

THE HISTORY OF THE DEVELOPMENT OF THE GLOBAL ACCOUNTING SYSTEM AND INTERNATIONAL STANDARDS

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Abstract

The story of the origins of monetary systems and commerce help provide a historical account of the origins and progression of accountancy, as commerce and accounting have run parallel to each other since their respective beginnings. For this reason, the history of accounting is often seen as indistinguishable from the history of finance and business. Since the second half of the 20th century, however, the guidance issued by national accounting standards setting bodies has formed the primary basis for the practice and teaching of accounting. At present, the role of accounting theory and of national accounting standards setting bodies is beginning to diminish in the wake of the movement toward uniform international accounting standards.

Key words: International system of accounting, international accounting standards, history, evolution, monetary systems.

JEL classification: M41

Introduction. It is believed that the very origins of writing itself may have developed out of early marks used to keep account of goods at ancient warehouses more than 5,300 years ago. The notion that pre-numerical counting systems predated even written language, didn't come as a surprise to many historians and archeologists who have long since recognized that the history of human civilization is largely indistinguishable from the history of commerce.

The name that looms largest in early accounting history is Luca Pacioli, who in 1494 first described the system of double-entry bookkeeping used by Venetian merchants in his *Summa de Arithmetica, Geometria, Proportioni et Proportionalita*. Of course, businesses and governments had been recording business information long before the Venetians. But it was Pacioli who was the first to describe the system of debits and credits in journals and ledgers that is still the basis of today's

accounting systems.

The industrial revolution spurred the need for more advanced cost accounting systems, and the development of corporations created much larger classes of external capital providers - shareowners and bondholders - who were not part of the firm's management but had a vital interest in its results. The rising public status of accountants helped to transform accounting into a profession, first in the United Kingdom and then in the United States. In 1887, thirty-one accountants joined together to create the American Association of Public Accountants. The first standardized test for accountants was given a decade later, and the first CPAs were licensed in 1896.

Historical aspects of development of accounting have been studied extensively by many academic researches such as Butynets F.F., Dankiv J.Y., Druzhilovska T.Y., Luchko M. R., Mnyh E.V., Mizikovski Y.A., Ostap'yuk M. J., Paliy V.F., Pushkar M.S., Sokolov Y.V., Tkach V. I., Tkach M. V., Shvets V.G., Shturmina O. S., Ahmad S., Basoglu B., Goma A., Doupnik T., Mueller G., Perera H., Flasher D. to name a few. However, development of the international system of accounting has not been considered in a holistic way that would emphasize various stages of development and consider distinct factors that influenced accounting at those stages.

Main part. Ancient Egyptian bookkeepers kept meticulous records of the inventory of goods kept in royal storehouses. The accuracy of these records was assured by the swift and severe penalty that came if mistakes were ever discovered.

Archeologist Dr. Gunter Dreyer of the German Institute of Archaeology discovered 5,300-year-old bone labels inscribed with marks and attached to bags of oil and linen in the Abydos, Egyptian tomb of King Scorpion I.

Describing inventory owners, amounts, and suppliers, these labels of antiquity are known to be the ancient origin of the counting systems that would eventually develop into the sophisticated accounting methods we're familiar with today.

Other ancient societies also used accounting methods, including scribes in Mesopotamia who kept records of commerce on clay tablets. In ancient Greece, the account books of bankers show that they changed and loaned money and helped people make cash transfers through affiliate banks in other cities. In ancient Rome, government and banking accounts grew out of records kept by the heads of families.

The most important event in accounting history is generally considered to be the dissemination of double-entry bookkeeping by Luca Pacioli in 14th century Italy. Pacioli was much revered in his day, and was a friend and contemporary of Leonardo da Vinci.

In fact, the Italians of the 14th to 16th centuries are widely acknowledged as the fathers of modern accounting and were the first to commonly use Arabic, rather than Roman, numerals for tracking business accounts.

Pacioli described double-entry bookkeeping, and other commerce-related concepts, in his book *De Computis et Scripturis* – translated in English to *Of Reckonings and Writings*.

The book was translated into five languages within a century of initial publication. The fundamentals of bookkeeping methods used today have actually changed little since the days of Pacioli.

The modern, formal accounting profession emerged in Scotland in 1854 when Queen Victoria granted a royal charter to the Institute of Accountants in Glasgow, creating the profession of chartered accountant (CA). Today, the longest standing societies of public accountants are found in Scotland.

In the late 1800s, chartered accountants from Scotland and Britain came to the U.S. to audit British investments. Some of these accountants stayed in the U.S., setting up accounting practices and becoming the origins of several U.S. accounting firms.

The first national U.S. accounting society was set up in 1887. The American Association of Public Accountants was the forerunner to the current American Institute of Certified Public Accountants (AICPA).

The Great Depression led to the creation of the Securities and Exchange Commission (SEC) in 1934. Henceforth all publicly-traded companies had to file periodic reports with the Commission to be certified by members of the accounting profession. The American Institute of Certified Public Accountants (AICPA) and its predecessors had responsibility for setting accounting standards until 1973, when the Financial Accounting Standards Board (FASB) was established.

The industry thrived in the late 20th century, as the large accounting firms expanded their services beyond the traditional auditing function to many forms of consulting. The accounting profession in the 20th century developed around, at first, state requirements for financial statement audits, and then around Federal requirements created by securities acts passed in 1933 and 1934 (which created the Securities and Exchange Commission), according to a July 1999 article in *The CPA Journal*.

In the 1970s, Congress and SEC demands for more reliable and comparable financial reporting led to the founding of the Financial Accounting Standards Board (FASB) in 1973. The FASB and the Governmental Accounting Standards Board (GASB) are now two of the main organizations responsible for establishing generally accepted accounting principles (GAAP) in the U.S.

Beyond the industry's self-regulation, the government also sets accounting standards, through agencies such as the Securities and Exchange Commission and laws such as the Sarbanes-Oxley Act of 2002, passed after the Enron and WorldComm accounting scandals.

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The 21st century also saw the passage of the Dodd-Frank Act after the recession of 2008. The act contains 16 major areas of reform, including creation of the Financial Stability Oversight Council and the Volcker Rule that restricts banks from owning, investing, or sponsoring hedge funds, private equity funds, or any other type of proprietary trading operations that result in their own profit.

Accounting theory in Europe and the United States has often been based on debates related to the resolution of practical issues, such as the proper way to measure assets and liabilities, the proper way to measure business performance, the determination of allowable dividend payments, the protection of creditors in the event of bankruptcy, and the taxation of corporations. The ways in which these issues have been addressed have differed among accounting theorists, and even among countries.

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Accountants looking to the future have recognized that existing accounting principals in place in the United States known as the Generally Accepted Accounting Principals (GAAP), are likely to go the way of the dinosaurs at some point in the not too distant future.

The global standard outside of the US is the International Financial Reporting Standards (IFRS). As global commerce continues to grow, efforts are underway to create consistent accounting standards across borders through the widespread adoption of IFRS by American businesses and accounting firms who wish to continue to participate in the global economy.

This paper identifies three major stages of development of international system of accounting.

First stage: From the end of XIX century/beginning of XX century until the middle of XX century. This stage is characterized by inception of the idea of having an internationally accepted set of accounting standards, adoption of legislation in various countries codifying their accounting principles, emergence of professional accounting associations, rethinking of the role of accounting in the system of management, and internationalization of information exchange among accounting

professionals.

Second stage: From the middle of the XX century until the end of XX century, international system of accounting begins to take shape. During this period appear first international accounting standards, and the process of harmonization of accounting systems across countries begins. Two international bodies – IASC and IFA are formed, and their activity is gradually recognized and supported by major international institutions.

Third stage: From the end of XXs century, until present day, the efforts to harmonize accounting systems evolved into a broader concept of «international convergence». International accounting standards are official accepted in many countries and a larger portion of global economy moves toward using IFRS. International system of accounting moves toward becoming a global system of accounting.

The purpose of accounting is to communicate an organization's financial position to company managers, investors, banks, and the government. Accounting provides a system of rules and principles that prescribe the format and content of financial statements. Through this consistent reporting, a company's managers and investors can assess the financial health of the firm.

Historically, countries have followed different accounting standards. If different accounting standards are used, however, it's difficult for investors or lenders to compare two companies or determine their financial condition. US firms and any listed on a US stock exchange must prepare financial statements in accordance with the US Financial Accounting Standards Board (FASB) standards, which are known as generally accepted accounting principles (GAAP). Firms based in the European Union (EU) follow standards adopted by the International Accounting Standards Board (IASB) known as international financial reporting standards (IFRS). Over one hundred nations have adopted or permit companies to use IFRS to report their financial results. The United States is moving toward adopting IFRS but hasn't committed to a time frame. The FASB and IASB are working on harmonizing the two accounting standards.

The scientific novelty of the research. Summarizing information presented above, we note that today IFRS is either permitted or required for either full or partial use by publically traded companies in 128 countries in the world and by unlisted companies in 106 countries. Such widespread use of IFRS demonstrated global acceptance of international system of accounting.

The three main advantages of a single set of international accounting standards are (1) an increased comparability between firms, which reduces investor risk and facilitates cross-border financing and investment; (2) a reduction in the cost of

preparing consolidated financial statements for multinational firms; and (3) the improved reliability and credibility of financial reports.

Conclusions. Accounting standards can significantly influence the behavior of enterprises, governments, and individuals, but the wider spectrum of stakeholders (i.e., employees, consumer groups, environmental groups, and the public) generally do not actively participate in the standards-setting process, and their interests are often not represented.

Thus, an understanding of the evolution of the standards setting process is important for understanding its economic and societal consequences.

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