studies measuring accounting harmonization and standardization

Characteristics	Nair and Frank (1981)	Evans and Taylor (1982)	McKinnon and Janell (1984)	Doupnik and Taylor (1985)	Nobes (1987b)	Van der Tas (1988)
Objectives	evaluate the success of formal harmonization by IASC	determine the impact of the IASC accounting standards on financial reporting (p.119)	analyze the direct and indirect impact on the IASC accounting standards	evaluate compliance of the Western Europe countries to the basic features of accounting practices (p.27) and changes over time	examine the hypothesis how American and British companies do not follow the IASC accounting standards	quantify harmonization and impact of professional accounting bodies
Tested country	37 countries with similar research 3 PW	France, Japan, UK, USA West Germany	64 countries according to a PW survey 1979	16 Western Europe countries	UK and USA	Netherlands, UK, USA
Scope	IAS 1 -10	IAS 2-4, 6 i 7	IAS 3, 4, ED 11 (MRS 21)	IAS 1-8	IAS 3, 4, 22 (USA) IAS 9, 14, 19 (UK)	accounting of deferred taxes
Data source	survey PW 1973, 1975 i 1979	9-10 financial statements of each country in the period 1975-1988	PW survey 1979	PW isurvey 1979; questionnaire	published financial statements for 1985 randomly selected listed companies	national survey
Research methodology	changes in the distribution of countries according to the required categories tested the significance of the Friedman ANOVA	examined reports indicate the level of compliance with IAS for the country in the period 1975-1988	descriptive analysis accounting regulations states IASC. Discussion IASC influence on the FASB and ASC reports	weighted response categories. The calculated average scores across regions and countries using non-parametric tests	content and temporal differences between national and international accounting standards by the degree of compliance with IAS	3 indexes developed to measure harmonization and comparability of the different countries. Changes in the value associated with the legal and professional regulations
Harmonization types measurement	de jure standardization	de facto standardization	de jure uniformity	de jure standardization	de facto uniformity	de facto harmonization
Major findings	IASC existence coincides with the increasing harmonization of accounting standards	IASC had very little impact on the accounting practices of countries (p.126)	IASC didn't seueed in changing the existing standards or set up new accounting standards (p.33)	existence of differences between Western Europe countries (p.33.)	IAS can be accepted (p.13)	it is possible to measure the impact of mandatory and optional provisions on harmonization (p.167)

Source: *Tay & Parker, (1990)*

It is assumed that 50 business entities within the group group of 100 businesses apply the method A in the period 1. The remaining business entities use the method B. In period 2, 70 business entities using method A compared to 30 business entities which accounted certain position by the method B. In period 3 ratios is 90:10 in favor of the method A. The relative frequency and H index may be summarized as follows:

Table 2. Calculations of H index

Period	Method A	Method B	H index
1	0,5	0,5	$0,5^2 + 0,5^2 = 0,50$
2	0,7	0,3	$0,7^2 + 0,3^2 = 0,58$
3	0,9	0,1	$0,9^2 + 0,1^2 = 0,82$

Source: *van der Tas L (1988)*

Furthermore, van der Tas differentiates two level of H index: (1) C index and (2) I index. Walton et al. (2003:26) point that Tas suggestions for harmonization of 1988. (extended in 1992) are explained by using the C index while taking into account, over time, published financial reports and changes in accounting policies indicating the variability of harmonization as evidence that the subjects do not report according to adopted rules. C index measures national harmonization when business entities provide accounting information using several alternative methods for a particular accounting practice (Mustaţă and Matis, 2007:5). C index (multiple reporting) compares the financial statements of compatibility between the countries and measures the number of pairs of countries that follow the same accounting methods or provide sufficient information to allow mutual comparison. Then, the pairs compatible report compares with the maximum total number of possible pairs in the following way: (Roberts et al, 2008:293)

$$C = \frac{\sum(n_i x(n_i - 1))}{(Nx(N-1))}$$

where:

n_i – number of business entities with a method *i*

N – total number of business entities.

For example, let's watch two accounting issues (depreciation (1) inventory evaluation (2)) and three alternative methods of measurement (linear, progressive and methods of decreasing inputs, or FIFO method, LIFO method and weighted average price (PPC)) at twenty business entities shown in table 3.

Table 3. Calculations of C index

Acc. issues	Method A	Method B	Method C	Calculation	C index
1	15	1	4	$\frac{[(15x4)+(1x0)+(4x3)]}{[(20x19)]}$	0,584
2	7	5	8	$\frac{[(7x6)+(5x4)+(8x7)]}{[(20x19)]}$	0,311

Source: *Roberts, Weetman & Gordon (2008:293)*

Interval boundaries for c index, according to van der Tas (1988:164), are ranging from 0 (disharmony with the infinite number of alternative methods) to 1 (harmonization where all business entities use the same method) by which the path C index, an interval, indicates the level of (non)compliance. This method meets three criteria: quantification of harmony level is directly linked with comparability, it is able to take into account more reports and information in the notes, and it is possible to calculate the harmony degree movement using the significance test (regression analysis). C index measures the degree of comparability of each item based on the number of comparable financial statements. It is assumed that the two financial statements are (in)comparable with respect to one type of transaction or event. So there is no comparison between two graduations financial statements since only one type of transaction or event has been taken into account. (van der Tas, 1992:74). There are several reasons for absence of measurement material harmony for aggregate types of transactions and events, but for each type of transaction or event separately. Those are (1) separate measurements provide more accurate results because of the possibility measure of a degree material harmonization for each type of transaction or event presented in the financial report, while measuring the harmony as the sum of all types of transactions or events gives only aggregate results and thus it is difficult to draw conclusions about the politics of measurement and (2) measure of aggregate harmony of transactions or events requires a detailed list of the types of transactions and events and separate measurement of material

harmony for each type of transaction or event is more convenient. (van der Tas, 1992:75).

Van der Tas (1988:165) in the measurement of the international material harmonization emphasizes the need to meet two conditions. Firstly, international harmony is a degree of comparability of financial statements business entities in their home country which means that the harmonization measurement should go primarily of national harmony. Secondly, international harmonization exists at a particular degree of convergence of two or more countries with regard to accounting practices applied in preparing the financial statements. Degree of international material harmonization indicates the degree to which businesses in one country apply the same or only a limited number of alternative accounting methods compared to business entities in other countries. According to Hermann and Thomas (1995:2565) I index measures the international harmonization or harmonization of accounting practices between two or more countries. I index is expressed by multiplying the proceedings business entities for a particular accounting alternatives and aggregating the overall alternative rules until the correction factor, shown in the exponent, is used when examining several countries. The overall shape I index can be represented in mathematical form as:

$$I = [\sum_{m=1}^{M}(\prod_{n=1}^{N} P_{mn})]^{\frac{1}{(N-1)}}$$

m alternative accounting method *m*
n country *n*
P_{mn} relative frequency accounting methods *m* in country *n*

Table 4. *Calculations of I index*

	Country		
Period 1	A	B	I indeks
method 1	1	0	1 x 0 + 0 x 1 = 0
method 2	0	1	
Period 2	A	B	
method 1	0,6	0,3	0,6 x 0,3 + 0,4 x 0,7 = 0,46
method 2	0,4	0,7	

Source: *van der Tas (1988)*

Interval limits of I index according to van der Tas (1988:166) are between 0 (disharmony with the infinite number of alternative methods) to 1 (harmonization of all business entities using the same method) by which the path and index, an interval, indicates the degree of (non)compliance. For example, it is assumed that the two countries (A and B) within a specified time period applied two different methods (method 1 and method 2). The way use of I index is shown in Table 4.

3 Advantages and disadvantages of harmonization with the generally accepted index

Application possibilities of quantifying measurement degree of material harmonization are: (1) to determine the degree of harmonization in relation to the accounting treatment of certain items at a time, (2) to show the fluctuations in the level of harmony and achieved a degree of harmonization, (3) fluctuations in the degree of harmony can be attributed to introduction or amendment mandatory provisions on financial reporting or spontaneous harmonization caused by the development of accounting theory and international events, (4) to identify problem areas in financial reporting (subjects with low levels of harmony) and (5) organizations which are dealing with the harmonization of financial reporting can use measurement methods to set goals in relation to the desired degree of harmony for an item in the financial statements. The degree of harmony is achieved by harmonizing standards or accounting standards. (van der Tas, 1988:166).

Tay and Parker (1990:84) have been working on alternative approaches to the measurement of harmonization although they agree with the proposals of van der Tas (1988). Harmonization activities focused on the comparability of results from different countries and the study on measuring focused the actual reporting practices - *de facto,* not *de jure* harmonization. The level of harmony can be quantified using the index of concentration. Comparing the level of harmony during different periods results in the degree of harmonization or disharmony. The level of harmony can be measured using alternative methods such as non-parametric statistical tests, the measures of concentration, the measures of entropy, the variance of logarithms, Hannah-Kay indices and chi-square test.

Van der Tas (1992:214-215) strongly condemned the attempts by Tay and Parker (1992.) stating that the H index is calculated as the square of the relative frequencies of alternative measurement method for a particular type of transaction.

Concentration of business entities measured using the H index about one or several alternative methods of measurement leads to higher values of H index which indicates an increase in the degree of harmony. Tay and Parker based their opinion on the fact that H index is an index of concentration for which were performed insignificant tests which means a trivial or significant (statistical) variations in the value of the index. Unfortunately, Tay and Parker do not discuss *de facto* method of measuring such harmony C index. C index is not the index of concentration, but the ratio calculated as the quotient of the number of comparable pairs of financial statements and the total number of pairs of the financial report which confirm the non-existence of problems in the application, the usual statistical tests of significance. Advantages of C index are: (1) involvement the degree of influences *de facto* measurement of harmony for multiple reporting and disclosure of additional information in the notes allowing different users to understand financial statements, or (2) the movement of C index can be tested by significance. Unfortunately, Tay and Parker have not presented and devised a different method. The methodology, by the description, seems to be quite complicated and leaves some questions unanswered, such as the significance of the test, which measures the concentration and how to apply method of concentration in detecting problems. Significance test does not imply testing the importance of movement the degree of harmony, but focuses on the significance level of the harmony. The significance of movement the degree of harmony has not been tested in an appropriate way since the proposed measurement method has certain disadvantages as H index. Further disadvantage of T&P methodologies is impossibility to influence the inclusion of multiple reporting or additional information in the notes to the *de facto* measurement harmony since a financial report can be produced only by one alternative method of measurement. It is concluded that the methodology by Tay and Parker is certainly not better to measure *de facto* harmony of the C index.

Table 5 Empirical studies measuring the scope of harmonization of international accounting and used tests

Authors	Used test					
	H	C	$C_{modificiran}$	I	$I_{modificiran}$	x^2
van der Tas (1988)	x	x		x		
Tay and Parker (1990, 1992)						x
van der Tas (1992)		x				x
Emenyounu i Gary (1992)				x		x
Archer, Delvaille and McLeay (1995)			x			
Hermann i Thomas (1995)				x	x	x
Archer, Delvaille and McLeay (1996)		x				
Adhikari and Emenyounu (1997)				x		x
Morris and Parker (1999)		x		x		
Canibano and Mora (2000)		x				x
Parker and Morris (2001)	x	x				x
Aisbitt (2001)			x			
Taplin (2003)	x	x				

Source: *Baker & Barbu (2007:291)*

Tay and Parker (1992:219) commented van der Tas thinking (1992) as follows: General problem associated with the use of concentration measures for quantifying harmony stems from the implicit weighting clusters of businesses (c) about one or more of the available alternatives as opposed to the total number of (n) an alternative method. Harmony increases when c increases or decreases when n increases. However, it is difficult to predict how a measure of harmony reacts when variables (c, n) change at the same time in different directions. The above problem can be overcomed by appropriate measures of concentration such as the H index and measures of entropy (E). Application of entropy method is not appropriate since it is almost impossible, in the sample, to calculate the probability of not using one of the available accounting methods and the relative value of the entropy measure is not in agreement with the absolute values. With this it is concluded, that the H index is more reliable measure of harmonization. General problem with the values of C index is evaluation

index weighting changes of harmony versus changes in disclosure which appear at the same time. View the index used to measure the extent of harmonization of international accounting is shown in Table 5.

4 Measurement material (*de facto*) harmonization

Study of Hermann and Thomas (1995:253) tries to determine the level of accounting harmonization in the European Union (EU27) by considering certain measurement practices in the period since 1992 to 1993 for annual statements of eight EU member states (Belgium, Denmark, France, Germany, Ireland, Netherlands, Portugal and the United Kingdom). Harmonization has been tested using the chi-square test and measured using an "I" index. Chi-square test examines the equality of the accounting methods for these countries while an index measures the level of concentration around the individual accounting measurement methods selected for testing.

Table 6 shows the results of the Hermann-Tomas research. The highest level of compliance is in the area of foreign currency translation on the domestic and valuation of inventories.

Table 6. Summary of the index and the chi-square test

Measurement practice	I index	Chi-square test
Balance sheet	0,9040	7,22
Procedure of foreign currency translation	0,8494	6,88
Valuation of inventories	0,7943	17,89
Income statement	0,6433	54,39
Depreciation method	0,6245	134,82
Research and development	0,4105	38,76
Valuation of fixed assets	0,2852	93,34
Goodwill	0,2457	124,90
Inventory costing method	0,2292	71,88

Source: Herrmann and Thomas, (1995:264)

The relatively high level of compliance has been achieved in the field of foreign currency translation which is surprising since the Directives of the European Commission provide little cover in that area. Using the method of lower prices is the dominant method in the EU. Harmonization of depreciation is very high, with the exception of the German practice, which combines a regressive and straight-line method. However, the results also show that there are significant differences in accounting for research and development, fixed assets, goodwill and inventory costs. In addition, the lack of disclosure of particular accounting practice is worrisome. Specifically, about 50% of the tested business entities don't publish methods for monitoring research and development costs, while 40% of businesses do not publish a method inventory costs. Britain and Ireland have the highest level of compliance measurement practice and Germany and Portugal have the lowest level of compliance. On a regional basis, the United Kingdom, Ireland and France seek to achieve greater alignment with the rest of the EC Member States in contrast to Portugal and Germany. Finally, fairness oriented countries (Denmark, Ireland, Netherlands, United Kingdom) are more harmonized than legalistic countries (Belgium, France, Germany, Portugal) according to a study by Hermann and Thomas (1995:264).

In paper, Archer, Dekvaille and McLeay (1995:67) analyze choice of accounting policies of European companies in the EU27 countries (Belgium, France, Germany, Ireland, Netherlands, Sweden, Switzerland and the United Kingdom). Analyzed Accounting policies are treatment of goodwill and deferred taxes in order to examine the impact of accounting harmonization practices of financial reporting and accounting policy choices by using the C index divided into three components: (1) within-country effects of internal standardization (), (2) the effects of international harmonization (Between-country, so-called BCC index) and (3) disclosure-adjusted comparability index. After conducted analyzes the authors conclude (1995:80) that little progress has been made in the harmonization of deferred taxes and goodwill between 1986/87 and 1990/91, although the Directives brought a significant amount of convergence of national accounting standards in Europe, not only in the member states, but also prospective members and other countries associated with the EU. The reason for this is found in the dual fact: (1) the flexibility of national standards and (2) EU directives have allowed some freedom in the interpretation and application of deferred tax liabilities and consolidated goodwill.

Table 7. Harmonization of financial reporting in the Nordic countries

Categories	1981/2-1992	1992-1994	1994-1998
Cash Flow Statement	▼	▲	▲
consolidation goodwill	▼	▲	▲
depreciation method	▼	▲	▲
valuation of inventories	▼	▼	▼
IAS reconciliation	▼	•	▲
unsettled foreign exchange differences	▲	▲	▲
disclosure a number of employees	▲	•	•
disclosure of segment profit	▲	▲	▲
disclosure group reports	▲	•	•
Directors compensation disclosure	▲	▼	▲
publication of transactions segment	▲	▲	▲
disclosure of accounting policies	▲	▲	•
disclosure of shares owned	▲	▲	▲
disclose earnings per share	▲	▲	▲
assessment of tangible fixed assets	▲	•	▼
U.S. GAAP reconciliation	▼	▼	▲
valuation of investments	▲	▲	▲
legal reserves	▼	▲	▼

Source: Aisbitt (2001:51-72).

The process of "independent" compliance in a population of multinational companies is influenced by other factors, such as IAS and U.S. GAAP standards insofar as they are internationally recognized and benefit from the adoption of internationally recognized accounting method proved outweigh the costs. Such factors can have a significant impact on legal entities which leads to a reduction in the level of national effects internal harmonization regarding to counterweight effect (in terms of international comparability) to increase the effects of international harmonization.

Aisbitt (2001) measured degree of harmonization of financial reporting at national and cross-national level in the case of the Nordic countries (Denmark, Finland, Sweden, Norway) by dividing the observed countries given the degree of compliance with the national legislation in three areas. Observed countries have identical source accounting legislation, in force since 1980, and these countries have developed separate interpretations of laws, regulations and accounting standards as Aisbitt considered sufficient to quantify the degree of harmonization of financial reporting within and between selected countries in assessing the impact of regulations and other factors on financial reporting. Aisbitt observed discontinuous periods (1981/2, 1992, 1994 and 1998) with respect to different combinations of accounting regulations and standards applicable for the relevant period using the C index. Generally it can be concluded that the different regulatory positions resulting in different levels of harmonization is separated into following areas: (1) matching areas of legislation and harmonization, (2) harmonization is independent of the legislation and (3) degraded areas due to the impact of harmonization of legislation as shown in Table 7.

Study by Emenyonu and Gray (1992:49,51,56) has two main purposes. First, it attempts to assess the practice of measuring assets and profit of large businesses in three EC countries (France, Germany and Great Britain) with significant differences in the context of the EC harmonization efforts, mostly in the form of the Fourth Directive (1978) which established measurement methods to be followed in preparing financial statements. Second, it is necessary to quantify the extent of commonality in international accounting and harmony in the three countries. For this purpose, annual reports were collected from 26 large businesses in each country where they observed six key practice measurements of assets and profits: valuation of inventories, depreciation, goodwill, research and development, evaluation of fixed assets and exceptional items. The analysis was performed using the chi-square test and the "I" index to identify significant differences and the extent of harmony de facto measurement practice.

The highest degree of harmonization according to I index has been achieved in the area of inventories valuation (72% of the business entities use a lower cost method), fixed assets

(77% of the business entities apply the straight-line method) and extraordinary items (73% of the business entities include extraordinary items in the current year). Other observed areas are minimally harmonized especially in depreciation where, even 45 total observed business entities occasionally uses linear or degressive method. Follows the godwilla area and the cost of research and development with an I index of less than 0.25. So, significant differences in the rules of measurement between the countries observed exist, thus confirming the opinion that the provisions of the Fourth EC guidelines are flexible, which leads to a general point of view and to a need for significant adjustments in measurement practice between Member States.

5 Measurement formal (*de jure*) harmonization

In the paper by Fontes, Rodriguez and Craig (2005:415) three methods (Euclidean distance, Jaccard's coefficient and the Spearman coefficient) for measuring formal harmonization and success achieved convergence between the two sets of accounting standards (national accounting standards and IFRS) in Portugal for the period 1977-2003 were used. The study was conducted on a sample of 43 accounting issues using weights by Rahman et al. (1996). The obtained results using Euclidean distances are difficult to meaningfully interpret. However, the data can only be used as a broad measure of convergence, but are of little help in providing precise measurements. (Fontes et al. 2005:428). In contrast, the results of Jaccard's coefficient can be interpreted in a dynamic sense (increase results over time indicates a prerequisite formal harmonization) and static sense. These results are related to the coefficient NC and IC phases, which means that the level of convergence (59%) between the Portuguese and international accounting standards is achieved in the period 1989-2003 for the 43 analyzed accounting issues. (Fontes et al. 2005:433). Using Spearman's correlation coefficients were tested hypothesis: H_0 - Portuguese Accounting Standards and IFRS use similar accounting methods and H_1 - there is no significant correlation between the Portuguese accounting standards and IFRS. For the period 1977-1989 (NA) and 1989 - 1995 (NB), the null hypothesis is rejected due to the existence of significant differences between the Portuguese and international accounting standards, and the lack of formal accounting convergence. In the last phase (NC), from 1995-2003, there was a significant correlation between the Portuguese standards and IFRS authors conclude (2005:433). However, the authors (2005:434) point that convergence with IFRS begins in Portugal in 1991, when the Portuguese Accounting Standards Board (CNC) launched the Accounting Standards (DCS) in very similar form to the international accounting standards. When Portugal did not receive support from the EU to regulate the accounting issues, international accounting standards have been adjusted in such way that the Portuguese accounting system becomes more similar to IASB standards (IFRS) for even 50% of the questions slowly reducing French influence. Rahman et al. (1996:337,328,330) examine the possibility to measure formal accounting harmonization among countries which achieved statistical-empirical comparison between the measurement and disclosure requirements for listed companies in Australia and New Zealand. The following typology was used: type 1 - mandatory application of accounting standards for all listed companies, type 2 - recommended application in accordance with accounting standards and national regulatory framework, type 3 - permitted use (not required nor prohibited) and type 4 - accounting practice prohibits the application of certain accounting practices in accordance with the accounting standards or the requirements of the exchange. This approach has enabled the design of the study 518 disclosure requirement in 31 categories and 469 rules of measurement in 28 categories. Set the disclosure requirements are compared with each other with regard to accounting standards, regulations and legislative requirements exchanges.Based on the distance between the interval and proportional relationship between the disclosure requirement and measurements in the case of Australia and New Zealand it can be concluded that there is a greater degree of harmonization required measurements which means that rules of disclosure are less harmonized. Specifically, the survey results show that 50% of the regulatory provisions in selected countries, in the areas of measurement and disclosure are consistent. In the category of

disclosure in accordance with accounting standards, 13 of the 31 categories has more than a half harmonizing representing 42%, while in the category measurements was found inconsistency in 12 of 28 categories, and 43% respectively.

CONCLUSIONS

Accounting globalization process has started with measurable positive and negative effects on the financial reporting of business entities. Globalization and, in this respect, accounting harmonization is based on the view that implementation of global standards in the international application enables achieving higher competitiveness of business entities in the capital markets using a transparent, user-friendliness and simplicity in presenting accounting and balance sheet positions grouped according to uniform criteria. On the other hand, it shows the accounting mismatch in most European countries in relation to a number of IASB initiatives and accounting rules. It is an unquestioned fact of the need to modernize and harmonize the legal norms and regulations in the field of accounting, auditing and company law in the European Union. In accordance with the required amendments to the European Council and Parliament created a favorable environment for strengthening the institutional framework for accounting and auditing which emphasizes the importance of taking care of the return of public confidence and higher levels of security for users of financial reports. The reasons for this are, increasingly, financial scandals. Sure, requested and proposed changes are by no means simple and arbitrary and require compliance at all levels of decision-making given the secondary legislation of the European Union. Therefore, the recommendations as a form of "soft law" do not have the force of law and are not required. Such an understanding of the facts is necessary and justified need, in terms of accounting and auditing, the modernization of the public in terms of monitoring and quality assurance auditors and auditing firms and transparent reporting. On the one hand, the external form of supervision was set to audit compliance with the auditing framework (auditing standards, ethical principles and rules, standards of quality control), while the other conditions were set for the creation of value in terms of timely audits identifying potential threat, weaknesses and risks in the process of auditing the financial statements which were made possible through the initiative of introducing a system of public oversight and quality control systems work.

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