Radka MacGregor Pelikánová (radkamacgregor@yahoo
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

Chapter 9
Accounting Science's Historical Development and Its Role in Social Science

ABSTRACT

Post-modern society is marked by the global highly-competitive business conduct with consequences going above and beyond mere economy as conveniently perceived. More than ever before, relevant and transparent information about business conduct is needed, and accounting needs to measure, process, and communicate complex financial and non-financial information about businesses worldwide in an understandable manner. These interdisciplinary and multidisciplinary challenges need to be appreciated based on the understanding of accounting in the historical context while reflecting the current impact of globalization. Since accounting needs to deal with the real economy holistically, standardization, sustainability, and legitimacy have to be appreciated. During the last decades, international accounting institutions have played a pivotal role in this aspect. However, there is still a long journey towards convergence and world standardization.

9.1 DETERMINATION AND HISTORICAL DEVELOPMENT OF ACCOUNTING

Business is about transforming resources and involves transactions between two or more natural persons and legal entities (Stolowy & Ding, 2017, p. 2). Business decisions involve which and how these resources will be acquired, processed, and transformed into goods or services to serve customers and offered to them while ensuring that the resources received from sales exceed the resources consumed in creating the sale (Stolowy & Ding, 2017, p. 3). *Business conduct* is understood as a "cash pump" cycle where acquired resources are transformed into a value proposition taking the form of either goods or services sold to customers (Stolowy & Ding, 2017, p. 3). This "cash pump" cycle needs to be monitored by the managers of the firm as well as other stakeholders, every transaction between suppliers, the enterprise, and customers' needs to be recorded to serve as a basis for analysis over time (Stolowy & Ding, 2017, p. 4). Each transaction inside the transformation process needs to be recorded in a standardized manner

DOI: 10.4018/978-1-7998-8669-3.ch009

Copyright © 2023, IGI Global. Copying or distributing in print or electronic forms without written permission of IGI Global is prohibited.

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

so various stakeholders can examine the operation of the "cash pump" cycle and make appropriate decisions (Pakšiová & Oriskoová, 2020). Accounting is about information for decision-making (i.e., more than just data) about the economic and financial aspects of the life of an enterprise (Stolowy & Ding, 2017, p. 10). Linguistically, "to count" means to measure and quantify, "to account for something" is to acknowledge its existence and describe it, while "to be accountable" is to explain what one has done with resources one was entrusted with and take care of them, including consequences (Stolowy & Ding, 2017, p. 10). Hence *accountability* focuses on results and reporting on them and has an individual dimension, i.e., what one subject has achieved. *Responsibility* as such has Latin roots, see "respondere", and means that someone has to answer for the effects caused by him or somebody else to authority, and this authority evaluates its damages (Schüz, 2012). If this mechanism is incorporated into the legal system and this authority is a judge, we deal with a particular type of responsibility called *liability* (MacGregor Pelikánová & MacGregor, 2020).

Consequently, responsibility means having a duty to deal with something or be in control of someone and be held accountable for something. Its subcategory is the term liability which, means that this is a legal duty, i.e., a duty enforced by the machinery of law. Hence, it can be argued that accountability is a substantial and integral part of responsibility and liability.

The term *accounting* has several meanings – it can be a scientific discipline, a practice of daily business conduct, or outcomes resulting from such a practice. Regardless of the selected approach, accounting entails a bundle of complex socio-economic and even other activities which constitute an integral part of the life of the business (Stolowy & Ding, 2017, p. 5) and which have the potential to significantly contribute to the effectiveness and efficiency of the economic system, both in the macro-perspective as well as the micro-perspective (Borseková et al., 2021). Further, it is more specifically argued that accounting is a language that communicates economic information to various stakeholders who have an interest in the organization (Drury, 2016, p. 5). In this perspective, accounting is a language (i) describing the state or a result, (ii) describing the events that led to the result, and (iii) providing a possibility of rank-ordering results, allowing evaluators of accounting signals to be able to assess the results (Stolowy & Ding, 2017, p. 4). However, it needs to be observed that the need for accounting and providing accounting information is not limited to business organizations. See, e.g., the duty of individuals to provide data about their situation to get a loan or mortgage (Drury, 2016, p. 5). Accounting records each and every event of an economic nature that flows through the "cash pump" or business cycle (Stolowy & Ding, 2017, p. 5). Hence, it is proposed that accounting is a method of counting and measuring which makes transactions and their consequences "real" (Stolowy & Ding, 2017, p. 10), and accounting information is an essential decision-support tool (Stolowy & Ding, 2017, p. 10). Consequently, accounting can be presented as a system of acknowledging the socially defined parameters describing the economic life of an enterprise and having two critical missions (Stolowy & Ding, 2017, p. 10). The first key mission of accounting is to facilitate value creation by supporting resource acquisition, allocation, and decision-making (Stolowy & Ding, 2017, p. 10). The second key mission of accounting is to measure and report to stakeholders the amount of value created during a given period (Stolowy & Ding, 2017, p. 10). This duality of mission leads to two types of accounting – *managerial accounting* and *regulated*, aka *financial accounting*.

Pursuant to the conventional perception, accounting focuses on collecting, analyzing, and communicating financial information, and its ultimate aim is to allow for more informed decisions (Atrill & McLaney, 2017, p. 2). Accounting records economic variables, principally by using monetary units, but it can also describe non-financial parameters, such as the weight of materials and finished goods and waste (Stolowy & Ding, 2017, p. 5). In order to be ready for an informed decision based on the accounting, all

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

three steps need to be completed, i.e., the identification research via collecting and the processing via analysis are futile without proper publication via communications (Weygandt et al., 2013, p. 4). Each of these steps represents an autonomous and rather specific activity entailing inherent particularities – identification, systematic recording, and communicating call for different endeavors (Weygandt et al., 2013, p. 4). The need for reporting is implied by the agency relationship, i.e., business is about delegation. Delegation means to control, and control requires that information is provided to the principal about what the agent did and what results were achieved (Stolowy & Ding, 2017, p. 5). Namely, the reporting is the flow of information allowing for controlling the business and the agent by the principal, in particular, the information about what the agent did with the resources from the principal (Stolowy & Ding, 2017, p. 5). A report is a basis for analysis for decision-making (Stolowy & Ding, 2017, p. 10). A report documents the effort (internal and specific reporting called managerial accounting), the result (standardized general reporting for third parties called financial reporting) or both (Stolowy & Ding, 2017, p. 5). Consequently, financial accounting addresses (i) the value creation by the business, (ii) the increase or decrease of risk the firm is facing and (ii) the status and flow of resources, and ultimately the future viability of the business (Stolowy & Ding, 2017, p. 5).

Accounting parallels financial management, and they have a mutually synergetic effect. Namely, a typical tangible outcome of accounting is a financial (accounting) report issued on a regular or irregular basis (Atrill & McLaney, 2017, p. 2). Such a report is to be considered along with the outcomes of financial management endeavors by decision-makers, regardless of whether they are insiders or outsiders. Since financial management is concerned with different ways of how funds for a business are raised and invested, the reporting drive of accounting is perfectly complementary to it. Boldly, raising and investing of funds needs to be assessed and reported appropriately so high-quality financing, investment, and even operating decisions can be made by all stakeholders. Financial (accounting) reports are a significant source of information for evaluating the risks and returns associated with each opportunity. Thus, they are instrumental in decision-making about past, present, and future investment opportunities.

In its very nature, accounting is a form of service to a heterogeneous group of stakeholders (see managerial accounting v. financial accounting), which is materialized by providing relevant accounting information and offers a faithful representation (Atrill & McLaney, 2017, p. 5). The relevance of accounting information means that it helps to confirm past events and predict future events, and thus it is material for the decision-making process (Atrill & McLaney, 2017, p. 5). The faithful representation means the information is neutral (objective), complete, and error-free (Atrill & McLaney, 2017, p.5). In addition to relevancy and faithful representation, accounting information should satisfy other qualities such as comparability, verifiability, timeliness, and understandability (Atrill & McLaney, 2017, p. 6).

Since accounting does not exist in an economic, legal, and social vacuum, and pragmatic and strategic concerns need to be respected, the collection, analysis, and communication of accounting reports should only occur if it passes the costs and benefits balance test. It is pointless to produce accounting information if this process costs more than the potential benefits of such disclosure (Atrill & McLaney, 2017, p. 7). A vital element in communicating economic and other events is the accountant´s ability to analyze and interpret the reported information in an understandable and useful manner (Weygandt et al., 2013, p. 4). Consequently, the cost-benefit balancing test is the natural limit for preparing and issuing accounting reports (Atrill & McLaney, 2017, p. 7).

Conventionally, as stated above, there are two types of accounting: management accounting for internal users and financial accounting for external users (Drury, 2016, p. 6). During the last hundred years, new types or sub-types of accounting emerged, and typically, they are perfect examples of interdisciplinary

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

and multi-disciplinary challenges. For example, in the aftermath of the great depression, around 1934, forensic accounting emerged, focusing on frauds and, in particular, on the concept of the fraud triangle or fraud diamond, which addresses both perceptions and reality (Rechtman, 2020). However, even these new types and subtypes of accounting can be categorized based on whether the ultimate addressees are internal stakeholders (managerial accounting, cost accounting, inventory accounting, and internal auditing and the like) or external stakeholders (financial accounting, external auditing, tax accounting, public accounting, fiduciary accounting, forensic accounting, and others) or special groups and industries (government accounting, construction accounting, pension accounting, sustainable accounting, and others). Nevertheless, the study regarding the nature, foundation, and history of accounting needs to rest primarily on managerial accounting and financial accounting.

Managerial accounting reports are more detail-oriented, target a broad range of users, and are not subject to law regulations (Atrill & McLaney, 2017, p. 11). Managerial accounting deals with a detailed account of how financial resources and non-financial resources (e.g., employee or customer loyalty) are acquired, managed, and used in various business processes (Stolowy & Ding, 2017, p. 10). Managerial accounting is about information for decision-making by managers of a particular firm.

Financial accounting is a process of the description of various events, typically transactions, involving a particular firm (Stolowy & Ding, 2017, p. 10). The description of each elemental transaction is materialized by source documents containing financial and non-financial elements so as to allow a valuation of that transaction (Stolowy & Ding, 2017, p.10). Ultimately, financial accounting reports, aka financial statements (such as a statement of cash flows, an income statement, aka a profit and loss account, and a statement of financial position, aka a balance sheet), are relatively general-purpose, target owners and lenders and are subject to law regulation (Atrill & McLaney, 2017, p. 11). Financial statements are established periodically, traditionally around a date when sales activity is the slowest (Stolowy & Ding, 2017, p. 11).

The origin of the annual nature of financial statements can be traced back to the cycle of nature as it applies to an economic undertaking such as farming (Stolowy & Ding, 2017, p. 11). Financial accounting statements must be prepared to conform with the legal requirements and the generally accepted accounting standards (Drury, 2016, p. 6). Namely, accounting standards for financial accounting are used to ensure high quality and compatibility (Weygandt et al., 2013, p. 8). Currently, there are two primary accounting standards, International Financial Reporting Standards ("IFSR") and generally accepted accounting principles ("GAAP") (Drury, 2016, p.6). IFRS are developed under the auspices of the not-for-profit IFRS foundation by two standard-setting boards, the International Accounting Standards Board ("IASB"), which sets IFRS Accounting Standards, and the newly created International Sustainability Standards Board ("ISSB"), which sets IFRS Sustainability Disclosure Standards (IFRS, 2023), to offer a single source of truth of ESG reporting and so ending the "ESG accounting mess" (Eccles & Mirchandi, 2022). The IFRS Foundation, with IASB and ISSB, is located and holds its meetings in London. The US GAAP, as a comprehensive set of accounting principles, has been developed by the independent, private-sector, not-for-profit organization called Financial Accounting Standard Board ("FASB"), which is located in Norwalk, Connecticut, US (GAAP, 2023). Recently, a convergence drive can be observed, dominated by efforts to make the results of these two standards compatible on the global level (Weygandt et al., 2013, p.8). Further, there are trends for a mandatory imposition of these standards, in particular IFRS. However, empirical and other studies are inconclusive in this respect, i.e., IFRS increases income smoothing and aggressive reporting of accruals and decreases timeliness and loss recognition. However, IFRS adoption does not lead, per se, to increased accounting quality (Ahmed

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

et al., 2013). The mandatory move from GAAP or other standards to IFRS might increase information quality and accounting comparability (Horton et al., 2013), but not necessarily. In addition, it is proposed that the impact on the information quality and accounting comparability depends upon the jurisdictions involved, i.e., in some countries, the move to IFRS might have more positive effects than in others (Závodný & Procházka, 2022). Nevertheless, in order to appreciate the current trends, mainly accounting issues in world economic globalization emerging in the real economy and the role of international accounting institutions, we need to recall the historical development of accounting and elaborate on the key developments, providing significant milestones.

Accounting undergoes an ongoing evolution and has the potential to contribute to social improvement through its embodiment of rational calculation, at least pursuant to an idealist view of accounting (Napier, 2001). The historical development of accounting goes back five millennia, and its milestones mirror critical events in the evolution of civilization. The 1st millennium of accounting history extends from 3000 B.C. to 2000 B.C., marked by Mesopotamian and Egyptian attempts to keep proper records needed for agricultural and crop cultivation planning and the sustainable use of resources. The 2nd millennium of accounting history extends from 2 000 B.C. to 1 000 B.C., marked by the Babylonian Code of Hammurabi and its command for keeping proper business records and Egyptian bookkeeping in the form of a somewhat primitive listing. However, towards the end of this 2nd millennium of accounting history, a movement emerged towards a truly unified record keeping, thanks to the Phoenicians and their monetarization of business transactions. The 3rd millennium of accounting history extends from 1 000 B.C. to the birth of Jesus Christ, and is dominated by the Greco-Roman social re-organization, culminating in the paterfamilias ownership-management-recording and culminates with Emperor Augustus relying on detailed financial information. The 4th millennium of accounting history extends from the birth of Jesus Christ to 1 000 A. D. It is marked by the fall of the advanced Roman organization and Charlemagne's massive monetary and record-keeping endeavors. The 5th millennium of accounting history is marked by the transition to the Hindu-Arabic numerals and the introduction of double-entry bookkeeping by Luca Bartolomeo Pacioli during the Italian Renaissance. Thus, the accounting profession can be detected back to the era of Hammurabi, see *scripts*, until the 19th century. Accountants were mainly royal inventory, or bank, clerks learning on the job. Hence, the official organization and education of an accountant and the consolidation of prior, somewhat random, books and treaties in accounting science started in the middle of the 19th century in England and Scotland and soon extended to the U.S. and continental Europe. The end of WWII, the new era of European integration, the slow decline of the U.S. economic dominance, and ultimately the end of the Cold war contributed to the emergence of globalization, i.e., the growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information (Staníčková & Melecký, 2020).

9.2 SIGNIFICANT EVENTS IN THE DEVELOPMENT OF ACCOUNTING AS A SCIENTIFIC FIELD

The history of accounting and the accountancy profession dates back to ancient Mesopotamia. It is closely related to developments in writing, counting and money, and early auditing systems by Egyptians and Babylonians (Paris, 2016). Specifically, this history goes back at least to 3 000 B.C. when the Assyrian, Chaldeans-, Babylonian and Sumerian civilizations in Mesopotamia used records of commerce,

Radka MacGregor Pelikánová (radkamacgregor@yahoo
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

standard measures of gold and silver, and even banking services extending credit in some transactions (Kašný & MacGregor Pelikánová, 2022). However, suppose primitive record keeping regarding the growth of crops and hers is considered accounting; in that case, it can be argued that accounting existed already in ancient Babylon, Assyria, and Sumer 5 000 B.C. The Babylonian Code of Hammurabi from 1755 – 1750 B.C., the oldest legal Code from the ancient Near East, includes 282 legal norms inserted between its massive prologue and epilogue. These legal norms are expressed in the Babylonian dialect of Akkadian and written down in a version of Sumerian cuneiform with pictograms reduced to a high level of abstraction. They demonstrate both strict punishment systems, amounting perhaps even to hardship as well as aspects of morality, such as the demand for procedural justice by requiring evidence to be presented under the penalty of perjury (points 3-12) and setting rules for business relationships (points 100-126), in particular agent-principal issues (points 105-107) (Harper, 1904). Interestingly, the Code of Hammurabi addressed various business and financial arrangements, including price quotations under seal, and implied that transactions were recorded and subscribed by a *scribe* on a moist clay tablet, and parties added their „signatures" by impressing their respective seals (Chiera, 1938). Consequently, Babylonian *scribes* became well-respected professionals performing tasks nowadays done by notaries public, lawyers, and accountants (Kašný & MacGregor Pelikánová, 2022).

Similar trends can be observed in ancient Egypt, just the form was different – instead of an engraving in a basalt stele or on a moist clay tablet, an Akkadian text expressed in cuneiform, Egyptians moved to use a more conventional document format – putting hieroglyphs on the papyrus. This technical change met the demands for the extraction of the bookkeeping task and the increased need for inventory records and financial-fiscal information. Since a single valuation measure was not used, the bookkeeping was basically listing all items (Carmona, 2017). The audit was performed under the auspices of the pharaoh by the comptroller of the *scribes*, and the punishment for irregularities was strict - a fine, mutilation, or death.

Unlike the way that flooding agricultural organization demands shaped Mesopotamian and Egyptian systems, the Phoenicians did not have many resources and had to focus on trade and travel. It contributed to the development of the Phoenician alphabet around 1200 BC, which is based on the cuneiform, and the use of currency, namely coins. This "monetarization" of trade became pivotal for a comparable, if not unified, valuation system. It is even argued that Phoenicians invented their phonetic alphabet for bookkeeping purposes, i.e., prior pictographic alphabets could not accommodate their needs for abstract and comparable information track.

Similarly, Greeks used coins and could further develop the bookkeeping system. In the 5th century B.C., members of the Athens Popular Assembly legislated on financial matters. They controlled the receipt and expenditure of public monies through the oversight of 10 state accountants chosen by lot (Calhoun, 1926). Roman society, regardless of whether during the era of the Kings or the Roman Republic, was built upon tribes consisting of families, and records were kept by the head of the family, aka *paterfamilias*, the oldest living male. The paterfamilias was the owner of all assets and the master over the life of all the members of the households. He looked after the family's business and business affairs and performed religious rites. He kept a daybook, a monthly cashbook known as a *codex accepti et expensi* and a book of accounts known as a *codex rationum.* Over time, especially during the period of the Roman Emperors, taxation became indispensable to finance the state. Hence, Roman citizens had to submit regular statements of assets and liabilities in order to determine both their taxation and civil rights (Kašný & MacGregor Pelikánová, 2022). An elaborate system of checks and balances was maintained in Rome for governmental receipts and disbursements by the quaestors, who managed the

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

treasury, paid the army, and supervised governmental books (Carmona, 2017). The Emperors supervised the Roman treasury and ensured it was prescribed by the centralized legal codes (Kašný & MacGregor Pelikánová, 2022). It is well known that emperor Augustus relied on detailed financial information, the emperor Vespasian alleged states "*Pecunia non olet*" (money does not stink) to confirm the universal tax application, and emperor Constantine the Great stopped the persecution of Christians. It legalized Christianity via the Edict of Milan in 313 (MacGregor Pelikánová, 2017), turning many bookkeeping and accounting stories and parables from the Bible into acceptable and recognized doctrine sources.

The chaos, including within the accounting universe, caused by the fall of Rome lasted centuries. At the same time, several attempts regarding stabilization and re-integration were launched, e.g., the endeavors of Charles the Great, aka Charlemagne. Due to the gold shortage caused by the peace with Byzantium and the loss of Venice and Sicily to the East, i.e., the loss of trade routes, Charlemagne abolished the monetary system based on the gold sou and further developed the pragmatic standardization system advanced by his father, Pippin the Short. Charlemagne established a new standard, the *livre carolinienne*, based on a pound of silver worth 20 sous (the modern shilling) or 240 deniers (the modern penny). The livre and the sou were commonly used as counting units, while the *denier* was a coin of the realm. In 802, Charlemagne instituted principles for the accounting practice using the *Capitulare de villis*, which laid down strict rules for how incomes and expenses were to be recorded. In principle, the *Capitulare de villis* set out the governance of the royal estates via a series of rules and regulations on how to manage the lands, animals, justice, and overall administration of the king's property and assets. Consequently, the *Capitulare de villis* imposed many duties upon officials managing (royal) properties, including the duty to keep an accurate inventory and to facilitate the transportation of goods and money to the Carolingian court. Naturally, deficiencies and failures, such as losing or stealing property or engaging in corruption, were punished. However, Charlemagne's successors did not manage to keep either his empire or his monetary and booking system. The continental coinage degraded, and Europe resorted to using high-quality coins such as silver penny (pfenning) or denarius. Later in the 13th century, this was complemented by gold coins from Florence called florins.

However, it would be incorrect to perceive the era between the 9th and 13th centuries as a time of fragmentation, chaos, and bookkeeping degradation.

Firstly, from the 7th century to the 10th century, the Tang dynasty in China was based on a cosmopolitan culture and heavily engaged in the use of the land trade along the Silk Road and maritime trade by sailing at sea. During their era, many innovations emerged, including printing techniques and the resulting massive use of paper for money (paper currency) and accounting (accounting books and transaction documents) and the adoption of a double-entry bookkeeping system for the administration of taxes and expenditures.

Secondly, while Europe went through a lengthy process of consolidation and the establishment of countries and nations as we know currently them, an abrupt acceleration occurred in England due to William the Conqueror, aka William the Bastard, and his (somewhat surprising) victory at the Battle of Hastings in 1066. William the Conqueror aggressively consolidated his power and took many radical steps to achieve that, such as the establishment of records about all real estate property via the *Domesday Book* in 1086 and the oldest English accounting-fiscal record called the Pipe Roll, aka the *Great Roll of the Exchequer* (Kašný & MacGregor Pelikánová, 2022). Thanks to the Domesday Book, his tax collection and expropriation system became sharply efficient. In contrast, thanks to his *Great Roll of the Exchequer* provided the annual financial records of the Crown, i.e., the written record kept by the Exchequer of the audit process of the royal accounts for one financial year.

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

These two recording systems clearly represent milestones in the development of booking and accounting. However, a true revolution occurred a few hundred years later in Renaissance Italy. The fast-developing banking system was a critical move from the Roman numeral system to the decimal Hindu-Arabic numeral system. Indian mathematicians invented this system between the 1st and 4th centuries A.D. Arabic mathematicians started using it in the 9th century. See the writings of the Persian mathematician Al-Khwārizmī, called On the Calculation with Hindu Numerals and the Arab mathematician Al-Kindi, called On the Use of the Hindu Numerals. From the sphere of the Arabs, the Hindu-Arabic numeral system became progressively known in the Christian world. At the same time, the first mentions go back to the 10th century, to the Codex Vigilanus, aka the *Albeldensis*, which recollected documents from the Visigothic period in Spain, and to endeavors of the French-born scholar and teacher Gerbert of Aurillac, who became Pope Sylvester II. However, the true popularization of the Hindu-Arabic numeral system occurred in the 12th century thanks to Leonardo Fibonacci and his book *Liber Abaci*. Nevertheless, it took three hundred years to replace Roman numerals with Hindu-Arabic numerals entirely, and, as stated above, this transition was completed in 15th-century Renaissance Italy. The importance of the regular use of Hindu-Arabic numerals for tracking business accounts cannot be overstated, the use of capital and credit became much more explicit, and the foundation for double-entry bookkeeping could be laid down.

Further, in the 15th century, the Franciscan Frater Luca Bartolomeo Pacioli came up with an interdisciplinary and multidisciplinary approach and attempted to reconcile mathematics and accounting while reaching both harmony and balance (Kašný & MacGregor Pelikánová, 2022). He cooperated with his friend Leonardo da Vinci, i.e., Leonardo da Vinci helped Luca Bartolomeo Pacioli in drafting his books, and Frater Luca Bartolomeo Pacioli calculated for Leonardo da Vinci the quantity of the material to be used for his masterpieces, such as the artist's huge statue of Duke Ludovico Sforza of Milan (Kašný & MacGregor Pelikánová, 2022). Luca Bartolomeo Pacioli developed in his many works and treaties, including *Summa di Arithmetica*, the double entry method (Williams, 1978), which was originally conceived by Benedetto Cotrugli (Geijsbeek, 1914) and reflected the Italian sophisticated trading and accounting developments within banking houses (Paris, 2016). The theoretic dimension of it, including the publication of manuals consolidating and properly founding the theory of accounts, occurred in the 17th century as well in Italy. See endeavors of Lodovico Flori and especially his book Trattato del modo di tenere il libro doppio domestico col suo essemplare. Indeed, the success of the Sicilian Province of the Society of Jesus may be partly attributed to the fact that the Procurator of the Province was Ludovico Flori and that he applied what he established in his Trattato. In particular, Trattato worked on differentiation and dedifferentiation and included the description of the double-entry accounting system, which was an effective combination of analysis and synthesis (Quattrone, 2004). Further, it contained a detailed chart of accounts (Lista or Rubrica), and the profit or loss shown in the income statement (the Entrata & Spesa Generale) was the result of a progressive aggregation of the revenues and expenses generated by each' business area' of the College (Quattrone, 2004).

As a matter of fact, in the 15th century, the double-entry bookkeeping system reached even the peripheral parts of Europe, including England, which had already moved towards a monetary economy in the 13th century (Paris, 2016). Medieval English merchants depended on bookkeeping to oversee many transactions financed by bank loans, and accountants started to be mentioned in historical records beginning in the 14th century, see the Statute of Westminster. Despite the business expansion, the role of accountants and accounting methods was exclusively practical. Namely, similar to law and jurists learning via the Inn directly from judges and during court proceedings, the acknowledgment of accounting and accounting methods was often picked up through experience at work. At the same time, only

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

basic double-entry bookkeeping was taught at school. Nevertheless, several highly influential books and treatises were published, such as, in the 16th century, the book on double-entry bookkeeping entitled The *Maner and fourme how to kepe a perfecte reconyng, after the order of...debitour and creditour* by James Peele and in the 17th century the book *The Merchants' Mirror, or directions for the perfect ordering and keeping of accounts, framed by the way of Debitour and Creditour after the Italian manner* by Richard Dafforne (Paris, 2016).

Until the 19th century, there were few professional accountants, and their businesses predominantly dealt with bankruptcy affairs (Paris, 2016). In the 19th century, the development of the corporate sector and the industrial revolution created the need for a uniform body of skilled auditors, such as professional organizations in London, Edinburgh, and Glasgow (Paris, 2016). Similar to a *scribe,* such an accountant in Edinburgh or Glasgow was called a *write* and performed tasks nowadays performed by accountants, notaries public, and lawyers, see the activities of the famous Mr. James McClelland at the beginning of the 19th century (Kašný & MacGregor Pelikánová, 2022). More experienced accountants needed to pass on their beliefs as to what constituted sound accounting practice to newcomers, which led to a number of new publications and periodicals such as The Accountant (Paris, 2016). Further, the Chartered Accountant, regarding public accountants, was issued in Scotland. In 1854, the Institute of Accountants in Glasgow petitioned Queen Victoria for the grant of a Royal Charter. By then, England enjoyed highly prosperous times brought on by the Industrial Revolution while being the leading producer of coal, iron, and cotton textiles. In addition, England was the financial center of the world, which was also getting more competitive and more inclined to bring about bankruptcies (Kašný & MacGregor Pelikánová, 2022). In 1880, the newly formed Institute of Chartered Accountants in England and Wales brought together all the accountancy organizations and issued Standards of conduct and examinations for admission. They were very much needed, particularly considering the fast development of innovative accounting practices in leading industries, such as railroads (Boockholdt, 1978; Previts & Samson, 2000). The role played by accounting educators (Zeff, 2000) should also be considered.

A similar movement occurred in the U.S., especially in New York, Philadelphia, and Chicago, and led to the creation of the American Institute of Certified Public Accountants. After the Civil War ended, a huge economic growth occurred, partially thanks to the shift of attention from agriculture to finance (Kašný & MacGregor Pelikánová, 2022). The dark side of this booming era was represented by financial scandals, such as over-capitalization and stock speculation causing financial panics in 1873 and 1893. Unlike the British, who used the balance sheet to monitor management's use of stockholders' monies, American corporations had balance sheets drafted mainly with bankers in mind, and bankers of the era cared more about a company's liquidity than its earning power... and then the Great Depression came (Kašný & MacGregor Pelikánová, 2022). Since cash flow slowed, loans defaulted and credit became less available to corporations, and businesses sought financing from sources less tied to their current cash flow – stockholders, instead of banks, became the primary audience of financial statements, i.e., the income statement began to take center stage over the balance sheet.

On the other side of the Atlantic, the Great Depression spread as well and was promptly followed by the Second World War. America then launched the famous European Recovery Program, aka the Marshall Plan, in 1948. However, the iron curtain had split Europe and perhaps the entire world by then. Ironically, in his famous political speech in 1946, Churchill coined the phrase the 'iron curtain' and later it became a generic term and a special accounting method's name. Namely, the iron curtain method is a technique for determining whether a financial misstatement is material, i.e., the combined effect of a misstatement in the balance sheet is considered rather than just the impact of the misstatement in the current period.

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

The Cold War era witnessed, e.g., a new stage of European integration and a slow decline of the economy-dominating U.S. Between 1970 and 1989, the U.S. share of world production fell from 40% to less than 25%, while the U.S. share of world income dropped to slightly over 20%. By 1989, the iron curtain had been shattered, and the era of globalization progressed. Globalization results from interactions and transactions between subjects of international law and national laws, the establishment of multinational corporations, and the mass use of worldwide outsourcing and supply chains. As such, it represents a new strong call for accounting, offering a systematic record of the organization's financial and other information in a transparent, readable, and comparable (ideally standardized, if not unified) manner. And accounting has become an integral part of world economic globalization.

9.3 THE DEVELOPMENT OF ACCOUNTING IN WORLD ECONOMIC GLOBALIZATION

Globalization is the growing interdependence of both international law subjects and national law subjects. Economies, cultures, and populations are interacting in new and more intense ways, cross-border trade in goods and services and international and multi-national organizations are expanding their operations, and the flow of technology, investment, people, and information is becoming massive. Arguably, the (pre)globalization dates back to the British industrial revolution in the 18th century, or at least the spread of international organizations and projects, such as the construction of the Suez and Panama canals or perhaps the Great Depression and the aftermath of WWII. Globalization is the narrower meaning which entails the last three decades. Namely, pre-1989 cooperative arrangements and international interactions are replaced by dramatically more inter- and intra-related mechanisms marked by sophistication and the involvement of many foreign elements. Globalization means a dramatic change in the way nations, businesses, and people interact, e.g., the expansion of trade, the development of global supply chains, and providing access to natural resources and labor markets. Globalization is, due to its nature, inherently interdisciplinary and multi-disciplinary. It relates to a myriad of branches of knowledge and involves many academic disciplines or professional specializations. Conventionally, globalization is presented as three dimensional – economic, political, and cultural.

Economic globalization means the widespread international movement of goods, capital, services, technology, and information. It represents a higher form of economic integration and interdependence of national, regional, and local economies, organizations, and businesses worldwide by intensifying the cross-border movement of goods, services, people, technologies, and capital, in addition to the demise of the iron curtain mentioned above. The driving force of economic globalization is the liberalization of international and transnational trade (e.g., the move from the GATT to WTO), the development of science and technology, digitalization, and the new stage of the interaction of developed economies with developing economies. Instead of one global power, the US and China are mentioned and closely followed by other states; instead of focusing on tangibles, the universe of intangibles dominates. Artificial intelligence is omnipresent, but, unfortunately, also international and cross-border hacking and cyberattack threats. Sustainability has become a universal topic, and eternal discussions about responsibilities developed while emphasizing the negative effect of globalization on the environment as well as the social sphere (social instability, mass immigration) and even certain economies (economic inequality, protectionism). The era of blind worshiping of economic globalization is over. The original top propeller of economic globalization, the US, is backing away and taking a more moderate and pragmatic approach. In such a

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

context, an objective and transparent summary, analysis, and report of transactions is vital for proper decision-making. The operations of businesses, organizations, and even states need to be studied in a standardized, if not unified, manner while reflecting not only financial aspects. With goods, services, people, and capitals moving and fluctuating globally, with almost unlimited options for investments, supply chain setting, and production and selling arrangements, both natural persons (individuals) and legal entities (corporations and companies) need relevant information about both the near and far future to make educated decisions. In economic globalization, more than ever before, knowledge is power, and this power can be generated via effective and efficient accounting.

As mentioned earlier, prior to the Great Depression, balance sheets in the UK were drafted to facilitate stockholder monitoring of the use of capital and resources by management. British balance sheets in the pre-Great Depression era had to show shareholders and investors whether the managers could make a profit. In contrast, balance sheets in the US were drafted to facilitate the information for bankers, who focused predominantly on liquidity. Hence American balance sheets in then era had to show passive investors such as bankers that the company had good liquidity, while the information about earning power was not critical (Kašný & MacGregor Pelikánová, 2022). Since the Great Depression led to a slowdown of cash flow, a shortage of especially financial funds emerged, loans defaulted, and credit became less available. Liquidity became an issue, and companies and corporations started to look for financing from sources less tied to their current cash flow, i.e., they had to turn more to stockholders than banks.

Consequently, stockholders became the primary audience of financial statements, i.e., the income statement began to take center stage over the balance sheet. Accountants used the funds' statements to measure the actual flow of monies rather than simply the sum of working capital changes between balance sheet dates. The funds' statements increasingly became a staple for the financial statement (Kašný & MacGregor Pelikánová, 2022).

On the other side of the Atlantic, between the end of WWII and the arrival of the iron curtain, modern European integration advanced, sometimes more, sometimes less smoothly. The 1st step was the removal of existing barriers, such as customs duties, import quotas, or other trade barriers, aka "negative integration." Thanks to the massive efforts of the pro-integration internal EU tandem, the European Commission, and the Court of Justice of the EU, this step was completed, and existing trade rules were abolished. The 2nd step meant to achieve positive unification was via harmonizing national rules about standards and requirements, aka 'positive integration.' Between 1978 and 1989, the EU issued a set of Directives dealing with the harmonization of accounting, see, e.g., Directive 78/660/EEC on the annual accounts of certain types of companies, Directive 82/891/EEC concerning the division of public limited liability companies, Directive 83/349/EEC on consolidated accounts and Directive 84/253/EEC on the approval of the person responsible for carrying out the statutory audits of accounting documents (MacGregor Pelikánová & MacGregor, 2020). Naturally, all of them are already repealed and/or replaced. However, in connection to these Directives or otherwise, EU institutions met fierce and persistent resistance, including the EU tandem mentioned above.

Consequently, differences in accounting and accounting methods appeared more challenging to eliminate than expected. The financial statement effects of differences in accounting measurement practices, even in the core EU states, such as France, Germany, and the UK, were strong, see significant differences in financial ratios and the stock market valuation of accounting data, and they persisted despite EU legislative endeavors via directives (Joos & Lang, 1994). Conceptually, the common law and continental law universe dichotomy can be observed since accountants and their tasks are fundamentally perceived differently. For example, in the UK, the concept of "true and fair view" depends highly on the

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

accountant's opinion as an independent professional, while in France, Germany, and Italy, the main role of the accountant is to apply detailed and prescriptive legislative norms (Hlaciuc et al., 2013).

Indeed, empirical evidence revealed that between 1989 and 2000, the process of EU harmonization of accounting faced a set of issues, particularly in three accounting policies - the inventory costing method, goodwill on consolidation, and depreciation of fixed assets (McLeay & Jaafar, 2007). These three accounting policies proved controversial, and the EU was not completely ready to cross the Rubicon. Firstly, the EU Fourth Directive allowed for the First-In First-Out (FIFO), the average cost, the Last-In First-Out (LIFO), and similar methods. Secondarily, the EU tolerated three different treatments of purchased goodwill: an immediate write-off to reserve, systematic amortization to the Profit and Loss account, and permanent capitalization. Thirdly, the EU allowed the selection of methods for the depreciable amount of a tangible fixed asset allocated systematically over its useful life (McLeay & Jaafar, 2007).

While the EU attempted to progress towards more compatible accounting across its member states through harmonization, several serious scandals occurred in the US around 2000. Fraudulent practices of the large energy and innovation firm Enron Corp, the telecommunications giant WorldCom and Tyco International, led to disastrous consequences, including dramatic financial losses as well as a loss of trust. The famous legislative response is the US federal Sarbanes-Oxley Act of 2002, enacted to protect shareholders, employees, and the public from accounting errors and fraudulent financial practices. Pursuant to section 108 of the Sarbanes-Oxley Act, i.e., 15 USC 7218, the Securities and Exchange Commission (SEC) shall promulgate rules and regulations to carry out section 19(b) of the Securities Act of 1933 and to establish accounting principles or standards for purposes of enforcement of securities laws. Further, according to section 302 of the Sarbanes-Oxley Act, 15 USC 7241, companies have to file periodic reports, and preparing officers are responsible for that. Finally, pursuant to 401 et seq. of the Sarbanes-Oxley Act, i.e., 15 USC 7261 et seq., the SEC prescribes enhanced financial disclosure rules and even the Code of Ethics for senior officers. The SEC undoubtedly enforces the Sarbanes-Oxley Act, and accountants' ethical accountability and responsibility are now legally mandated, making them an enforceable liability. However, this change also results in increased costs and bureaucracy, and some consider it to be a form of draconian legislation. (Kašný & MacGregor Pelikánová, 202

Consequently, government and accounting systems have changed significantly during the last two decades, and the call for accountability and transparency has increased (Frintrup et al., 2022). Already in 2002, the EU enacted EU 1606/2002 Regulation on the application of international accounting standards (IAS) (known as the IAS Regulation). It resulted in adopting the IFRS Standards as the required financial reporting standards for the consolidated financial statements of all European companies whose debt or equity securities trade on a regulated market in Europe, effective in 2005. Since then, IFRS Standards and Interpretations have been amended and accepted across the EU. Nevertheless, the EU is not merely a passive recipient and is ready to question the legitimacy of IFRS and IASB (Pittroff, 2021), e.g., the EU threatens to stop funding the IASB if they are unwilling to reintroduce prudence into the conceptual framework (Pelger & Spieß, 2017).

Regarding other EU legislative endeavors coming promptly in the new millennium, it should be mentioned Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (still in force!) and Directive 2009/101/EC on coordination of safeguards, which has been already repealed (MacGregor Pelikánová & MacGregor, 2020). In particular, many extraordinary endeavors were promulgated, such as implementing accrual accounting at the expense of cash accounting in the public sector to achieve increased transparency (Frintrup et al., 2022). However, this call was followed only in some EU jurisdictions, while others still apply cash accounting, and in general, norms still differ among countries

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

(Pina et al., 2009). Due to this discrepancy, the chronic lack of accounting harmonization, and urgent financial problems, a more regulatory and sectorial approach were embraced. Firstly, EU Regulation 1606/2002 on the application of international accounting standards established that all publicly traded Community companies would have to prepare their financial statements in accordance with IAS/IFRS, at the latest by 2005 (Guggiola, 2010). Secondly, Directive 2011/85/EU on requirements for budgetary frameworks of the Member States contributed to the development of accounting regulations that are more appropriate for use in the public sector. Thirdly, the European Commission (EC) implemented a project to harmonize public sector accounting, aka European Public Sector Accounting Standards (EPSAS), in 2013 (Manes-Rossi et al., 2016). Introducing these measures should pave the way to harmonizing European accounting (Mann et al., 2019). In order to make sure that this happens, the famous Directive 2013/34/EU on annual financial statements, consolidated financial statements, and related reports of certain types of undertakings, aka the Accounting Directive, was enacted to consolidate existing legislation on financial reporting.

However, during the last decade, the American and European accounting trends have not been reduced to a mere standardization of accounting methods and financial statements and reports because the increased projection of sustainability in business conduct leads to the Corporate Social Responsibility (CSR), Environmental, Social, and Governance (ESG). Consequently, the CSR/ESG reporting (Petera et al., 2019) and Codes of Ethics of businesses (MacGregor Pelikánová et al., 2021a) have the potential to create added value and become a competitive advantage (Jílková & Knihová, 2022). It is advocated that the newly adjusted concept of Carroll's pyramid of CSR (Carroll, 2016) and the corporate shared value concept (CSV) as a demonstration of the capacity of a business to create economic value by creating societal value (Porter & Kramer, 2011) represents an attractive opportunity (Jílková & Knihová, 2022). The EU law has recognized these new trends; see Directive 2014/95/EU amending Accounting Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings. Namely, Directive 2014/95/EU amended the Accounting Directive by adding Art.19a non-financial statements, Art.29a consolidated non-financial statements, i.e., requiring non-financial disclosure by large undertakings which are public-interest entities and which have an average number of employees in excess of 500. However, after a few years, the EU, EU institutions, and EU law have realized that a regulatory push is needed because the voluntary transition to CSV and commitment to CSR were losing momentum. Thus, recently, pursuant to the EU Action Plan on Sustainable Finance, two new regulations have been introduced in the EU financial ecosystem to boost the sustainability drive and responsibility – SFRD and the Taxonomy Regulation. Namely, Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, aka SFDR which requires financial market participants and advisers to classify their funds depending on their level of sustainability and to report about it (MacGregor Pelikánová & Rubáček, 2022). The EU Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment, which establishes specific environmental criteria related to economic activities for investment purposes (including the not significantly harm concept) and forms part of the enhanced disclosure obligations required by SFDR. These two Regulations and other measures should encourage sustainable investing and fight against mushrooming malpractices, such as, e.g., the marketing method, heavily used and popular, known as green-washing.

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

9.4 ACCOUNTING AND ITS MAIN PROBLEMS IN THE REAL ECONOMY: STANDARDIZATION, SUSTAINABILITY, AND LEGITIMACY CALL

Financial reporting has faced many changes over the last decades, some of these reflecting the tendency towards more global activities by reporting businesses and the interaction of the real economy and the financial economy in different industries (Pittroff, 2021). Pursuant to the conventional perception, the real economy deals with the production, purchase, and flow of goods and services within an economy. In contrast, the financial economy deals with transactions of money and other financial assets. In the real economy, spending is considered "real" as financial funds are spent for goods or services, i.e., the transaction involves payment for something other than finances. Monetary financial institutions have promoted economic growth and development across the world as well as permitted modern economies to achieve greater degrees of specialization than the economies of the past. However, the growth of the financial economy has increased the potential for a purely financial crisis, leading to a decline in real variables such as output and employment. Naturally, this has happened across the entire global economy.

Consequently, the global financialization and Great Recession (2007–2009) can be viewed as accelerators of the interest in the (alleged) dichotomy between the real economy and the financial economy (Zabavnik & Verbič, 2021). The real economic growth rate, or real gross domestic product (GDP) growth rate, measures economic growth, as expressed by GDP, from one period to another, adjusted for inflation or deflation. Since, for the real economy, critical are changes in the value of all goods and services produced by an economy, it is pivotal to establish and maintain a transparent, comparable, and as objective as possible system to measure and record it. This system must embrace all key aspects and trends, including moving from a linear to a circular economy (Shpak et al. 2021).

On the macroeconomic level, various economic indicators are used as metrics to assess, measure, and evaluate the overall state of health of the macroeconomy, see GDP, PMI, CPI, etc. And now, moving to the microeconomic level, proper accounting and reporting have a range of positive effects that undoubtedly boost trust, benefiting both businesses and their investors. It is argued that a broader and more transparent information dissemination about the data about the real economy and the operation of an individual business decreases the cost of capital and increases the level of equity financing and corporate investment. As trust increases, stakeholders, including employees and consumers, tend to become more loyal.(MacGregor Pelikánová et al., 2021b). In this context, the merely financial and legal aspects are complemented by non-financial and ethical aspects and the need for their reporting via ordinary (management reports) or special statements (CSR or ESG reports) or publications as separate documents per se (Codes of Ethics) or as posting (information on the webpage) is magnified (MacGregor Pelikánová et al., 2021a).

In the decades following the collapse caused by the Great Recession, the US economy has been recovering, and the majority of macroeconomic indicators have appeared positive. However, it was observed that increased employment does not decrease the poverty level and that globalization, along with other effects, caused the impoverishment of the US middle class. Then COVID-19 hit, and all three pillars of sustainability – economic, environmental, and social – got questioned. Accounting and accounting principles in the US follow GAAP and, despite the convergence efforts of the FASB and IASB, remain different from the rest of the world and IFRS in particular. It means that US businesses can use last in, first out (LIFO) as an inventory-costing method. Inventory is carried at the lower of cost or market, with the market defined as the current replacement cost. Research and Development Costs are expensed and cannot be capitalized and amortized over multiple periods. Property is considered to be held for use or

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

sale but not for investment. It is worth noting that under the Sarbanes-Oxley Act, FASB is required to be financed through fees assessed against publicly traded companies rather than through donations from interested parties in the private sector.

In summary, GAAP is more specifically rules-based, while IFRS is principles-based, and thus IFRS is arguably more consistent. Similarly, there is no general legal duty to provide non-financial reports and/or prepare CSR/ESG reports in the US; however, businesses are encouraged to do so and contribute to a more sustainable and socially responsible future. As of now, no stand-alone mandatory sustainability reporting exists in the US. However, the SEC is very active and collects public feedback about the parameters of mandatory or facultative ESG disclosures.

In the EU, the reaction to the Great Recession, concerns about the real economy, and the drive for sustainability came in the context of the leitmotif of modern European integration – the single internal market with four fundamental freedoms of movement. The EU appears to be a stronger supporter of the UN's endeavors in sustainability than the US; see the EU engagement and commitment with respect to the UN 2030 Agenda for Sustainable Development from 2015 (Agenda 2030) as well as the Paris Agreement on Climate Change, adopted by the UN General Assembly in the same year, 2015 (Paris Agreement) (MacGregor Pelikánová & Rubáček, 2022). Considering the principle of conferral of competencies, initially, the EU aimed to adopt a somewhat soft approach towards harmonization of accounting, adherence to IFRS, and the real economic concerns along with the sustainability commands as expressed by the 17 Sustainability Development Goals, 169 targets and 244 indicators in the Agenda 2030 (Balcerzak, & MacGregor Pelikánová, 2020). This more flexible legislative approach was heralded by the sustainable development strategies Europe 2020 (Balcerzak, & Pietrzak, 2017) reflected by Directive 2014/95/EU amending Accounting Directive 2013/34/EU which brought forth a legal duty for EU large undertakings which are public-interest entities exceeding, on their balance sheet publication dates, the criterion of the average number of 500 employees, to include in their management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including non-financial key performance indicators relevant to the particular business (Art. 19a). Monitoring financial performance in relation to R&D proves to be a suitable indicator to assess the competitiveness of enterprises in the post-crisis development (Bockova & Zizlavsky, 2016).

Since this legal duty extended to a rather small circle of subjects, in a somewhat vague manner and basically without setting sanctions for the violation of such a duty, more radical steps appeared as necessary to be done and the European Commission of Jean-Claude Juncker (MacGregor Pelikánová & Rubáček, 2022). Regulation (EU) 2019/2088, aka SFDR, was enacted in this context. An even stronger drive for accounting and reporting about a "more green Europe" is noticeable since the appointment of Ursula von der Leyen and her commission, see Regulation (EU) 2020/852, aka the Taxonomy Regulation, which is designed to support the transformation of the EU economy to meet its European Green Deal objectives and which should serve as both a classification tool to bring clarity as well as a screening tool to support investment flows into environmentally sustainable economic activities (MacGregor Pelikánová & Rubáček, 2022). Hence, the SFDR and the Taxonomy Regulation are integral parts of the partially controversial EU sustainability-environmentally oriented policy (Czyżewski et al., 2020).

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

9.5 INTERNATIONAL ACCOUNTING INSTITUTIONS AND THEIR AGENDA

As stated above, financial and other reporting cannot be reduced to local or regional records, data keeping, and processing. Globalization, sustainability, and other demands must be recognized. Consequently, the international comparability of accounting reports arose as a regulatory aspiration, leading to the formation of the IFRS Foundation with its International Accounting Standards Board (IASB) as a standard setter established to introduce the worldwide acceptance of financial reporting standards (Pittroff, 2021).

The IFRS Foundation is a not-for-profit, public interest organization established to develop high-quality, understandable, enforceable, globally accepted accounting and sustainability disclosure standards. Interestingly, although the IFRS Foundation is to a certain extent a competing organization to the FASB issuing GAAP, it has the status of a corporation incorporated in the State of Delaware, U.S. (Delaware Division of Companies file no: 3353113) and is registered in London as an overseas company (England and Wales reg no: FC023235).

The IFRS Foundation has two standard-setting boards, the International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB). The IASB develops general accounting standards, aka IFRS. The ISSB develops sustainability disclosure standards, aka IFRS-S, which sets IFRS Sustainability Disclosure Standards (IFRS, 2023), to offer a single source of truth of ESG reporting, and so ending the "ESG accounting mess" (Eccles & Mirchandi, 2022). Usually, the IFRS Foundation, the IASB, and the ISSB meetings take place in London.

The governance and oversight of the IFRS Foundation, the IASBA, and ISSB belong to trustees who are not involved in any technical matters relating to IFRS standards. This responsibility rests solely with the boards. The Trustees are accountable to the Monitoring Board, a body of publicly accountable market authorities. The IFRS Foundation is self-regulated by two internal key documents – the IFRS Foundation Constitution, which sets out the purpose and objectives and the governance structure, and the Due Process Handbook, which sets out in more detail the requirements followed by the IASB, ISSB, and the IFRS Interpretations Committee in their work.

Consequently, the top transnational standard-setter is the IASB, which does not have a clear principal to whom it is accountable (Pelger & Spieß, 2017). In order to address that, the IASB put much effort into constructing its legitimacy and emphasizing that considerable convergence of accounting rules has occurred (Pittroff, 2021).

The International Federation of Accountants (IFAC) is the global advocacy organization for the accountancy profession, such as the financial accounting and auditing professions. Regarding the legal status, IFAC is an association established under the Swiss Civil Code, located in Geneva, Switzerland, and having headquarters in New York City, U.S. IFAC has more than 175 members and associates in more than 130 countries and jurisdictions, representing more than 3 million accountants employed in public practice, industry and commerce, government, and academia. The IFAC supports the development, adoption, and implementation of international standards for accounting education, ethics, and the public sector, as well as auditing and assurance.

The IFAC supports four independent standard-setting boards, establishing international standards on ethics, auditing and assurance, accounting education, and public sector accounting. It also issues guidance to encourage high-quality performance by professional accountants in small and medium business accounting practices. These four boards include the International Auditing and Assurance Standards Board (IAASB) which develops international standards on auditing; the International Ethics Standards Board for Accountants (IESBA), which develops a Code of Ethics for accountants, the International Public

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

Sector Accounting Standards Board (IPSSASB) which develops the International Public Sector Accounting Standards based on IFRS, and the International Accounting Education Standards Board (IAESB), which develops uniform guidelines for education, training, and continuing professional development.

Further, International accounting institutions and bodies focus on particular types of finance or industry, such as the Chartered Institute of Public Finance and Accountancy (CIPFA), the only professional accountancy body in the world dedicated exclusively to public finance.

REFERENCES

Ahmed, A. S., Neel, M., & Wang, D. (2013). Does Mandatory Adoption of IFRS Improve Accounting Quality? Preliminary Evidence. *Contemporary Accounting Research*, *30*(4), 1344–1372. doi:10.1111/j.1911-3846.2012.01193.x

Atrill, P., & McLaney, E. (2017). *Accounting and Finance for Non-Specialists* (10th ed.). Pearson.

Balcerzak, A., & MacGregor Pelikánová, R. (2020). Projection of SDGs in Codes of Ethics – Case study about Lost in Translation? *Administrative Sciences, 10*(4), 1-18. doi:10.3390/admsci10040095

Balcerzak, A. P., & Pietrzak, M. B. (2017). Sustainable Development in the European Union in the Years 2004–2013. In M. Bilgin, H. Danis, E. Demir, & U. Can (Eds.), *Regional Studies on Economic Growth, Financial Economics and Management. Eurasian Studies in Business and Economics* (Vol. 7). Springer. doi:10.1007/978-3-319-54112-9_12

Bockova, N., & Zizlavsky, O. (2016). Innovation and financial performance of a company: A study from Czech manufacturing industry. *Transformations in Business & Economics*, *15*(3), 156–175.

Boockholdt, J. L. (1978). Influence of nineteenth and early twentieth century railroad accounting on the development of modern accounting theory. *The Accounting Historians Journal*, *5*(1), 9–28. doi:10.2308/0148-4184.5.1.9

Borseková, K., Vaňová, A., Šúrová, J., Kráľ, P., Turečková, K., Nevima, J., & Martinát, S. (2021). The Nexus between Creative Actors and Regional Development. *Land (Basel)*, *10*(3), 276. doi:10.3390/land10030276

Calhoun, G. M. (1926). *The Business Life of Ancient Athens*. University of Chicago Press.

Carmona, S. (2017). Accounting History Research: Scope, Topics and Agenda. *Revista Contabilidade & Finanças*, *28*(75), 321–325. Advance online publication. doi:10.1590/1808-057x201790210

Carroll, A. B. (2016). Carroll's pyramid of CSR: Taking another look. *International Journal of Corporate Social Responsibility*, *1*(1), 3. doi:10.118640991-016-0004-6

Chiera, E. (1938). *They Wrote on Clay*. University of Chicago Press.

Czyżewski, B., Matuszczak, A., Polcyn, J., Katarzyna Smędzik-Ambroży, K., & Staniszewski, J. (2020). Deadweight loss in environmental policy: The case of the European Union member states. *Journal of Cleaner Production*, *260*, 121064. Advance online publication. doi:10.1016/j.jclepro.2020.121064

Radka MacGregor Pelikánová (radkamacgregor@yahoo
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

Drury, C. (2016). *Management Accounting for Business* (6th ed.). Cencage Learning.

Eccles, R. G., & Mirchandi, B. (2022). We Need Universal ESG Accounting Standards. *Harvard Business Review*. https://hbr.org/2022/02/we-need-universal-esg-accounting-standards

FASB. (n.d.). *About the FASB*. https://www.fasb.org/facts/

Frintrup, M., Schmidthuber, L., & Hilgers, D. (2022). Towards accounting harmonization in Europe: A multinational survey among budget experts. *International Review of Administrative Sciences*, *88*(2), 390–410. doi:10.1177/0020852320915640

Geijsbeek, J. B. (1914). *Ancient Double-Entry Bookkeeping: Lucas Pacioli's Treatise*. University of Colorado.

Guggiola, G. (2010). IFRS Adoption In The E.U., Accounting Harmonization And Markets Efficiency: A Review. *The International Business & Economics Research Journal*, *9*(12). Advance online publication. doi:10.19030/iber.v9i12.350

Harper, R. F. (1904). *The Code of Hammurabi – King of Babylon about 2250 B.C*. The University of Chicago Press.

Hlaciuc, E., Bostan, I., Grosu, V., Socoliuc, M., & Apetri, A. N. (2013). The Implications of the Accounting Harmonization Process on EU Countries: A Case Study of Greece and Romania. *European Research Studies*, *16*(1), 93–102. doi:10.35808/ersj/383

Horton, J., Serafeim, G., & Serafeim, I. (2013). Does Mandatory IFRS Adoption Improve the Information Environment. *Contemporary Accounting Research*, *30*(1), 388–423. doi:10.1111/j.1911-3846.2012.01159.x

IFRS. (n.d.). *IFRS – about us*. https://www.ifrs.org/

Jílková, P., & Knihová, L. (2022). ESG Factors in sustainable reporting as a competitive advantage. In *The 10th International Scientific Conference IFRS: Global Rules and Local Use – Beyond the Numbers, October 6–7, 2022, Prague* (pp. 344-355). Academic Press.

Joos, P., & Lang, M. (1994). The Effects of Accounting Diversity: Evidence from the European Union. *Journal of Accounting Research - Studies on Accounting, Financial Disclosures, and the Law*, *32*, 141-168. doi:10.2307/2491444

Kašný, J., & MacGregor Pelikánová, R. (2022). Codes of Ethics For Accountants – Preferences And Trends Implied By A Century-Long Practice In *The 10th International Scientific Conference IFRS: Global Rules and Local Use – Beyond the Numbers, October 6–7, 2022, Prague* (pp. 311-329). Academic Press.

MacGregor Pelikánová, R. (2017). Constatine's Christianity for the (Dis)integrated EU. Déjà vu of Constantine's Roman governance reflecting of the mistrial of Jesus for EU? *Dialogo*, *4*(1), 81–98. doi:10.18638/dialogo.2017.4.1

MacGregor Pelikánová, R., & MacGregor, R. K. (2020). The EU puzzling CSR regime and the confused perception by ambassadors of luxury fashion businesses: A case study from Pařížská. *Central European Business Review*, *9*(3), 74–108. doi:10.18267/j.cebr.240

Radka MacGregor Pelikánová (radkamacgregor@yahoo
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

MacGregor Pelikánová, R., MacGregor, R. K., & Černek, M. (2021a). New trends in codes of ethics: Czech business ethics preferences by the dawn of COVID-19. *Oeconomia Copernicana*, *12*(4), 973–1009. doi:10.24136/oc.2021.032

MacGregor Pelikánová, R., Němečková, T., & MacGregor, R. K. (2021b). CSR Statements in International and Czech Luxury Fashion Industry at the onset and during the COVID-19 pandemic – Slowing Down the Fast Fashion Business? *Sustainability (Basel)*, *13*(7), 3715. doi:10.3390u13073715

MacGregor Pelikánová, R., & Rubáček, Ph. (2022). Taxonomy for transparency in non-financial statements – clear duty with unclear sanction. *Danube*, *13*(3), 173–195. doi:10.2478/danb-2022-0011

Manes-Rossi, F., Cohen, S., & Caperchione, E. (2016). Harmonizing public sector accounting in Europe: Thinking out of the box. *Public Money & Management*, *36*(3), 189–196. doi:10.1080/09540962.2016.1133976

Mann, B., Lorson, C., Oulasvirta, L., & Haustein, E. (2019). The quest for a primary EPSAS purpose – Insights from literature and conceptual frameworks. *Accounting in Europe*, *16*(2), 195–218. doi:10.1080/17449480.2019.1632467

McLeay, S., & Jaafar, A. (2007). Accounting Harmonization in Europe: Country Effects and Sector Effects. *Abacus – a Journal of Accounting*, *Finance and Business Studies*, *43*(2), 156–189. doi:10.1111/j.1467-6281.2007.00224.x

Napier, Ch. (2001). Accounting history and accounting progress. *Accounting History*, *6*(2), 7–31. doi:10.1177/103237320100600202

Pakšiová, R., & Oriskóová, D. (2020). Capital Maintenance Evolution Using Outputs From Accounting System. Scientific Annals of Economics and Business, 67(3), 311-331.

Paris, D. (2016). History of Accounting and Accountancy Profession in Great Britain. *Journal of Accounting and Management*, *6*(1), 33–44.

Pelger, C., & Spieß, N. (2017). On the IASB's construction of legitimacy—The case of the agenda consultation project. *Accounting and Business Research*, *47*(1), 64–90. doi:10.1080/00014788.2016.1198684

Petera, P., Wagner, J., Pakšiová, R., & Krehnacova, A. (2019). Sustainability Information in Annual Reports of Companies Domiciled in the Czech Republic and the Slovak Republic. Inzinerine Ekonomika-Engineering Economics, 30(4), 483-495.

Pina, V., Torres, L., & Yetano, A. (2009). Accrual accounting in the EU local governments: One method, several approaches. *European Accounting Review*, *18*(4), 765–807. doi:10.1080/09638180903118694

Pittroff, E. (2021). The legitimacy of global accounting rules: A note on the challenges from path-dependence theory. *The Journal of Management and Governance*, *25*(2), 379–396 doi:10.100710997-020-09546-6

Porter, M. E., & Kramer, M. R. (2011). Creating Shared Value. *Harvard Business Review*, *89*(1-2), 62–77. https://hbr.org/2011/01/the-big-idea-creating-shared-value

Previts, G. J., & Samson, W. D. (2000). Exploring the contents of the Baltimore and Ohio Railroad Annual Reports: 1827-1856. *The Accounting Historians Journal*, *27*(1), 1–42. doi:10.2308/0148-4184.27.1.1

Radka MacGregor Pelikánová (radkamacgregor@yaho
Downloaded: 1/5/2024 3:46:42 PM
IP Address: 86.49.229.2

Quattrone, P. (2004). Accounting for God: Accounting and accountability practices in the Society of Jesus (Italy, XVI–XVII centuries). *Accounting, Organizations and Society*, *29*(7), 647–683. doi:10.1016/j.aos.2004.03.001

Rechtman, Y. (2020). The Past, Present, and Future of Forensic Accounting. *CPA Journal*. https://www.cpajournal.com/2020/04/10/the-past-present-and-future-of-forensic-accounting/

Schüz, M. (2012). Sustainable Corporate Responsibility – The Foundation of successful Business in the New Millennium. *Central European Business Review*, *1*(2), 7–15. doi:10.18267/j.cebr.12

Shpak, N., Melnyk, O., Horbal, N., Ruda, M., & Sroka, W. (2021). Assessing the Implementation of the Circular Economy in the EU Countries. *Forum Scientiae Oeconomia*, *9*(1). Advance online publication. doi:10.23762/FSO_VOL9_NO1_2

Staníčková, M., & Melecký, L. (2020). Threats and challenges for the competitiveness of the European union: What are the perspectives for cohesion among the member states? In R. Moldovan (Ed.), *The European Union: Policies, Perspectives and Politics* (pp. 63–84). Nova Science Publishers, Inc.

Stolowy, H., & Ding, Y. (2017). *Financial accounting and reporting: a global perspective* (5th ed.). Cengage Learning.

Weygandt, J. J., Kimmel, P. D., & Kieso, D. E. (2013). Financial Accounting. John Wiley & Sons, Inc.

Williams, J. J. (1978). A new perspective on the evolution of double-entry bookkeeping. *The Accounting Historians Journal*, *5*(1), 29–40. doi:10.2308/0148-4184.5.1.29

Zabavnik, D., & Verbič, M. (2021). Relationship between the financial and the real economy: A bibliometric analysis. *International Review of Economics & Finance*, *75*, 55–75. doi:10.1016/j.iref.2021.04.014

Závodný, L., & David Procházka, D. (2022). *IFRS adoption and value relevance of accounting information in the V4 region*. Economic Research-Ekonomska Istraživanja. doi:10.1080/1331677X.2022.2102049

Zeff, S. A. (2000). John B. Canning: A view of his academic career. *Abacus*, *36*(1), 4–39. doi:10.1111/1467-6281.00052