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UFRS/UMS ve AB Muhasebe Direktifinin Karşılaştırmalı Bir Değerlendirmesi: Farklılıklar, Benzerlikler ve Çatışmalar

Melissa Nihal CAGLE[1]

Özet

Uluslararası piyasaların kırılganlaşması ve piyasa düzenlemelerine duyulan güvenin sarsılması sonucunda Avrupa Komisyonu ekonomik iyileşmeyi ve sürdürülebilir büyümeyi sağlamak için kapsamlı bir önlem paketi kabul etmek zorunda kalmıştır. Finansal raporlama uyumlaştırma çalışmaları kapsamında yayınlanmış olan Muhasebe Direktifi, ülkeler arası yatırımı/finansal karşılaştırılabilirliği artırmak ve mevcut finansal sistemin güvenilir ve adil kılmak amacı ile öne sürülen yöntemlerden biridir. AB üye ülkelerin finansal tablo ve dipnotlarını kapsayan bu yasal düzenleme UFRS/UMS'den farklılık göstermektedir. Dolayısı ile bu çalışma kapsamında iki standart grubu arasında farklılıklar, benzerlikler ve çatışmalar incelenecektir.

Anahtar kelimeler: AB muhasebe direktifi, IFRS/IAS, karşılaştırmalı analiz, uyumlaştırma çalışmaları
Jel Kodu: M41, M48

A Comparative Evaluation of the IFRS/IAS and the EU Accounting Directive: Differences, Similarities and Conflicts

Abstract

With confidence in the regulation of the market severely shaken, the European Commission has had to adopt a comprehensive package of measures to bring about economic recovery and sustainable growth. One method included in the package has been the simplification of financial reporting requirements of firms. Published with the aim of harmonizing legal reporting, facilitating cross-border investment, improving financial comparability and increasing public confidence in financial/management reports by use of enhanced/consistent specific disclosures, the Accounting Directive differentiates from IFRS/IAS. With this in mind, this paper will attempt to identify differences, similarities and conflicts under both sets of standards.

Keywords: EU accounting directive, IFRS/IAS, comparative analysis, harmonization
Jel Codes: M41, M48

INTRODUCTION

The last two decades has witnessed various social and economic developments which have resulted in serious ramifications regarding the operation of the global market and the economic viability of businesses. Originally arising from issues regarding a lack of "transparency and responsibility" under the financial system and "accountability" within business practices (European Parliment-EP, 2013b: 4), the financial and economic crisis of 2008 (European Commision-EC, 2011a: 1) has diminished confidence/trust levels for the market. The crisis coupled with corporate scandals (Leuz and Wysocki, 2008: 1), increased political and economic corruption at the national level (EC, 2014: 53), failure of large firms and irresponsible management behavior (EC, 2011b: 14) are problems that continues to plague the effectiveness of businesses. Overall, these developments have harmed the public trust in the institutions, corporation and the market economy and also incensed the feeling of deception (Tonkiss, 2009: 196).

According to Stiglitz (2008a: 1) the operation of the "financial markets hinge on trust", and with the increasingly complex nature of the financial markets, the problem of trust has become more acute (Tonkiss, 2009: 198). This is worrisome as information markets rely on consumers/producers telling the truth on issues such as; value, quality and cost (Brooks,

[1] Dr., Dokuz Eylül Üniversitesi, İşletme Fakültesi, Buca / İZMİR, **EMAIL:** melissa.cagle@deu.edu.tr
ORCID: 0000-0003- 0480-5626

1997: 95). In line with this, Guiso, Sapienza and Zingales (2008: 1) argue that "the decision to invest ...(requires)... trust that the data in our possession is reliable and that the overall system is fair".

Ultimately, the financial crisis has drawn attention to the value of information supply, however- regardless of the lessons learned from the crisis- it is stated that consumers and investors are still provided with misleading (EP, 2013a: 5) and insufficient information that can not sufficiently meet the needs of stakeholder groups (EC, 2011b: 11), further damaging their trust in the organizations ability to maintain sustainable and inclusive growth (EP, 2013a: 5). This, in turn, adversely affects the efficient allocation of capital, the going concern and long term investment goals of businesses (EC, 2011b: 11) and business profitability (EP, 2013b: 21). Furthermore, information imperfections and asymmetries (Stiglitz, 2008b: 1) can cause market failure (Brooks, 1997: 92).

Thus, it is with no small surprise that- with the widespread growth of multinational corporations (Tanimoto and Suziki, 2005: 3)- businesses are now facing increasing investor and stakeholder demand for validated information (Wills, 2003: 233; Skouloudis et al., 2010: 426; Brooks, 1997: 95). This movement must not go unanswered as it is stated that (EC, 2011b: 11) only by addressing this demand can businesses finally build trust within the market. It is argued that (EC, 2010: 1) the method to achieving competitive and efficient markets and increasing investment levels, passes through modernizing the infrastructure through policy reforms (Cisternino, 2014: 2; Stiglitz, 2015: 210). Especially, with the ongoing effects of the recent financial and economic crisis and increasing competition, adjustments are needed to help strengthen the market.

This view is also in line with Public Interest Theory of Regulation, which advocates that regulation is provided in response to the demand from the Public for corrections for inefficient and inequitable markets (Dreher and Gassebner, 2013: 415). The emergence of the theory rests on the assumption that markets operate very inefficiently if left alone (Posner, 1974: 2), unregulated markets exhibit frequent failures (Pigou, 1938: 405), and a government can counter this and offer protection to the public through the incorporation of regulation (Djankov et al., 2002: 2), such as; public power and reclamation programs (Posner, 1974: 2), interventions in the economy and development of minimum reporting and regulatory requirements.

The public is greatly interested in the development and the operation of the equity and debt capital markets (Djankov et al., 2002: 2; Godfrey and Langfield-Smith, 2005: 1983). Moreover, financial reporting regulation is viewed as a competitive economic tool that can enhance the capital market integrity (Godfrey and Langfield-Smith, 2005: 1986). Thus, it is important to strive to create an environment where it is difficult to undermine trust, increase the amount of information available to investors and ensure that market participants and stakeholders are disclosed relevant information (Cottier, Jackson and Lastra, 2012: 241). As transparency is a principle that plays a key role in re-establishing confidence in the stability of the financial system (Cottier, Jackson and Lastra, 2012: 246), this can only be achieved through the enhancement of transparency levels under the market via regulatory reforms. This will, in turn, ensure that the information -and the underlying values and objectives- being provided under the market are accessible and comprehensible, which are coined as essential elements of "quality" information. Notably, providing the necessary mechanisms to hold market actors accountable (Cottier, Jackson and Lastra, 2012: 257).

As mentioned before, the latest financial crisis, scandals, failure of large firms and drawbacks of globalization has forced the EC to reevaluate their actions. Confidence in the regulation of the market has been severely shaken and these ongoing occurrence highlights the need for adjustments to help strengthen the confidence in the market. As a result, EC has had to rethink the integration of the market. In response, the European Council has adopted a comprehensive package of measures allowing the Union to bring about economic recovery and sustainable growth. The comprehensive package was published on the 20th of April 2011 and further addressed under the revised version of the 24/25 March conclusions (European Union-EU 10/1/11 REV 1). The package was published in order to achieve lasting stability in the Union and strengthen the economic government. These measures also proposed implementing actions in order to strengthen the functioning of the Single Market and to reduce the regulatory burden on firms. One method in which the EC attempted to achieve this is by pushing forward a key action simplifying the financial reporting requirements of firms (i.e. the EU Accounting Directives).

The Accounting Directive and its amendment is a group of principles-based reporting requirements [Directive-D.2013/34/EU#6] that has the objective of harmonizing legal reporting [D.2013/34/EU#8], facilitating cross-border investment, improving financial comparability [D.2013/34/EU#55] and increasing public confidence in financial and management reports by use of enhanced and consistent specific disclosures [D.2013/34/EU#55] across the MS. The main objective of the document is to increase the relevance [D.2014/95/EU#21] and comparability [D.2013/34/EU#55] of the information published by organizations across the EU and encompassed firms of all sizes. All Member States (MS) are obligated to transpose and introduce these measures in their national programs. It is hoped that the select changes will contribute towards the reinforcement of the financial stability.

The simplification to the Accounting Directive is expected to generate savings of €1.5 billion and €5.2 billion annually for small and micro sized enterprises. Ultimately, this act is an important step taken towards the harmonization of the EU rules and can benefit MS citizens and businesses. The act also respects the integrity of the Single Market act and ensures the renewal of commitment by Member Sates to the Europe 2020 Strategy. However, the issue of interaction between the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) and the Accounting Directive arises once national law transitions towards the Directive. Unless the financial report preparer has a strong grasp of these documents (D.2013/34/EU, D.2014/95/EU and the International Accounting Standards Regulation), they can fall into non-compliance if the differences between these standards are unknown. Thus, an in-dept knowledge of both the Accounting Directives and the International Financial Reporting Standards/International Accounting Standards full set is imperative in successfully executing the accounting requirements. With this in mind, this paper will attempt to summarize the discrepancies identified under both sets of standards and highlight which set takes precedence over the other.

The structure of this paper is as follows: the second section covers the Accounting Directives and addresses the inherent requirements, MS integration process. Section three addressed the interaction and differences between the IFRS/IAS and the Accounting Directive. Finally, section four concludes.

THE EU ACCOUNTING DIRECTIVE

Over the years, the MS have had to make extensive regulatory changes and have been under pressure to improve and develop their independent regulatory institutions; for reasons such as a desired accession to the EU and the need to meet the terms of EU Directives. Regardless, it is stated that these countries have largely remained independent in regards to their national responses and have hardly been effected by “Europeanization” efforts (Morata and Sandoval, 2012: 13). This poses a problem for the harmonization efforts within taken by the EP and the EU Council, as the "relevance, consistency and comparability" of the information published [D.2014/95/EU#21] by organizations cannot be accomplished well enough across the MS. Thus, the EP and the EU Council proposed adopting measures at the Union level in order to better achieve the desired affect. The principal based Accounting Directive, which provides information on the minimum requirements within the union level ensures that (1) organizations will not be able to exclude themselves from submitting reliable and consistent information that is (2) comparable from one organization to another. The principal based nature of this Directive shall also ensure that managements will not be able to manipulate the information [D.2013/34/EU#6] supplied within the financial statements and management reports to fit the minimum requirements, subsequently increasing diminishing trust levels within the MS.

The execution date for D.2013/34/EU was listed as the 20th of July 2015 and MS were charged with the responsibility of incorporating the Directive into their financial statements and management reports for the year beginning on the 1st of January 2016 or the calendar year 2016. However, with the amendment of D.2013/34/EU the final version of the document was re-evaluted by MS and the measures addressed within the Directive, reference points and amendment were incorporated into MS laws, regulations and administrative provisions [D.2013/34/EU Chapter 1-1] by the 6th of December 2016. Following this requirement MS were also charged with the responsibility of ensuring that the Directive was incorporated within organizations financial statements and management reports by 1 January 2017 or during the calendar year 2017 [D.2014/95/EU#4]. Under the Directive it is also stated that MS must reference D.2013/34/EU and D.2014/95/EU within the official publication supplied in order to conveyed the main provisions adopted the national law. Though the method that MS may employ while making these references are flexible and national regulatory institutions are allowed to disclose the information in any way that they considered to be most useful.

D.2013/34/EU and its amendment, D.2014/95/EU are quite extensive in nature and address a wide variety of topics such as;

√ the types of firms and their classification criteria applicable to the Directive

√ general accounting provisions and principles that should be considered when preparing the balance sheet

√ the profit and loss account and the notes to the financial statements

√ the measurement base employed for recognition within financial statements

√ fair value accounting

√ the layout and display of the balance sheet and profit and loss accounts

√ the content of the notes to the financial statements

√ additional disclosures that need to be supplied by medium-sized and large firms and public interest entities

√ exemptions from providing specific disclosure obligations

√ the need for electronics publication systems for accounting data

√ the responsibilities of the administrative and supervisory bodies of the firm for publishing financial statements and management reports

√ the need for auditing annual financial statements and consolidated financial statements

√ the information that should be listed within an auditor report

√ the preparation of consolidation of financial statement

Additionally, D.2013/34/EU and its amendment, D.2014/95/EU also provide information on the content of management reports; which consist of information on corporate governance practices and non-financial information providing insights into the complexity of the business which are vital in understanding firms development, performance or position.

THE RELATIONSHIP BETWEEN THE IFRS AND THE ACCOUNTING DIRECTIVE

Despite the existence of the Accounting Directives (understood as Directives 78/660/European Economic Community “4th Company Law “ and 83/349/European Economic Community “7th Company Law”, at the time and later the Directives 2013/34/EU and 2014/95/EU) the EP and Council, on 19th of July 2002, published “Regulation No 1606/2002 on the application of IAS” with the aim of enhancing the comparability of financial statements prepared by publicly traded companies (IAS Regulation item 1) (OJEU, 2002: 1).

This regulation ultimately provided a legal context for the application of the IFRS in the EU. Thus, on the 1st of January, 2005 the EU Parliament via the “IAS Regulation (1606/2002)” forced MS to apply the EU-approved version of the IFRS to the consolidated financial statements of companies listed on the stock market. Furthermore, the Parliament left the choice of having firms with non-consolidated financial statements implement IFRS at the discretion of national regulators. The actions of the EP and Council brings to mind the question of “why” such standards were required on top of the Accounting Directives and the relation of these Directives with the now mandatory IFRS.

The role of the IFRS in the EU is to support the Accounting Directives. As the IAS Regulation item#3 clearly states, the Accounting Directive reporting requirements lacks the necessary conditions for ensuring “high levels of transparency and comparability under financial reporting” from all publicly traded companies.

Table 1: General outline of the legal framework of companies.

Company Reporting	
Financial Reporting	
In effect	The 22 October 2014 dated 2014\95\EU Directive [D.2014/95/EU] amended D.2013/34/EU, published within the OJEU on the 15th of November 2014
In effect	The 26 June 2013 dated Accounting Directive 2013\34\EU Directive [D.2013/34/EU] published within the OJEU on the 29th of June 2013- Repealed Directives 78/660/European Economic Community “the 4th Company Law“ and 83/349/European Economic Community “7th Company Law”
In effect	“Regulation No 1606/2002 on the application of IAS” published on the 19th of July 2002, by the EP and Council
In effect	3 November 2008, Commission Regulation 1126/2008 of adopting certain IAS in accordance with 1606/2002 of the EP and of the Council
Repealed	D.83/349/European Economic Community “7th Company Law” of 13 June 1983- including subsequent amendments
Repealed	D.78/660/European Economic Community “the 4th Company Law“ of 25 July 1978 - including subsequent amendments
Country By Country Reporting	
In effect	On payments to governments for extractive and logging industries Chapter 10 of D.2013/34/EU and D.2014/95/EU
In effect	On certain payments by banks D.2013/36/EU#89

Source: Compiled by the author from EC (2016: 1)

Thus, in order to ensure to that capital markets continue to operate “effectively, smoothly and efficiently”, the EP and Council published the IAS Regulation, which supplements the legal framework applicable to publicly traded companies (IAS Regulation item#3) and contributes to the functioning of the internal market by requiring publicly traded companies to follow a single set of high quality IAS under the preparation of their consolidated financial statements (IAS Regulation item 2) (OJEU, 2002: 1).

Having said that, the EP and Council also imposes certain conditions that the IFRS must follow in order to be permitted use by MS. Firstly, the adopted IFRS requirements must not be contrary to the principles set out under the Accounting Directive. Following this topic, in November 2003, the Commission of the European Communities, published a comment letter on the IAS Regulation and the 4th and 7th Accounting Directives and provided authoritative clarification where deemed required. One critical issue addressed under their paper concerned the Accounting Directives/IFRS taking precedence over the IFRS/Accounting Directives. Although the adopted IFRS requirements must not be contrary to the principles set out under the Accounting Directive, according to Commission, once the standard is adopted, the IAS Regulation is directly applicable to the firm preparing reports. The Accounting Directives is, on the other hand, applicable to companies through their transposition into national law (Commission of the European Communities, 2003: 10). Table 1 provides a general outline of the legal framework companies must follow while reporting.

In other words, the Accounting Directive (currently D.2013/34/EU and D.2014/95/EU Accounting Directive and amendment) covers all types of firms under the jurisdiction of the MS law, while the IAS Regulation only made adoption of IFRS/IAS mandatory for the consolidated financial statement of firms listed in the European exchange market (Federation of European Accountants, 2014: 8). Thus, unless the Accounting Directives is transposed into national law, there is no interaction within the MS. On the other hand, the IAS Regulation, once adopted, is directly applicable to all MS and the firm preparing reports. Following this line, the issue of interaction is only relevant to the extent that national law deals with the same subject matter as the IAS Regulation. However, not all aspects of national accounting systems (transposed from the Accounting Directives) are covered under the IAS/IFRS and unless a contrary treatment is specified under the IFRS/IAS, shall continue to apply. To put it another way, if the IFRS are silent on a matter, the Accounting Directive should be referred to for its treatment. As a principle based standard set, IFRS/IAS aims for financial reporting to fully reflect the firm’s operations and environment. However, the adoption of the standards set has introduced a wide variety of alternative accounting treatments, which is said to substantially reduce the comparability of financial statements. In such a system, there shall always exist transactions that are not covered by explicit rules. When such a situation arises, the IAS Regulation takes precedence over the treatment specified under the national accounting system. Finally, a firm must also endorse IAS/IFRS irrespective of any conflicting requirements under their national accounting systems (Abela, 2015: 4). As the IAS Regulation is directly applicable, MS must ensure that any and all accounting elements under their national accounting system are in conformance with the IFRS/IAS (Commission of the European Communities, 2003: 10). The relation between the IAS/IFRS and Accounting Directive is summarized under Table 2.

Table 2: The relation between the IAS/IFRS and accounting directive

Situation	**Solution**
Conflict between Accounting Directive and IFRS/IAS	IFRS/IAS takes precedence
No treatment mentioned under IFRS/IAS	Accounting Directive is referred
No mention under Accounting Directive	IFRS/IAS is referred

Source: Compiled by the author

With this in mind, it could be said that having a strong grasp of both the Accounting Directives [D.2013/34/EU and D.2014/95/EU] and the IFRS/IAS full set is imperative in successfully managing and executing the requirements under the documents. The differences between these documents are further explored under section 3.1.

Secondly, the adopted IFRS requirements must be conducive to the European public good and thirdly, the standards must produce understandable, relevant, reliable and comparable financial information that allows for decision making and assessing the stewardship of management (article#3 of the IAS Regulation). As long as the international standard follows the above stated requirements and does not fall contrary to the Accounting Directive, it may be adopted as a supplement the EU legal framework.

The adoption of individual standards and the approval of their amendments is a tedious process. The standard set needs to pass through an examination conducted by various organizations charged by the EP and the Commission, and the amount of time required for approval is quite lengthy. Additionally, standard items sometimes fail to pass the EU endorsement procedure and this results in the eventual creation of a "EU-endorsed hybrid IFRS version". If a standard fails to pass the EU endorsement procedure, then it is not required or in certain instances not permitted to be applied by firms abiding the IAS Regulation (Commission of the European Communities, 2003: 4). As such, the firms applying the EU-approved version of IFRS are, in effect, applying a "different version" (Nobes, 2006: 234; Nobes, 2011 :256) and not the full standard set as approved and published by the IAS Board. When compared with the Accounting Directive, it can be seen that the IFRS provides more specific rules regarding individual or consolidated accounts (Abela, 2015: 3).

3.1. Differences between IFRS and the accounting directive

One difference, that was later amended, is the requirement that "the annual and consolidated statements must provide a true and fair view" (OJEU, 2014: 2). Referred to as "fair presentation" under the IAS 1, the concept is covered as follows (EC, 2011c: 4): "...requiring the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework...the application of IFRS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation…".

Following this, "true and fair view" the Accounting Directive is said to provide an accurate representation of an "undertakings assets and liabilities, financial position and profit or loss" (OJEU, 2014: 2). As can be seen from the statements provided from both documents, the concepts are fairly similar. However, the issue arises once an event under the financial statement fails to give a true and fair view where provisions of the standards are applied. Both the Accounting Directive and the initial version of the IAS 1 handled the issue in fairly different ways.

If a financial statement fails to give a true and fair view, the Accounting Directive grants the MS the opportunity to allow firms to deviate from the provisions (OJEU, 2014: 2). This is referred to as an override (Van Hulle, 1997: 1). On the other hand, the initial version of the IAS 1 did not recognize an override for true and fair view and fearing abuse, the Commission called for further clarification of the issue. They argued that the lack of recognition would create a conflict with the Accounting Directives and stated that if the override is not recognized, than this means that the "possibility of judgment is severely restricted by the obligation of applying the codified rules" (Van Hulle, 1997: 9). In the end, the Board agreed with the point brought forth by the Commission and, in 1997, the IAS 1 was adopted including the override.

A second issue that shall be addressed under this section is the principle of going concern. Under to the Accounting Directive, the concept is briefly covered in the general financial reporting principles. The Directive states that "the undertaking is presumed to be carrying on its business as a going concern" and that the annual and consolidated financial statements shall be presented according to this principle. However, this is the limit to the information covered under the document. Highlighting the supportive nature of the IFRS/IAS in relation to the Accounting Directive, the IAS 1 "Presentation of financial statements" further addresses the issue and offers complementary information regarding the classification of a going concern, the existence of material uncertainties and information that may be employed in assessing the firms going concern status.

According to the IAS 1, going concern is an entity's ability to continue its operations. The standard states that an entity can not be classified as a going concern if; "management intends to liquidate the entity, cease trading, or has no realistic alternative but to do so" (IASB, 2009: 10). Additionally, IAS 1 addressed the situation of material uncertainties and when significant doubt falls on the entity's ability to continue as a going concern. If such an event arises, the management must disclose those uncertainties. Limited 12 months from the end of the accounting period, the going concern assumption is assessed employing use of available information about the future (IASB, 2009: 11) concerning; current and expected profitability, debt repayment schedules and potential sources of replacement financing.

Another point of address between the IFRS/IAS and the Accounting Directive is the interpretation of the principle of prudence. According the IFRS Conceptual Framework, prudence is exercising caution when faced with uncertainty while making judgments (IASB, 2015: 89). When prudence is exercised, assets and income are not overstated/understated and liabilities and expenses are not understated/overstated (IASB, 2015: 30). As the principle is further analyzed and compared with the Accounting Directive, it can be argued that the IAS Board interpretation of prudence only covers "prudent treatment of discretion" which is dissimilar than what is stated in the Accounting Directive (EP, 2016: 9). Under the Directive, the concept is said to be a core component to achieve a true and fair view of accounts and requires firms to refrain from understating losses or overstating profits. Recognition and measurement is conducted on a prudent bases and only profits earned by the the balance sheet date may be recognized. Additionally, all liabilities and all negative value adjustments from the current/previous year or between dates must be recognize, whether the result of the financial year is a profit/loss (OJEU, 2014: 12). Finally, MS are given the option of requiring foreseeable liabilities and potential losses to be recognized.

Regarding the annual financial statements that firms are required to supply, article#4 and #19 of the Directive dictates for undertakings that the balance sheet (EC, 2013: 18), the profit and loss account [D.2013/34/EU#31] (EC, 2013: 18), the notes to the financial statements [D.2013/34/EU#4] (EC, 2013: 18) and the management report [D.2013/34/EU#19, D.2013/34/EU#31, D.2013/34/EU#19a] are mandatory. However, depending on the size of the undertaking, exemptions exist for the content and complexity of these reports. Additionally, firms may be permitted to publish an abridged balance sheet [D.2013/34/EU#14, D.2013/34/EU#31], an abridged profit and loss [D.2013/34/EU#14] (EC, 2013: 27), an abridged notes to financial statements [D.2013/34/EU#31, D.2013/34/EU#14], a Corporate Governance Report [D.2013/34/EU#20]. Finally, MS may require undertakings to provide additional statements [D.2013/34/EU#4] and additional information [D.2013/34/EU#16, D.2013/34/EU#17, D.2013/34/EU#31] depending on the operations of the organization. The IFRS/IAS on the other hand, differs from the Accounting Directive in this regard. As covered under IAS 1 paragraph 10, the standard set requires firms to publish a statement of "financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, notes (including significant accounting policies and other explanatory information) and a statement of financial position." The fact that the standard set requires firms to publish a statement of changes in equity, a management report and a statement of cash flows in addition to what is required under the Accounting Directive highlights the supportive nature of the documents. Additionally, according to Demir and Bahadir (2014: 18), this is indicative of the Accounting Directives preference for offering simplified and harmonized legal requirements that aim to ease the burden of micro and small sized undertakings.

Following the differences between the two documents (IFRS/IAS and the Accounting Directive) reporting requirements, it must also be noted that the Accounting Directive calls for the publication of non-financial information. As stated under the amendment to the Accounting Directive, D.2014/95/EU provides and amends the article, requiring information that is fundamental for reaching an understanding of the undertaking's "development, performance, position and impact of its activity, relating to, at a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters" (EC, 2013: 33) that must be laid out by large undertakings. Undertakings which are also PIE with over 500 employees per year, must also formulate and present a non-financial statement, laid out within the firm's management report. Under this statement, the firm must encompass; business model descriptions, the firm's policy for "environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters" (EC, 2013: 33), and the "outcome of the execution of these policies, operational risk, business relationships, product/service risk, risk management policies and non-financial key performance indicators". When presenting information on these issues the firm must also encompass references, explanations, amounts reported within the annual financial statements. If the firm does not have policies in place in relation to the above-mentioned matters, information must be provided within non-financial statement on the firm's reasoning. According to the Accounting Directive, MS may allow firms to provide information on these issues; impending developments and ongoing negotiations. However, this information need not be published and the administrative, management, supervisory bodies are of the opinion that the publication of this information would undermine the performance of the organization and does not restrict the display of a fair and balanced understanding of the firms "development, performance, position and impact" (EC, 2013: 48) of its activities.

Most importantly, when presenting this information the Directive allows MS to bid firms to employ use of national/union base/international frameworks when preparing the non-financial statement [D.2014/95/EU#19(a)], also if the firm employs use of these frameworks, they are under the obligation of disclosing which framework it relies upon. Additionally, according to D.2014/95/EU#29(a), the Accounting Directive also dictates the publication of the above mentioned information on the obligations for PIE which are parent undertakings of a large group exceeding certain criteria to present a consolidated non-financial statement under the consolidated management reports. This information must cover the performance, position and impact of the activities taken by the organization.

The IFRS/IAS and Accounting Directive also differs in regards to the management report, as well. According to the Accounting Directive, the firms must provide a fair view of an undertaking performance, position, a description of the risk/uncertainties the business faces. The report should be consistent with the size and complexity of the organization and provide financial and non-financial information, key performance indicators and environmental and employee related matters. The management report should also contain information regarding the following issues; the future development of an undertaking, research and development activities, the recent acquisition of shares, the undertaking branches, the use of financial instruments, financial risk managements objective and policies, hedging activities and exposure to different types of risks, such as; price, credit, liquidity and cashflow.

The Accounting Directive also provides information on the content and placement of corporate governance information that must be included within the management report. This information is; the corporate governance code employed, the governance practices and corporate governance practices required within the national law. In situations where there is a departure from the corporate governance code, the firm's reasoning for departure must be explained in full.

Additional information that must be provided within the corporate governance statements are; “the firm's internal control and risk management system for the financial reporting process, information regarding shareholder meetings and rights, the method for executing these rights and the key powers, the composition and operation of administrative, management, supervisory bodies and committees” (EC, 2013: 34) of the firm.

Further differing from the IFRS/IAS, the Accounting Directive also requires information on the payments to governments. As covered under Article#43 of the Directive, undertakings must provide information on any single/series of payments above €100,000 within one year. The information must be published in relation to certain activities; payments between governments, the amounts, whether it is actually a type of project and amounts per payments. Information need not be published at the project level, but firms may provide the sum total. Value determination of the payments needs to be published under the notes to the financial statements and must confer the substance of the activity. If the information is being provided under a country that has not adopted the Euro, the limit mentioned above must be converted into the national currency and the firm must apply the exchange rate published by the OJEU on that date.

Other issues to consider when evaluating the Accounting Directive and the IFRS/IAS regards the recognition and measurement related principles for the annual and consolidated financial statements are comparative information, the accrual basis of accounting, consistency of presentation, materiality and aggregation and offsetting.

The Accounting Directive dictates that the balance sheet and profit and loss account items must be shown comparatively with the relating figures under the preceding financial year. The Directive also addresses conditions in which the figures might not be comparable. According to the document, MS may be permitted to require an adjustment to previous year information and cases of non-comparability or adjustments must be disclosed under the notes to the financial statements (OJEU, 2014: 14). Although, the IFRS/IAS, not unlike the Accounting Directive, requires the publication of comparative information -in respect of the previous financial year, this publication must also be for narrative and descriptive information, and must include the publication of two financial statements. On the other hand, when an adjustment is required to the previous years information, the number of financial statements must, at the minimum, cover three years of reporting for the statements of financial position and two years for the other statements and notes (IASB, 2009: 12).

According to the Accounting Directive, the “amounts recognized in the balance sheet and profit and loss account shall be computed on the accrual basis” (OJEU, 2014: 12). The IAS 1 adds that remaining financial statements, with the exception of the cash flow must also be prepared using the accrual basis of accounting. The standard states that assets, liabilities, equity, income and expenses are recognized upon satisfying the criteria for elements in the Framework (IASB, 2009: 11).

Regarding, the consistency of presentation, the Accounting Directive dictates that policies and measurement bases must be applied consistently across financial periods (OJEU, 2014: 12). The IFRS/IAS confirms this and adds that an undertaking may not abide to the principle if the change is apparent (IAS 8) or the change was required by the IFRS. Additionally, in order to warrant publication, the information provided by the change must be reliable and relevant to users (IASB, 2009: 13).

Concerning the materiality and aggregation of information, the Accounting Directive dictates that assets and liabilities must be valued separately, but that the “recognition, measurement, presentation, disclosure and consolidation” requirements need not be complied with when the amounts are immaterial (OJEU, 2014: 6). This policy also holds true under the IFRS/IAS, however according to the standard, it is the material items of “dissimilar nature or function” that must also be presented separately. A further indication of the supportive nature of the documents, the standard also goes on to state that items that lack individual materiality may be aggregated with other items either under the statements or the notes (IASB, 2009: 11).

Finally, the IFRS/IAS bars the offsetting of assets and liabilities or income and expenses. However, there are certain conditions that may allow for the situation under the IFRS (IASB, 2009: 11). The Accounting Directive leaves the decision to offset assets and liabilities or income and expenses to the MS, but restrict the decision provided the amounts that are set off are specified as gross amounts under the notes (OJEU, 2014: 12).

We also see that the Accounting Directive and the IFRS/IAS differs in regards to their stance on prescribing an order or format for the presentation of items. As stated under IAS 1 paragraph 57, the standard does not prescribe such an order or format, however it does require the disclosure of certain line items under the statement of financial position. These items are specified under IAS 1 paragraph 54. The standard argues that as these items are sufficiently different in nature, they simply warrant a separate presentation and that this minimum requirement does not violate the IAS Boards stance on dictating statement format. The view of the Accounting Directive is quite different in this regard. Under article#13 the Directive addresses the provided layout for the balance sheet and profit and loss accounts. The Directive provides MS with two layouts for the display of the statement. The MS are granted with the choice of prescribing either one or both of these layouts for adoption. If a MS prescribes both layouts for firms to adhere to it may consent the undertaking to choose which of the two layouts they may adopt. MS are also given the choice of not requiring undertakings to present a statements on their performance in the format of the layout provided by the document. As long as the provided information covers the requirements listed within Annex V and VI, then the MS are free to either bid or consent the layout of their choosing.

The remaining identified differences between the IFRS/IAS and the Accounting Directive are in regards to additional disclosure requirements prescribed by the Directive. According to the document, undertakings are obligated to provide information on the following issues: average number of employees during the financial year [D.2013/34/EU#16], average number of employees during the financial year broken down by categories and if not disclosed separately in the profit and loss account, the staff costs broken down between wages and salaries, social security costs and pension costs, the name and registered office of each of the undertakings in which a participating interest is held [D.2013/34/EU#17], and the separate disclosure of the average number of employees employed by undertakings that are proportionately consolidated [D.2013/34/EU#28].

3.2. Who abides the accounting directive?

Under each portion of the document, the Directive gives equal importance to the harmonization efforts of information supplied within organizations of various sizes. The overall firm types under D.2013/34/EU and D.2014/95/EU and conditions in which they can be held exempt are summarized below. Table 3 provides a brief summary of the criteria concerning these undertakings.

Table 3: Size criteria listed under the accounting directives

	Balance Sheet	Net Turnover	Average Employee
Micro-entity	€ 350,000	€ 700,000	10
Small undertaking	4,000,000	8,000,000	50
Medium-sized undertaking	20,000,000	40,000,000	250
Large undertaking	20,000,000	40,000,000	250

Source: D.2013/34/EU#3

Small undertakings: Small undertakings that are defined and distinguished according to information provided by the Directives are included under the scope of these provisions. Small undertakings are held exempt from certain criteria. According to D.2013/34/EU#27, MS are given the option of exempting these undertakings from the obligation of preparing management reports, if: the undertakings provide data on the acquisition of own shares in the notes to the financial statements. Additionally, MS can [D.2013/34/EU#11 and D.2014/95/EU#14] also exempt small undertakings completely/in part or impose additional requirements than what is given under the Directive, as the Directive should not lead to further administrative burdens [D.2014/95/EU#8].

This exemption was also provided in response to the Europe 2020 Strategy in order to improve the business environment for SMEs. The amendment to D.2013/34/EU takes this one step further and states that, following the 'think small first' principle, the new disclosure requirements under D.2014/95/EU should apply only to certain large undertakings and groups. [D.2014/95/EU#13] In this line, the Directives, gives MS the option of exempting small undertakings from preparing a non-financial statement when a separate report corresponding to the same financial year and covering the same content [D.2014/95/EU#6] and the obligation to publish their profit and loss accounts and management reports [D.2013/34/EU#31] is provided. Finally, D.2014/95/EU#14 adds that the above mentioned exemptions should not keep MS from requiring the disclosure of non-financial information from undertakings and groups other than undertakings which are subject to this Directive [D.2014/95/EU#14].

Medium-sized undertakings: As the Directive aims to reduce the impact of additional administrative burdens for medium-sized undertakings [D.2014/95/EU#8], the European Council has called for the reduction of the reporting burden for medium-sized enterprises [D.2014/95/EU#13]. Accordingly, the Directive states that the new disclosure requirements should apply only to certain large undertakings and groups. Not unlike with small undertakings, MS are given incentive to require additional information from these firms. Medium-sized undertakings may be allowed to publish condensed versions of the balance sheet and condensed notes to the financial statements, containing the following information. From under fixed assets; goodwill, land and building, plant and machinery, other tools and equipment, from under financial asset; affiliated undertakings shares and loans, participating interest, loans of an undertaking with participating interest, amounts owed by affiliated undertakings and affiliated undertakings with participating interest. From under investments; shares affiliated undertakings and own shares. From under the creditors portion of the balance sheet; "the debenture loans, convertible loans, amounts owed to credit institutions, to affiliated undertakings, to undertakings with participating interests and accruals and deferred income" [D.2013/34/EU#31].

Large undertakings: In the case of a group on a consolidated basis, large undertakings must have in average number of employees in excess of 500 [D.2014/95/EU#13]. If a parent does not prepare a consolidated financial statements for the group, MS are allowed to require additional provision to classify the firm as a larger undertaking. These additional items must be based on the size and resulting category on a consolidated or aggregated basis [D.2013/34/EU#12]. Finally, the Directive states that MS are permitted to exempt all undertakings which are subject to this Directive from the obligation to prepare a non-financial statement if a separate report corresponding to the same financial year and covering the same content is provided [D.2014/95/EU#6].

Micro-undertakings: Generally speaking, under their day to day operations, micro-undertakings are faced with limited resources to comply with the demanding regulatory requirements. As a result, MS are given the option of exempting these undertakings from certain obligations that would result in additional administrative burdens. That is not to say that micro-undertakings are held exempt from any national obligations they may be obligated to provide [D.2013/34/EU#13]. There are certain condition in which these undertakings may be considered exempt, if; the balance sheet information filed with at least one designated authority according to the national law and the information is forwarded to the business register and a copy may be reached upon application [D.2013/34/EU#15].

D.2013/34/EU#36 provides further information on the exemption of micro undertakings. Provided that the firm discloses the exemption under the notes to the financial statements or at the footnotes of the balance sheet, they may be held exempt from providing information on; the recognition of prepayments, accrued income and deferred income (EC, 2013: 52).

For the profit and loss account micro undertaking may provide information on; net turnover, raw material cost and consumables, staff cost, value adjustments, other charges, tax and profit/loss. The article also contains a requirement barring MS from requiring micro undertakings to apply Article#8, which provides information on the alternative measurement they base of fair value. Article#36 also specifies that micro undertaking shall be considered as small undertakings and bars financial holding undertakings from being considered for the items.

CONCLUSION

Regardless of the lessons learned from the financial crisis, financial statement users are still provided with misleading or insufficient information that cannot sufficiently meet the needs of stakeholder groups, further damaging their trust in the organizations. This, in turn, has adversely affected the efficient allocation of capital, the going concern, long term investment goals and business profitability. In line with Public Interest Theory of Regulation, it is not surprising that the market has responded with demands for correcting the inefficient and inequitable markets. The EC has been forced to reevaluate their actions and have introduced a comprehensive package of measures allowing the Union to bring about economic recovery and sustainable growth. One method in which the EC attempted to achieve this is by pushing forward a key action simplifying the EU Accounting Directive. However, despite the call for harmonization, the IFRS/IAS and Accounting Directive set still differ in regards to several important points. These can be summarized as follow; true and fair view, going concern, prudence, comparative information, the accrual basis of accounting, consistency, order and format of presentation, layouts format, materiality, aggregation and offsetting. Moreover, the Accounting Directive requires financial report preparers to provide additional information that is not required under the IAS/IFRS, such as; the publication of non-financial information, management report content, corporate governance information, information on the payments to governments and finally, the recognition and measurement related principles for the annual and consolidated financial statements. Understanding the differences between these two standard sets are imperative for EU Member States and transitioning Candidate EU Countries. Moreover, proper integration of the standard set under accounting policies and understanding which version takes precedence over the other would ease country-by country reporting difficulties by multinational firms.

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