

## Culture and Accounting Practices

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### Abstract

*The scope of this paper consists in highlighting several characteristics that defeat the organizational culture and influence the accounting area, respectively, the accounting policies chosen at companies level.*

*Besides the financial statements, rules, and calculations, the accounting also implies professional reasoning, and the organizational culture promoted within the firm influences the accounting decisions. We analyzed and identified several of accounting policies determined by the corporate governance and organizational culture influence.*

**Key words:** organizational culture, accounting systems, accounting practices, corporate governance

**J.E.L. Classification:** M410, M420, M480.

### 1. Introduction

From our point of view, culture can't harmonize and it shouldn't, in the end. When we talk about culture, we understand the way of making business, the accounting behavior, conducting the internal audit, the regulation, the degree of nationalism of the respective state, interpreting the standards using different languages.

In a global economic context, regardless the used accounting systems, there are several common aspects to consider: costs efficiency, an improved system of internal control, functional internal audit, the willing and possibility of adapting to change, compatibility and fusion of practices chosen with the existing organizational culture.

### 2. A view on accounting policies

We enhanced one of the characteristics of the organizational culture that presents a significant impact over the accountancy in general and over the accounting policies chosen by the organizations in particular. The objective of the conducted research was identifying the way that corporate governance and organizational culture are in measure to influence the accounting policies.

In this approach, we started with the idea that enterprises in Romania have the possibility to choose from the accounting policies the most advantageous from their own point of view, as Manea (2006) mentions, an aspect not very favorable in the moment of reporting *the true and fair view* – an image more and more disputed by several specialists in the field.

Just at this point, the role of corporate governance occurs, guiding the accounting steps, through reaching the objectives of the organization. Internal audit also occurs sharply in accountancy when compasses fraud attempts.

Analyzing the behavior of the organizations in choosing the accounting policies, we reached the conclusion that there are two distinctive approaches: a conservative approach, characterized by the appetite for provisioning, and an optimistic approach, characterized by assuming future risks.

Nevertheless, the freedom of choosing the accounting policies represents a quite controversial practice in the professional field. The specialists think that opting for one of the two stated approaches is tightly bound on cultural dimensions.

*Table no 1 – The behavior of the organizations in choosing the accounting policies*

Aspects from financial statements	Accounting Conservatism	Optimism
Provisions	Overstatement of provisions by recognizing expenses	The value of assets is overvalued by including expenses that are not included in the income statement
Asset valuation	Using historical cost	Revaluation of fixed assets, especially when there is an increase in fair value
Interest	Recognition of interest as an expense	Interest capitalization, regardless of the capitalization criteria
Development costs	Recognition of development expenses in the profit and loss account	Capitalizing on development costs that meet the criteria for recognition as assets.
Stocks	Stock valuation by LIFO method (Last in-first out)	Stock valuation by the weighted average cost of capital (WACC)
Amortization	Accelerated depreciation	Straight line depreciation
Guarantees - doubtful claims	Estimates with high values	Estimates with low values

*Source:* Author's perspective on the accounting policies

Choosing accounting policies drives to different results and therefore the existence of a strong corporate governance system, well implemented at the organizations' level can reduce the risk of fraud on the financial situations.

We also notice this flexibility in choosing between several accounting politics it means in a way a premise for manipulating the financial situations.

We cannot ignore that nowadays accounting policies cannot be neither uniform nor homogeneous and that is why certain accounting policies cannot be imposed on companies. It is important to remember that organizations need to manifest a higher attention on choosing specific accounting policies that will reflect entirely the fair image and that should be respected, applied and published continuously.

During this research we could notice that some companies use aggressive accounting policies, aiming the creation of a favorable image that would meet the personal needs of management or the shareholder's expectations. However, these practices can be avoided by conducting a responsible and efficient governance system.

### **3. Organizational culture and accounting systems influence**

At this point of the research, we considered appropriate to realize a connection between organizational culture and accounting systems, exposing the specific characteristics of these systems in their individual relationships with organizational culture. We accomplished this step with the help of a comparative analysis of the main accounting systems: the continental system, the Anglo-Saxon system, and the Islamic system.

On the one hand, we analyzed, by comparison, the first two systems, the continental one and the Anglo-Saxon system which are specific to industrialized countries. The conclusion we reached at is that continental system is much more detailed and regulated compared with the Anglo-Saxon system. We also noticed that, across the time, countries of continental accounting tradition started to adopt parts of the Anglo-Saxon system due to such considerations as the emergence of multinational companies, adherence of the United Kingdom to the European Union, increasing of international standardization following the Anglo-Saxon model, etc.

On the other hand, on the analysis we conducted we focused on the Islamic accounting system, a very particular system compared with the other two, a system somehow utopian for the other nations, more because it cherishes a special attention on benefits and wellness of all parties involved in the business. Unlike the continental and Anglo-Saxon systems, the Islamic accounting system proves to be a highly balanced one in which business ethics is an attribute of great importance.

### **4. Islamic accountancy view**

The Islamic accountancy is based on two fundamental principles with a view to the welfare at the level of involved parties. On the one hand, the Islamic accountancy tries to equitably distribute wealth by imposing the zakat and, on the other hand, the Islamic system forbids the obligation of paying interests because it is considered that some persons (the ones with no revenues) could be disadvantaged. The two mentioned principles represent precisely the key factors of influencing the Islamic rules on financial reporting and they do not find any equivalents in the continental or in the Anglo-Saxon accounting system.

The study of specialty literature allowed us to notice that Islamic accountancy is a privileged notion and preferred at the research level, but in practice there are Islamic countries that no longer want to keep their own Islamic accounting standards in favor of adopting IFRS, aspect raised during the analysis of the AOSSG report on the accounting of the Islamic entities. The AOSSG survey counted four sections, regarding the Islamic information about finance distinctively on each respondent jurisdiction, the financial reporting specifications, the respondent's opinions about the accounting standards and the demands of the specific jurisdiction regarding Islamic accounting standards if applicable.

The aim of AOSSG is to reveal the way of how the international financial institutions and report in different jurisdictions and tries to identify differences in the Islamic accountancy standards. The answers vary depending on the jurisdiction, 7 of 14 respondents claim to have the Islamic financial services in their area – where more and more they progress towards adopting IFRS. From all the 14 respondents, only 5 apply a separate bookkeeping for the financial Islamic institutions, and these are Dubai, Syria, Pakistan, Indonesia and South Africa.

Dubai, Indonesia, and Syria responded that adopting separate reporting financial standards is compatible with convergence with IFRS while South Africa and Pakistan consider the opposite, even in their jurisdictions they have separate accounting standards for Islamic financial institutions.

The analysis of this study proves a global movement towards IFRS. Pakistan and Indonesia assert their intention on keeping the Islamic accounting standards. (AOSSG, 2010; ACCA & KPMG, 2012).

The Dubai Finances Services Authority (DFSA, 2013) requires presenting specific information in accomplishing the financial situations. Even tough, this requirement is hard to follow by some jurisdictions where they consider unacceptable the IFRS for the Islamic financial transactions. In their studies, AOSSG in 2010 and ACCA & KPMG in 2012 concluded that conflicts between IFRS and Islamic accounting standards occur from the two fundamental concepts of financial reporting:

the value of money in time and substance over form.

*The value of money in time* is associated with the interest and IFRS includes the use of updated cash flows with reference to interest rates. For example, in accordance with IAS 39 International Accounting Standards, it is necessary to use valuation techniques that involve calculating the net present value of future updated cash flows at an appropriate interest rate to measure financial assets where there is no active market.

*The substance over form* concept, through a transaction, is measured and reported according to its economic substance, rather than its legal form, is also considered inappropriate from an Islamic point of view.

According to Sharia, it is the Islamic legal form that will ultimately determine the form of accounting. The *ijara muntahia bittamleek* it is an Islamic leasing contract which implies the transfer of property at the end of Ijara should be treated as leasing financing according to IAS17.

In their study of 2012 ACCA and KPMG presented the conclusion of the Malaysian Accounting Standards Board, respectively that they can use the IFRS unless if someone can prove that there is a clear interdiction in Sharia, in which case they will change it accordingly. By that time they will use the IFRS.

## 5. Conclusions

Observing these conflicts and the position of some of the Islamic countries on alignment with IFRS, we come to the conclusion that, due to globalization, Islamic accounting tends to lose its supremacy and value, although preserving this identity may be the way to building a fair society in which decency, responsibility, and honesty are high-priced features.

As a main conclusion, we consider that accounting practices and policies are mainly influenced by corporate governance and organizational culture. The culture, governance and accountancy triad sets up a future research proposal since analyzing the impact of culture and governance over the accountancy, we could ascertain that adopting an adequate accounting system and appropriate policies would positively influence the future development of companies, would even contribute on obtaining a competitive advantage for them.

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