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Lost in translation: Impediments to the homogenous interpretation of IFRS translations

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Lost in Translation:

Impediments to the homogenous interpretation of IFRS translations

By:

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An Honors Thesis in partial fulfillment of the requirements for the degree of Bachelor of Science in Business Administration in Accounting and Finance and for the degree of Bachelor of Science in International Business in Economics

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Introduction

The past century has been characterized by efforts to make the world more interconnected. As economies become more integrated, financial information must become more comparable across borders (Davidson & Chrisman, 1993). In order to satisfy this growing need, regulators and accounting professionals have pursued the harmonization of national accounting standards. The effort to develop a transnational set of accounting standards began with the establishment of the International Accounting Standards Committee (IASC) in 1973 (FASB, 2013). Now reorganized as the International Accounting Standards Board (IASB), this transnational organization is responsible for the development of International Financial Reporting Standards (IFRS). These standards have been adopted in more than 100 countries and are currently available in 47 languages.

The benefits of IFRS seem intuitive. Before the availability of common international accounting standards, companies prepared financial statements in accordance with their own domestic national accounting standards. The differences among these national accounting standards rendered the comparability of financial information across borders nearly impossible. IFRS provides a common business language through which users of accounting information can compare the financial performance of a business in one country with that of a similar business in another country.

The financial statements for two businesses prepared using the same accounting standards should be comparable (Doupnik & Richter, 2006). There are reasons to believe that this is not always the case, even when both businesses use IFRS. One important reason is the inherent need to translate international accounting standards. While different translations of IFRS may simply be assumed equivalent, there is strong evidence that translations of

accounting standards do not retain their original intent and meaning (Davidson & Chrisman, 1993).

There are many examples of barriers to perfect translation of IFRS. One common problem is the lack of equivalent accounting concepts in different countries. For example, the English term “depreciation” is used to describe the systematic and rational allocation of the cost of tangible assets over the periods benefitted, but a different English term, “amortization,” is used to describe a similar process used to record allocations of the cost of intangible assets like goodwill. In Finnish, the term “poisto” is used for both concepts. Thus, the Finnish language cannot be used to differentiate between the allocation of costs associated with tangible and intangible assets (Kettunen, 2011). This simple example illustrates how difficult it can be to translate technical accounting terminology.

Potential problems with translations can also be observed by comparing existing translations of IFRS texts. For example, while the English term “remote” is used in both IAS 31 and IAS 37 to define thresholds for the disclosure of certain contingent liabilities, the German version uses “unwahrscheinlich” (in English, “improbable”) in IAS 31 and “äußerst gering” (in English, “extremely remote”) in IAS 37 (Tsakumis, Campbell & Doupnik, 2009). Although English and German accountants use the same accounting standards to guide the disclosure of contingent liabilities, the translation of the standards appears to encourage different interpretations for English versus German users. That is, the difference in terminology used in the German versions of IAS 31 and IAS 37 seems to encourage the use of different probability thresholds for determining the non-disclosure of the contingent liabilities referred to in each respective standard while the English version’s consistent use of the term “remote” seems to imply that approximately the same threshold should be used in applying both standards. This difference may indicate that English and German accounting practitioners do not use the same basis for their decisions related to the disclosure of

contingent liabilities. Similarly, there may be differences in how English and German financial statement users interpret contingent liability disclosures. This example clearly illustrates that inconsistencies in the translations of IFRS may result in significant differences in their application and interpretation.

Inconsistent application of international accounting standards presents a significant threat to the comparability of international financial information. When financial information is prepared in accordance with IFRS, users of that information may assume that the application of the accounting rules is consistent across countries. In actuality, many differences in interpretation and application can occur because of the difficulties inherent in translating the standards from one language to another. This should be a concern for the international business community.

The problems associated with inconsistent application of translations of IFRS are difficult to isolate and study. Language is naturally intertwined with elements of culture and history. Thus, issues with translating technical materials such as accounting standards are complex (Baskerville & Evans, 2011). This paper seeks to identify some of the factors that may impede the homogenous interpretation and application of IFRS. Because of the complexity of the issue, I take a qualitative approach that draws on the disciplines of linguistics and cultural studies to analyze why translations of international accounting standards may be misinterpreted.

The structure of this paper is as follows. First, I summarize and review relevant literature. Next, I analyze specific factors related to misinterpretation using relevant research from the fields of linguistics and cultural studies. This provides a better understanding of how translation issues arise and affect the interpretation of IFRS. I then conclude with a summary of the potential sources of translation problems and provide six recommendations

for how to proceed with the development, translation, adoption, and use of IFRS.

Literature Review

As the acceptance of IFRS continues to grow around the world, accounting researchers have identified translation challenges as a potential roadblock and have called for greater research on this subject. For example, Nobes (2006, p. 237) explains that “there is a risk that the process of translation will change or lose meaning from the original version” and suggests several topics for further research such as the Portuguese translation of the IAS 7 definition of cash and cash equivalents. Zeff (2007) also identifies language as a significant impediment to the homogenous interpretation of accounting standards and warns that this problem could inhibit the comparability of accounting information. Tsakumis, Campbell, and Douppnik (2009, p. 34) identifies translation and culture as “two factors... that could undermine the rigorous interpretation and application of IFRS” and goes on to further outline potential problems that arise with translations through specific examples.

Several studies seek to analyze the effects that language has on the interpretation of uncertainty expressions (Davidson & Chrisman, 1993; Douppnik & Richter, 2003). These studies measure the interpretation of uncertainty expressions (e.g., probable, certain, reasonably expected, etc.) by asking subjects from different language groups to assign a probability to each expression. Results of these experiments indicate that significant differences in the interpretation of uncertainty expressions exist across different language groups. This suggests that “perfect translation may not be achievable” (Davidson & Chrisman, 1992, p. 7).

There is also an emerging body of literature relating to the challenges of translating accounting standards. Some studies employ a case study approach to analyze problems associated with the translation of accounting terminology. For example, Evans (2004)

surveys the historical development of national accounting subcultures and theories of linguistics. This serves as the basis for her analysis of three case studies that illustrate fundamental differences in the way that accounting terms are interpreted by speakers of different languages. She concludes that “translation is not impossible, but... it is likely to be incomplete” (Evans, 2004, p. 239). Dalghren and Nilsson (2009) examines Swedish translations of specific International Accounting Standards, illustrating that existing translations of standards are often incomplete and not equivalent to the original English versions.

Other studies employ interview and survey techniques to gather information about specific problems that IFRS translators face. Through interviews with the translators involved in the Finnish translation of IFRS, Kettunen (2011) identifies and analyzes key issues with the translation process, some of which include inherent differences in terminology across different languages, difficulty in interpreting the original English text, and translators’ lack of accounting knowledge. Baskerville and Evans (2011) considers a much broader scope, surveying authors and translators of IFRS accounting textbooks from all European Union member states and candidate countries. They identify specific challenges that translators face as well as solutions that translators have used to overcome those challenges. They also provide relevant policy recommendations that would alleviate some of the difficulties of translation and limit misinterpretations of IFRS translations. Some of these policy recommendations include increasing regulators’ awareness of the limitations of translation, fostering a greater understanding of existing accounting subcultures on the part of translators, and standardizing IFRS terminology.

Overall, the general consensus among accounting researchers related to the translation of international accounting standards appears to be that translation is inherently difficult and can lead to different interpretations and applications of accounting standards. However,

there is evidence that effective translation is achievable (Baskerville & Evans, 2011). Specifically, translators who responded to the survey in Baskerville and Evans (2011) imply that translation challenges are not entirely insurmountable. They suggest that “[w]here problems arise, a number of strategies and solutions are adopted to reduce their impact” (Baskerville & Evans, 2011, p. 57).

Our understanding of translation difficulties and how to overcome them is likely to grow as the adoption of IFRS spreads. This paper seeks to establish a framework for considering translation challenges in the development, adoption, and use of international accounting standards. Understanding the complexity of translation and how to approach it in the context of international accounting standards is relevant to researchers, policy makers, accounting professionals, and general users of accounting information.

Linguistic Analysis

The relevance of linguistics in the field of accounting

Even before transnational accounting was as tangible as it is today, linguistics was incorporated into accounting research. Researchers reasoned that accounting is, at its core, a means of communication. “The language of business” is a common metaphor used to broadly explain both the purpose and importance of accounting in basic accounting principles courses and textbooks (Belkaoui, 1978). An interesting question stems from this characterization – is there a consistent language of accounting among accounting professionals in different parts of the world or is the “language of accounting” fragmented by region, with non-transferrable terminology and practices? This question has interesting implications for the feasibility of a transnational set of accounting standards like IFRS.

Archer and McLeay (1991) attempts to answer this question and concludes that there are some shared meanings among accounting systems around the world. Basic underlying

principles like double entry accounting and accrual accounting seem to be understood and applied consistently, although more specific terminology and practices, such as the wording of an audit opinion, can differ dramatically from country to country. This indicates that the common “language of accounting” has many different accents and dialects, much like many of the world’s widely spoken languages. This seems to imply that international accounting standards are attainable, but their development and use will require a great deal of collaboration with regards to the details of the standards and practices.

Belkaoui (1978) uses the idea of accounting as a language in a somewhat different manner. He directly applies linguistic theory to the field of accounting in order to understand how the actual “language of accounting” influences the behavior of its users (i.e., accounting professors, practitioners, and students). He proposes that accountants’ training and understanding of accounting concepts enables them to describe particular financial phenomena that a layperson cannot easily understand and to perform certain tasks more efficiently than non-accountants. He also hypothesizes that those with an accounting background are “pre-disposed to certain managerial styles” (Belkaoui, 1978, p. 103). These assertions stem from the application of what is known in linguistics as the Sapir-Whorf Hypothesis.

The Sapir-Whorf Hypothesis: A problem of perception

The Sapir-Whorf Hypothesis, originally developed by Whorf in 1956, and later extended by his student Sapir in 1965, essentially proposes that “language is an active determinant of thought” (Belkaoui, 1978, p. 98). In other words, the language that a person speaks shapes his or her perception and behavior.

A classic example used to illustrate the Sapir-Whorf hypothesis is that of time. Many cultures perceive time differently. European-based languages use a standardized, discrete

system for determining time, and subsequently, timeliness is paramount in many of these cultures. However, as Whorf discovered through the development of his hypothesis, not all languages express time in the discrete manner familiar to many western cultures. By studying the language and culture of the North American Hopi tribes, Whorf found that their sense of time was more abstract and continuous than the discrete standard European sense of time (Van Troyer, 1994). Whorf attributed this perceptual difference to different linguistic structures available in each respective language for the expression of time.

Another example involves the association of gender with nouns. In German, the word for bridge, “die Brücke,” is feminine, whereas in Spanish, the same word, “el puente,” is masculine. Researchers found that German speakers are more likely to describe a bridge as one might describe a woman, using terms like elegant or beautiful, while Spanish speakers are more likely to emphasize the masculine qualities of a bridge, such as its strength (Deutscher, 2010).

While there are many adherents to the Sapir-Whorf Hypothesis, many linguists have dismissed the hypothesis as superfluous, maintaining that language is not a key determinant of human perception and behavior. In fact, many empirical studies negate the validity of the Sapir-Whorf Hypothesis, mainly by illustrating that perceptions and thought processes exist even in the absence of language. For example, researchers Piaget and Chomsky assert that “language does not predispose the mind to think in a priori categories; rather, pre-existent structures at the biological level in the brain are the shapers of language and reality in general” (Van Troyer, 1994, p. 170). In its strongest form, the Sapir-Whorf Hypothesis posits that two people who speak different languages will never be able to come to a mutual understanding. Simple observation of the modern world in which people from different language speaking groups interact every day proves that this is not the case.

Ultimately, the debate over the Sapir-Whorf Hypothesis is similar to the age-old question of what came first – the chicken or the egg. Regardless of whether it is language or something else that drives differences in thought and perception, it is evident that “something basic to the way human beings interpret reality powerfully, ultimately, influences if not shapes our perception of the world, and by extension, of other cultures” (Van Troyer, 1994, p. 15). The question relevant to international accounting is whether or not those differences are strong enough to impede the transmission of standard accounting rules and the financial information that results from their use.

Translation: Bridging the communication gap

Consider now the means by which communication between individuals from different language speaking regions is enabled – translation. Professional translators are often the most avid in proclaiming translation impossible (Joseph, 1998; Baskerville & Evans, 2011). Practicality, however, encourages us to seek a means of translation that is sufficient and acceptable.

The purpose of translation is to seek some form of equivalence between the source text and the translated text. For IFRS, this is of the utmost importance. The IASC Foundation proposes that “the success of global standards means that it is essential to ensure that IFRSs remain IFRSs in any country and in any language that they are translated into” (Dahlgren & Nilsson, 2009, p. 6). If the translations of IFRS are not equivalent, then the entire purpose of international standards has been defeated. If translators generally agree that perfect translation is impossible, what kind of equivalence is attainable through translation?

Pym (2007, p. 272) proposes that equivalence is attained when “the translation [has] the same value as (some aspect of) the source text.” Translators must decide which aspects of the source text to retain in the translation. The body of literature on translation theory posits

that there are two general forms of equivalence – formal and dynamic. Formal equivalence refers to strict, word-for-word translation of the source text so that the structure and terminology are as close to the original text as possible. This kind of translation typically requires more effort on the part of the reader in order to understand the meaning of the translation. Alternatively, dynamic equivalence may require the translator to stray from the original structure and terminology of the source text in order to convey the sense and meaning of the source text more clearly in the translation. This type of equivalence typically requires more effort on the part of the translator in order to make the reader of the translation more comfortable with the text. The type of text being translated may very well dictate the type of translation approach used.

The IASB requires the word-for-word formal equivalence approach for translations of IFRS (Kettenun, 2011). As illustrated by the examples provided in this paper, perfect equivalents are not always readily available in the target language. Thus, the IASB's preference for formal equivalence may limit the understandability of IFRS translations.

Accounting researchers have attempted to understand how translators of international accounting information and standards approach these problems of non-equivalence. Archer and McLeay (1991) identify two types of “coping strategies” employed in these situations – reduction and achievement strategies. Reduction strategies involve avoidance of translation when challenges arise. These strategies may involve referencing the source text instead of attempting translation or retaining non-translatable words or phrases in the original language. If there is a word or phrase that does not translate easily, the translator employing this strategy may even omit the section entirely from the translation.

Alternatively, achievement strategies attempt to solve translation challenges through various means. This kind of strategy may involve adding a description of an unfamiliar term in order to make it more comprehensible to the reader or creating a new term in the target

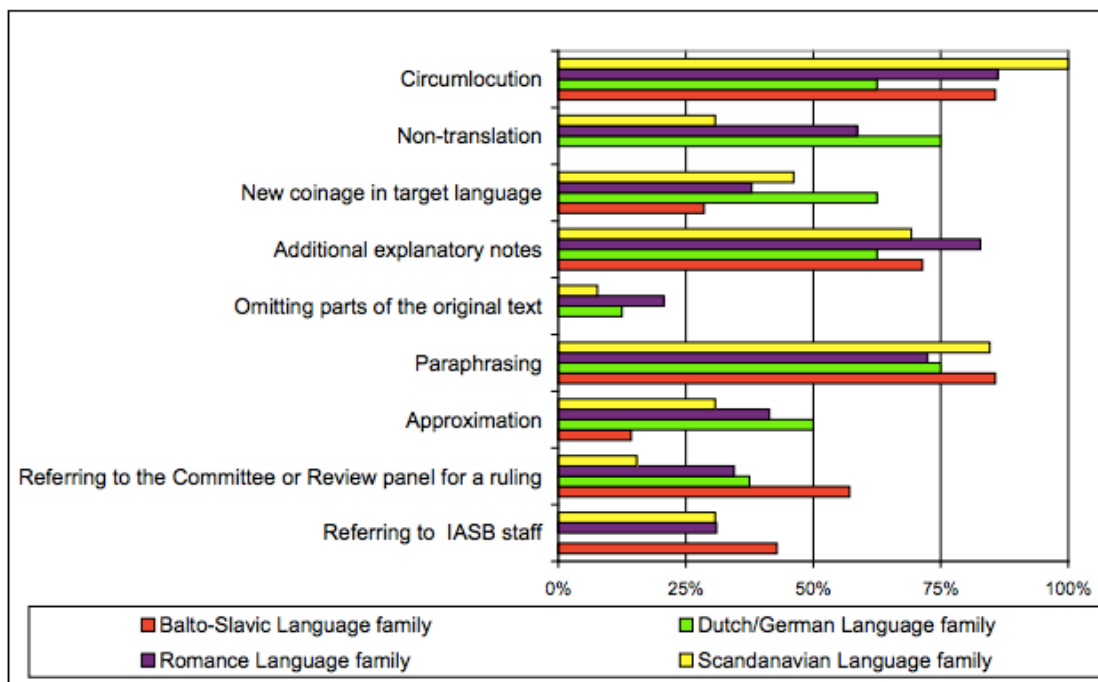
language to refer to the unfamiliar term or phrase from the source text. More recent research has confirmed that these strategies are commonly used, specifically among the translators of IFRS (Kettenun, 2011; Baskerville & Evans, 2011).

Baskerville and Evans (2011) investigates the preferred “coping strategy” by language group, which provides considerable insight into how various IFRS translations may vary.

The results are shown in Figure 1 below. This research suggests that Slavic translators are the most likely to use avoidance strategies and request clarification from the IASB.

Alternatively, Scandinavian and Romance family language translators appear to prefer achievement strategies, in particular, paraphrasing and adding descriptions of unfamiliar terms to the translation.

Figure 1: Solution preferences of the different language groups.



Note: Percentages of respondents who would be ‘very likely’ or ‘likely’ to use this technique.

Source: Baskerville, R. & Evans, L. (2011). *The darkening glass: Issues for translation of IFRS*. Edinburgh: The Institute of Chartered Accountants of Scotland. Figure 13.

These findings have important implications for users of translations of IFRS. Since Slavic translators frequently use avoidance strategies that adhere to a formal equivalence

approach, the users of the Slavic translations will likely have to exert more effort when reading the standards. For example, they may have to consult original texts in order to understand the meaning of a term or phrase that is unfamiliar to Slavic speakers.

Alternatively, Scandinavian and Romantic language family IFRS translations are more likely to include in-text definitions of unfamiliar terms and phrases which would require users of the translation to consult the original source text less frequently, if at all. This may imply that Slavic users of IFRS are more familiar, and thus more closely aligned, with the original English version than Scandinavian or Romantic language family users. Paraphrasing and in-text explanations may also imply that Scandinavian and Romantic family language translators are more likely to incorporate their own interpretations of the standards into their translations than are Slavic translators. This phenomenon would naturally result in inconsistent interpretations of IFRS across users of different translations.

The challenges that translators face extend beyond just the scarcity of equivalent terms and phrases. Other problems cited by IFRS translators include the complexity of the original English standards, translators' lack of accounting knowledge, and underlying cultural differences (Kettenun, 2011; Baskerville & Evans, 2011). The IASB attempts to combat some of these challenges through its systematic translation process. Professional translators who collaborate with an IASB review committee complete most IFRS translations. The purpose of the review committee is to provide guidance and oversight on how the standards should be interpreted in the new language. This should compensate for the professional translators' lack of accounting knowledge and help clarify technical accounting jargon found in the standards. However, some European language translations of IFRS were facilitated by the translation function of the European Union without the consultation of an IASB review committee (Dahlgren & Nilsson, 2009). Thus, there is room for improvement in the IFRS translation process.

Despite all of the challenges related to language and translation, there appears to be a general consensus that adequate translation of IFRS is feasible (Baskerville & Evans, 2011). This is encouraging for the future of IFRS; however, challenges of translation should not be overlooked or dismissed as insignificant. Standard setters and accounting practitioners need to understand the limitations of language and translation.

Cultural Analysis

The existence of international accounting cultures

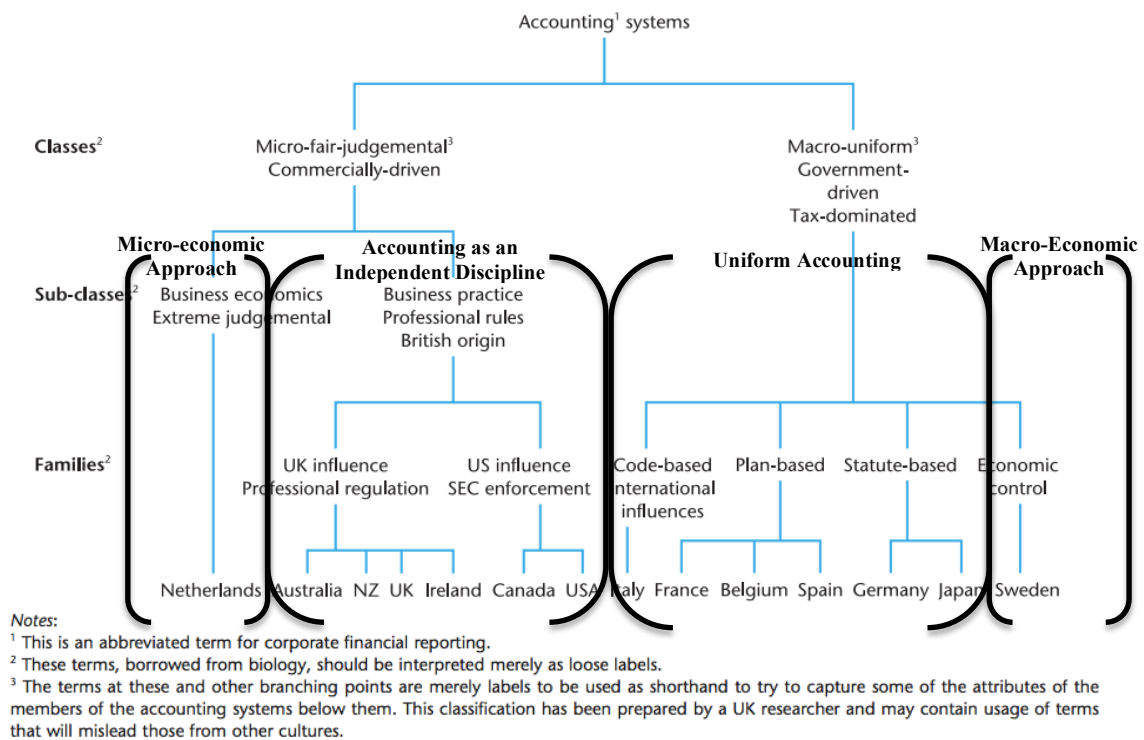
It can be inferred from the discussion thus far that differences in language and perception among IFRS adopting countries may impede the homogenous interpretation and application of IFRS. These differences may be explained at least in part by existing national accounting sub-cultures.

There have been several attempts to categorize international trends in accounting values and practices (Nobes & Parker, 2008). One of the first researchers to attempt such a categorization was Gerhard Mueller, who identified four types of accounting approaches – a macroeconomic approach, a microeconomic approach, accounting as an independent discipline, and uniform accounting (Nobes & Parker, 2008). The economies of countries classified as exhibiting a macroeconomic approach are significantly influenced by the state. As such, accounting rules and practices in these countries are typically influenced by the government's economic policies. Alternatively, the economies of countries with a microeconomic approach are primarily driven by the private sector. Accounting rules and practices in these countries are flexible and more likely to be influenced by the needs of individual businesses. Countries that approach accounting as an independent discipline typically have standard setting bodies that are independent of the government and the private sector. Finally, countries that exhibit uniform accounting have accounting systems that

are typically developed and controlled by the government either through strict tax accounting requirements or government accounting standard setting bodies.

Nobes (1996) builds on Mueller's classifications. He uses 9 separate factors, including, for example, the types of users of accounting information and the relative importance of tax rules. Using these factors, Nobes judgmentally classifies 14 Western developed countries into the hierarchy shown in Figure 2 below. The hierarchy appears to represent a more detailed explanation of Mueller's four-group classification system; Mueller's groups are evident at the sub-class and family levels of Nobes' hierarchy. Nobes adds a distinction between the UK influenced and US influenced systems of accounting that fall into Mueller's more generalized "accounting as an independent discipline" classification. He also differentiates between "uniform accounting systems" based on the different sources of accounting rules imposed by the state. Both Mueller and Nobes' classifications are combined in Figure 2 on page 16.

Figure 2: Combination of Nobes' hierarchical classification of accounting systems and Mueller's four-group classification of accounting systems



Adapted from: Nobes, C. & Parker, R. (2008). *Comparative International Accounting*. (10 ed., pp. 74-93). Harlow, England: Pearson Education Limited. Figure 3.3.

There have been many other attempts to construct international accounting system classifications based on a variety of factors (e.g., economic drivers, regulatory style, culture, etc.) (Nobes & Parker, 2008). The development of these classifications is evidence of differences across accounting systems in different countries. Although there is some disagreement among researchers about the best way to classify international accounting systems, there appears to be a consensus that there exist identifiable patterns of accounting practice that differ by country (Gray 1988). The divergence of accounting systems across regions can likely be explained both by historical and cultural trends.

History has played a large role in the development of legal systems and business environments around the world. Consequently, domestic accounting systems have developed differently to suit differing needs of various legal environments and business communities. Most legal systems in the developed world are based on either Common Law or Roman

Law. Common Law was developed during the Middle Ages in England, in part due to the Norman Invasion of 1099 (Evans, 2004). Unfamiliar with the local customs and language, Norman invaders from continental France found it difficult to impose their culture and traditions on their conquered English subjects; thus, they developed a feudal system in which the central court imposed case law rather than codified law. This legal system was pragmatic and focused on prescribing solutions to individual problems and disputes as they arose (Evans, 2004). English Common Law was imposed in the English colonies, and it is still the prevailing legal system in many countries, including the United States.

Roman Law was developed first in the Roman Empire and was later revived in the major cultural centers of continental Europe during the Renaissance (Evans, 2004). The revival of Roman Law was largely academic and appealed to the educated by employing logic to develop a universal justice system that could be applied anywhere. As such, Roman Law was much more theoretical and required codification in order to be put into practice (Evans, 2004). Roman Law still provides the foundation for the legal systems of many Continental European countries like Germany and France. The differences across the legal systems of these countries are largely attributable to differences in the style and development of each country's codification of Roman Law (Evans, 2004).

Since accounting culture stems in part from the legal environment of a particular country, understanding the history of these different legal systems can aid in our understanding of the differences across accounting systems. The Anglo-Saxon Common Law countries tend to be grouped together in international accounting system classifications. The traits common to these countries' accounting systems are well suited to a legal environment based on Common Law. These accounting systems are generally pragmatic and set up to solve problems on a case-by-case basis through an independent standard setting body such as the Financial Accounting Standards Board (FASB) in the United States. Alternatively,

the Roman Law-based, Continental European countries are generally grouped together in international accounting classifications based on qualities that are characteristic of Roman Law. Accounting standards in these countries are typically rules-based. Similarly, these countries' codified legal systems consist of a set of rules based on the universal notions of justice found in Roman Law.

Understanding the impact of culture on accounting practices

Many researchers have sought to use national and regional culture to explain the phenomena of different accounting sub-cultures. Hofstede (1983) develops a framework for understanding cultural differences that consists of four cultural dimensions – power distance, uncertainty avoidance, individualism versus collectivism, and masculinity versus femininity.

The dimension of power distance explains how a society perceives authority. Countries with high power distance are typically comfortable with hierarchical organizational structures in which those with power make important decisions without consulting those below them in the hierarchy. Low power distance countries are typically more critical of power and prefer a less rigid and less hierarchical organizational structure in which leaders actively incorporate the concerns and advice of those at different levels within the organization.

Uncertainty avoidance describes how comfortable a society is with ambiguity. Countries with high uncertainty avoidance value security and are less likely to pursue risk-taking behaviors than are countries with low uncertainty avoidance.

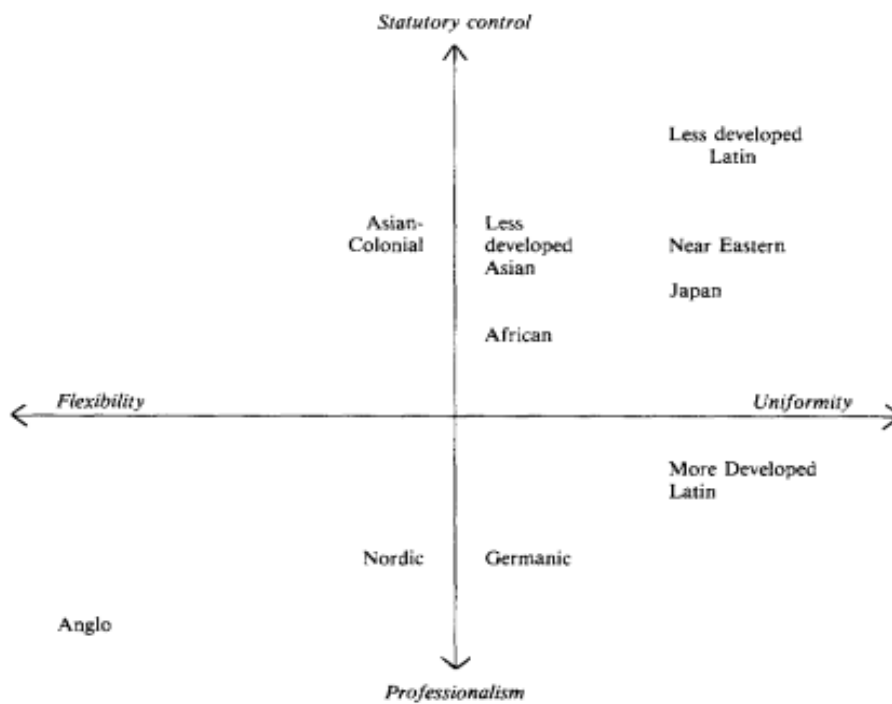
Countries that are characterized by individualism are focused on the success of individual persons and private enterprise. Alternatively, collectivist societies are more focused on the well being of the community and how individuals fit into society as a whole.

Finally, masculinity denotes a society's appreciation of traditionally masculine traits

like strength, recognition, and power, while femininity denotes a society's appreciation of traditionally feminine traits like nurturance, responsibility, and collaboration. More masculine societies typically encourage and award personal achievement and success. More feminine societies typically value interdependence and quality of life more than personal achievement and power.

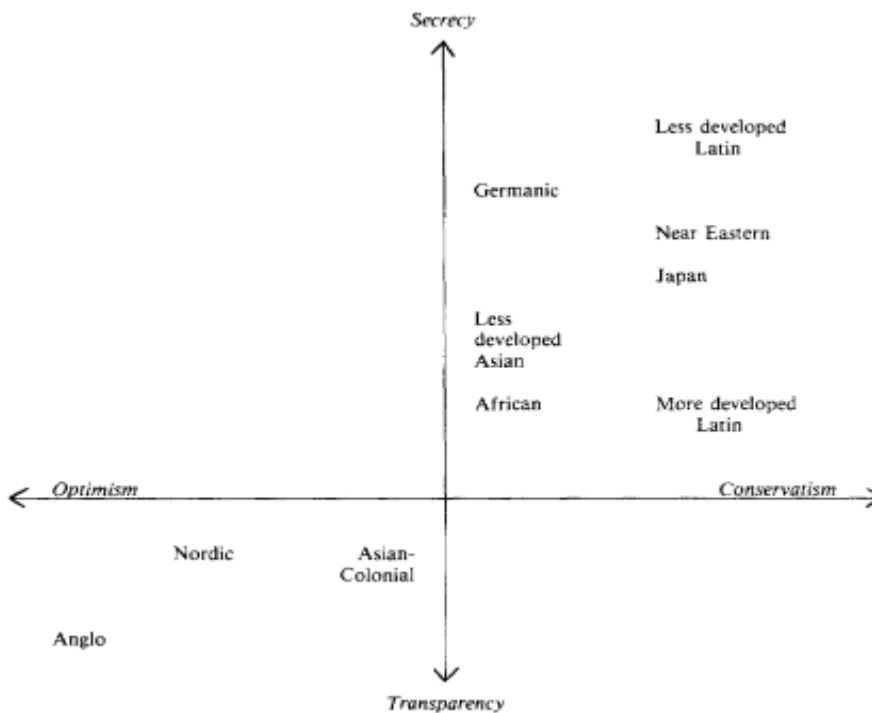
Gray (1988) analyzes how Hofstede's framework can be applied to basic attitudes in accounting. He identifies four accounting values that can be linked to the four cultural dimensions proposed by Hofstede – professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency. Professionalism versus statutory control, which measures preference for professional judgment in financial reporting, and uniformity versus flexibility, which measures flexibility and options available within accounting standards, are most closely linked to Hofstede's individualism and uncertainty avoidance dimensions. Conservatism versus optimism, which measures preference for conservative measurements in financial reporting, is most closely related to uncertainty avoidance and, to a lesser extent, masculinity and individualism. Finally, secrecy versus transparency, which measures the extent of disclosure, is most closely linked to uncertainty avoidance, power distance, and individualism. This leads to four theoretical hypotheses about the relationships between Gray's accounting values and Hofstede's cultural dimensions. Gray (1988) adapts Hofstede's analyses to provide a visual representation of accounting values by country on two separate planes. The first, provided in Figure 3 on page 20, describes authority and enforcement values with axes for professionalism versus statutory control and flexibility versus uniformity. The second, provided in Figure 4 on page 20, describes measurement and disclosure with axes for secrecy versus transparency and conservatism versus optimism.

Figure 3: Accounting Systems: Authority and Enforcement



Source: Gray, S. (1988). *Towards a theory of cultural influence on the development of accounting systems internationally*. *Abacus*, 24(1), 1-15. Figure 3.

Figure 4: Accounting Systems: Measurement and Disclosure



Source: Gray, S. (1988). *Towards a theory of cultural influence on the development of accounting systems internationally*. *Abacus*, 24(1), 1-15. Figure 4.

The classifications of these countries in Gray's framework appear to compliment the environmental and historical classifications of accounting systems. For example, in Figure 3, Anglo countries (i.e., the UK, US, etc.) are positioned in the far left corner of the flexibility, professionalism plane. This high placement on the professionalism scale is consistent with Mueller's classification of Anglo countries as belonging to the "accounting as an independent discipline group" in which professional judgment is highly regarded. Likewise, the high placement on the flexibility scale is consistent with Anglo countries' historical Common Law influence, which emphasizes practicality and problem solving on a case-by-case basis.

This analysis adds to our understanding of international accounting cultures, demonstrating that it is important to understand differences across national accounting sub-cultures in order to successfully implement international accounting standards like IFRS.

Evidence and implications of cultural influence on accounting practices

Much of the discussion thus far has been largely theoretical. Therefore, the question remains – does culture actually impact the way that international standards are understood and applied? Several studies subsequent to Gray (1988) substantiate Gray's hypotheses (Tsakumis, 2007). For example, after surveying the relevant research to date, Fechner and Kilgore (1994) analytically determines that Gray's hypotheses appear reasonable and concludes that there is a relationship between culture and accounting practice. Tsakumis (2007) also provides support for Gray's hypotheses and cites a plethora of other supportive tests. These results imply that cultural differences across countries give rise to different perceptions of basic accounting principles. The existence of these differences may make the implementation of uniform accounting standards across different accounting sub-cultures difficult.

Belkaoui and Picur (1991) examines the cognitive impact of culture on the

development of accounting values and practices. Using survey data from the “Big Six” accounting firms in the US, Great Britain, and Canada, Belkaoui and Picur (1991) demonstrates that national culture influences perception of accounting concepts and principles. The researchers note that their results may be indicative of “communication problems that may arise in the perception of accounting concepts as a result of differences in the cognition or systems of knowledge of each particular culture” (Belkaoui & Picur, 1991, p. 125). In addition to potential communication problems, these findings suggest that IFRS might not be interpreted and applied homogeneously by all users. Importantly, perceptual differences were found across three Anglophone countries. Differences are likely to be exaggerated between countries that are less linguistically and culturally similar.

Bagranoff, Houghton, and Hronsky (1994) also provides evidence that cultural differences strongly impact accounting practices. Specifically, this study finds that slight cultural differences between American and Australian accountants result in “significant differences in the types of decisions” made relating to classification of items as “extraordinary” (Bagranoff, Houghton, & Hronsky, 1994, p. 50). If culture does in fact influence our decision-making processes, this provides another hurdle for the effective use of IFRS. In order to achieve comparability, accountants using IFRS should determine the classification of financial statement items in approximately the same way. If accountants in one country are more likely to recognize items as extraordinary than are accountants in another country, this could result in major differences among financial statements prepared in accordance with IFRS, thus undermining the goal of comparability.

One way to address these potential problems may involve some level of “re-learning” on the part of IFRS accounting practitioners. Whittington (2008) suggests that “one way in which the IASB can attempt to overcome... cross-constituency variation is through the *conceptual framework*” (Whittington, 2008, p. 497). Ultimately this framework

establishes the principles underlying IFRS. The development of this framework is rightly a contentious topic due to the fact that its development is contingent upon the collaboration and consensus of standard setters from many different accounting sub-cultures. The acceptance of this framework is essential to the success of IFRS. If adopters of IFRS can embrace the same basic principles, progress can be made toward the homogenous understanding and application of more complicated rules and standards.

Conclusion and Recommendations

This paper identifies some of the problems that may hinder the homogenous interpretation and application of IFRS and thus impede the comparability of financial statements prepared in accordance with IFRS. These problems stem from a variety of sources including language barriers, technical translation challenges, and underlying cultural and historical differences. As acceptance of IFRS continues to spread, it is important to address the challenges that the translation of IFRS poses. The following six recommendations would greatly reduce the challenges of translation and aid the successful adoption of IFRS.

1. Further research

The IFRS standards that are subject to the highest risk of difference in interpretation and application among practitioners are those that require professional judgment. Professional judgment is susceptible to cultural biases which may influence the way that accountants make decisions about how to classify “extraordinary items,” determine the likelihood of a contingency, or assess the impairment of intangible assets. Further research and empirical analyses are required to determine the extent to which the problems associated with the translation of IFRS materially impact the application of accounting rules. In addition, further research is needed to determine whether inconsistent application of accounting information would affect the value

of the accounting statements for investors and regulators. In other words, what implications are there for the capital markets as a result of the challenges of IFRS translation?

2. Increased awareness of translation challenges and limitations

Standard setters, regulators, accounting practitioners, and investors should be more aware of the challenges and limitations of translation. This awareness will lead to better standard setting and more informed decision-making on the part of practitioners, regulators, and investors. This awareness would also prompt standard setters to seek solutions to these challenges.

3. Improvement of IFRS Drafting Language

Standard setters should consider the limitations of translation when drafting IFRS standards in English in order to ease the subsequent process of translation. They should develop standardized concepts and terminology in order to avoid redundancies in the English language and the inconsistent use of both UK and US terminology (Baskerville and Evans, 2011). Standard setters should work with translators in order to understand which nuances in the English language can be avoided in order to improve IFRS translations' understandability. Standard setters should also try to be succinct, clear, and concise in the drafting of IFRS standards.

4. Improvement of IFRS Translation Process

The IFRS translation process and translation policies should be reviewed and improved. The process should be centralized and overseen solely by the IASB. The IASB should also help translators better understand existing accounting sub-cultures through learning materials and the assistance of the review committee. There should be a strong sense of collaboration between the IASB accounting experts on the

review committee and the translators in order to ensure the highest quality translations.

5. Further Development of and Emphasis on IFRS Conceptual Framework

As noted previously, the IFRS conceptual framework should be further developed and highly emphasized among IFRS accounting practitioners through workshops, training materials, etc. In order to reduce the extent of different applications of IFRS, accounting practitioners must start with the same basic understanding of the underlying principles of IFRS. It may be helpful to cater workshops and training materials to each individual country in order to effectively address the similarities and differences between accounting sub-cultures and the IFRS accounting culture.

6. Incorporation of International Accounting Principles into Accounting Education Programs

It will take time to harmonize existing accounting values and practices in each country with IFRS. In order to ease this process, international accounting should be stressed in accounting education and training programs. If accounting students are exposed to the culture and principles of IFRS early in their accounting education, future harmonization of local accounting systems with IFRS will be much easier. This will reduce the differences in interpretation and application of IFRS.

In conclusion, impediments to the homogenous interpretation of IFRS do exist. It is important that standard setters, accounting practitioners, and general users of IFRS-based financial information are aware of these issues and their complexity. As these issues are researched further and more fully understood, the international accounting community should take steps to improve and protect the comparability of financial information prepared in accordance with IFRS. As national boundaries to trade and investment continue to shrink, the continued development and adoption of international accounting standards appears

inevitable. In order to ensure the success of these increasingly important standards, the IASB and the international accounting community should actively address the challenges of IFRS translation.

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