

## **Determinant of Accounting Standard, Between Parent and Subsidiary Company Operating In the Global Community**

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**Abstract:** *The study examines the Determinant of Accounting Standard between parent and subsidiary company operating in global community using manufacturing company in Nigeria. These firms lack accountability and transparency and distortions in financial report which leads to poor financial reporting. The data were gathered by the use of questionnaires and analyzed using binary logistic regression and the z-test statistics to ascertain whether it is the parent company that determines the accounting standard harmonization of accounting standard or the local culture and environment have any impact on the determination of accounting standard in parent and subsidiary relationship. The findings suggest first, Harmonization of accounting have impact on the determination of accounting standard in parent subsidiary relationship, and secondly, that local culture and political environment have impact on determination of accounting standard in parent subsidiary relationship. The study therefore recommends that the firm should be more transparent, accountable in compliance with the accounting standard which gives the financial statement credibility, reliability and comparability globally, this will help the preparation of consolidated accounts. The firms should work with executives who have skills to deal with a variety of local cultures and bring diverse team together to achieve common goal.*

**Keywords** – Accounting standard, Accountability, comparability, Nigeria and Parent subsidiary company.

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### **I. Introduction**

The world is a global community, People in this community transact business with one another, to expand sales opportunities, to gain access to raw materials, other factors of production, access to knowledge, new technology, and new development.

The buying and selling is recorded in contract express in many different currencies, and concerns a variety of goods and services, chattels, and rights. The transaction concerns a change in ownership of some item; ownership passes from parties in one country into the hands of parties in another; the transaction represents an exchange of values or a transfer of values which the parties to the transaction must reckon in some currency units, and the transfer of ownership occurs at a definite point in time.

The purpose for accounting standard between parent and subsidiary company is that similar accounting transactions are treated the same by companies around the world resulting in global comparable financial statements, and consistency. With the increase globalization in the market place, international investors need access to financial information. Investors constantly face economic choice that requires a comparison of financial information. Accounting Standards provides necessary guides on how accounting information should be prepared and presented in order to enhance the value of its contents and facilitate thorough understanding. Problems relate to the preparation of consolidated financial statement by companies with foreign operation each subsidiary incorporated in the country in which is located is required to prepare financial statement in accordance with local regulations, these regulations usually require companies to keep books in local currency using local accounting principles. The Unilever Plc in Nigeria prepares financial statement using Nigeria accounting standards, and rules; While Unilever in Ireland prepares financial statement using Ireland accounting standards.

The application of IAS in preparing financial statements did not always result in uniform and comparable financial information simply because similar transactions and events were not necessarily reported in a like way. With the dawn of globalization and increasing demand for transparent, comparable financial information in the markets, the IASB as restructured in 2001 by creating the International Accounting Standards Board (IASB), among other changes. The IASB is responsible for developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. ( I F R S )

### **Statement Of The Problem.**

Some of the accounting problems of parent subsidiary organizations according to Larson (1980), many companies have business activities in more than one country. In fact the operations of some large corporations

involving so many different countries that they are called multinational businesses. The problem of managing and accounting for company that has international operations can be very complex. Problem relating to the preparation of international operations occur because businesses with transactions in more than one country have to deal with more than one currency and accounting principles and reporting practices differ from country to country. One of the major task associated with accounting for parent subsidiary corporation is preparing worldwide consolidated financial statements. These statement require the combination of financial statements for all of the firms subsidiary domestic and non domestic.

### **Objectives Of The Study**

The aim of this study is to examine the determinant of accounting standard between parent and subsidiary company operating in the global community with references to some manufacturing companies in Nigeria.

1. Show how the parent company determine the accounting standards to be employed in parent subsidiary relationship.
2. Show the impact of international harmonization of accounting standards on parent subsidiary relationship.
3. Examine the impact of local culture and political conditions on the accounting standard employed.

### **Research Hypotheses**

The researcher attempted to test for the validity of the following null hypotheses:

- H<sub>0</sub>: The parent company does not determine the accounting standard employed in a parent subsidiary relationship.
- H<sub>0</sub>: Harmonization of accounting standard does not have any impact on the determinant of accounting standard in a parent subsidiary relationship.
- H<sub>0</sub>: Local culture and political environment does not have impact on the determinant of accounting standard use in a parent subsidiary relationship.

### **Justification for The Study**

Accounting standard has been recognized in most countries of the globe to meet the economic growth. For a parent subsidiary relationship to survive, grow and achieve prestige, it should have a dynamic purpose and most follow the accounting standards. Since accounting is a dynamic and full of potentials not yet tapped, the comments and recommendations of this work will, hopefully, assist parent subsidiary business organization to improve on their accounting system and practices.

### **Literature**

Accounting theory through the issuance of standards provides direction and guidance on how business enterprises could achieve the goal of proper record keeping, transparency, uniformity, comparability and enhancing public confidence in financial reporting (Van tendeloo and Vanstraelon, 2007) Thus, failure on the part of the firm to apply the requirements of accounting standard would result in inconsistencies, lack of accountability and transparency, and distortions in financial reports, which in turn results to poor financial reporting practices and dissemination of accounting information that is of less value to any particular group of users. This is because the preparation and presentation of financial statements lacks objectivity, reliability, credibility and comparability, and thus results in fraudulent business practices, which subsequently lead to business failure, and become devastating on the national economy.

In the view of Barth et al (2005), “ the concepts of financial accounting and the accounting standards issued by the standard of setting boards represent a theory of accounting which has evolved by descriptions of the practices of accountants”. The concepts of accounting have resulted in the evolution of a variety of practices, consequently, the lack of uniformity has made it difficult for users of financial reports to compare the results of different companies.

The need for comparable are judged to be one of the most important criteria for the presentation of financial reports. The reasons for concern about the quality of accounting information based on concepts were discussed, and are seem to result to the different results which could be drawn from the same set of data. The work of the standard setting boards has resulted in the reduction of variety of accounting practices. Glautier and Underdown (2001) cited that need for the imposition of standards arose because of the lack of uniformity, existing as to the manner in which periodic profit was measured and the financial position of the enterprise represented.

Standards are concerned either with how information might be presented, what information ought to be presented or how assets might be valued.

Hendriksen (1992) noted although accounting policies are being established on an international level through the international Accounting Standards Committee (IAB), the compliance with its Standards is limited to the acceptance of the standards by the representing professional accounting societies and by other organizations and government agencies within represented countries”.

**Determinant of national differences in international accounting**

According to Riahi-Belkaoui (2002 ) the differences in international accounting and accounting for foreign subsidiaries which result primarily from differences in the business environment from one country to another are problems in need of correction. He cited Mueller that he identifies four elements of differentiations: *Statement of economic development:* National economies vary in terms of their extent of development and in terms of nature, from the developed to developing countries.

*Statement of business complex:* National economies vary in terms of their political systems, from the centrally-how creating differences in their business needs as well as their business output.

*Shade of political persuasion:* National economies vary in terms of their political systems, from the centrally-controlled economy to the market-oriented economy.

*Reliance on some particular system of law:* National economies vary in terms of their supporting legal system. They may rely on either a common-law or code-law system, they may have protective legislation and unfair trade and antitrust laws for example.

**Currency Translation Models in Parent Subsidiaries Corporation Operation**

According to Owojori (2001) opinion that companies with significant operations abroad cannot prepare consolidated financial statements unless their accounts as well as those of their subsidiaries are expressed in terms of a homogeneous currency. A single currency framework is required and this traditionally, has been the reporting currency of the parent company.

**II. Methodology**

**Populations and sample size**

The population for this study focused on firms listed in the Nigeria stock exchange. It is restricted to some selected manufacturing companies across various industries

**Sources of Data**

The questionnaire are classified into section A and section B. Out of these questions were centered on bio-data while the remaining questions are about the subject of rejection. Secondary data are those collected from textbooks, publication journals, articles, seminar, notes .

**Table 1: Responses to question 9**

Parent company determine the accounting standard employed in a parent subsidiary relationship.

Option	Code	Frequency	%
Strongly Agree	5	7	17
Agree	4	20	48
Undecided	3	8	19
Disagree	2	6	14
Strongly Agree	1	1	2
		42	100

Field work 2012.

Table 1 represent the responses to question 9 on whether the parent company determine the accounting standard employed in parent subsidiary.

From the table 3 it is shown that 2% strongly disagree that the parent company determine the accounting standard employed in parent subsidiary relationship while 48% agreed that the parent company determine the accounting standard employed in parent subsidiary.

**Table: 2 Responses to question 13.**

Harmonization of accounting standard have impact on the determination of accounting standard in parent subsidiary relationship.

Option	Code	Frequency	%
Strongly Agree	5	6	14
Agree	4	20	48
Undecided	3	8	19
Disagree	2	8	19

Strongly Disagree	1	-	-
		42	100

Field work 2012.

Table 2: shows responses to question 13 as to whether harmonization of accounting standard have impact on the determination of accounting standard in a parent subsidiary relationship.

The table 2 portrays that 19% disagree while 48% agree that harmonization of accounting standard have impact on the determination accounting on parent subsidiary relationships.

**Table 3: responses to question 14**

Local culture and political environment have impact on the determination of accounting standard in a parent subsidiary relationship.

Option	Code	Frequency	%
Strongly agree	5	1	2
Agree	4	18	43
Undecided	3	13	31
Disagree	2	10	24
Strongly Disagree	1	-	-
		42	100

Field work 2012.

Table 3 represent the responses to question 14 on whether local culture and environment have impact on the determination of accounting standard use in parent subsidiary relationships.

The table 3 shows that 24% disagrees while 43% agreed that local culture and the political environment have impact on the determination of accounting standard use in parent subsidiary relationship.

**Method of Data Analysis**

The methods of data analysis adopted in the study include binary logistic regression and the z-test statistic for the company. The binary logistic population was adopted in the study since the data used was ordinary data. The z-test for the questionnaire were distributed to two different groups parent and subsidiary companies.

The z-test statistics is calculated as:

$$Z = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{O_1^2}{n_1} + \frac{O_2^2}{n_2}}}$$

**Test For Hypoteses**

In testing the hypothesis, the z-test for a manufacturing company.

**Hypotheses 1**

H<sub>0</sub>:The parent company does not determine the accounting standard employed in a parent subsidiary relationship.

Table 4: Summary of Z – test result to hypothesis

Z	-2.574263707
P(Z ≤ z) one tail	0.005022684
Z critical one tail	1.644853627
P(Z ≤ z) two tail	0.010045368
<u>Z critical two tail</u>	<u>1.959963985</u>

SPSS out put

H<sub>1</sub>:The parent company determines the accounting standard employed in a parent subsidiary relationship.

In testing hypotheses question 9, responses from an respondent were subjected to z-test through the use of SPSS the result in table 1.

From the analysis it was observed that the calculated z-test value of 2.57 in table 1 is greater than the critical z-value of 1.96 at 5% level of significance under the two tailed test. Therefore we reject the null hypotheses and accept the alternative hypothesis which states the parent company determines the accounting standard employed in a parent subsidiary relationship.

## **Hypotheses 2**

H<sub>0</sub>: Harmonization of accounting standard does not have any impact on the determination of accounting standard in a parent subsidiary relationship.

Table 5: Summary of test to Hypotheses 3

Z	-3.46438409607
P(Z ≤ z)	0.6418566894
Z critical one tail	1.646853627
P(Z ≤ z) two tail	1.2717487505
Z critical two tail	1.959963985

SPSS output

H<sub>1</sub>: Harmonization of accounting standard have impact on the determination of accounting standard in a parent subsidiary relationship.

In testing hypothesis 2 question 13 responses from our respondent were subject to z –test through the use of SPSS the result in table 2.

From the analysis it was observed that calculated z- value of 3.46 in table 2 is greater than the critical z-value of 1.96 at 5 % level of significance under the two tailed test. Therefore we reject the null hypothesis and accept the alternative hypothesis which states that harmonization of accounting standard have impact on the determination of accounting standard in apparent subsidiary relationship.

## **Hypotheses 3**

H<sub>0</sub>: Local culture and the political environment does not have impact on the determination of accounting standard use in a parent subsidiary relationship.

Table 6: Summary Z – test result to hypotheses 4

Z	-4.2581163707
P(Z ≤ z) one tail	0.054853684
Z critical one tail	1.644853627
P(Z ≤ z) two tail	0.0384E-06
Z critical two tail	1.959963985

SPSS output

H<sub>1</sub>: Local culture and political environment have impact on the determination of accounting standard in a parent subsidiary relationship.

From the analysis it was observed that the calculated z-value of 4.25 in table 6 is greater than the critical z-value of 1.96 at 5% level of significance under the two tailed test. Therefore we reject the null hypothesis and accept the alternative which says local culture and political environment have impact on the determination of accounting standard in a parent subsidiary relationship.

## **III. Summary Of Findings**

Based on the analysis of data conducted, the following findings are articulated:

- 1.The first null hypotheses state that the parent company does not determine the accounting standard employed in a parent subsidiary relationship which is to say that the Unilever head quarters in London is not the one that determine the accounting standard. According to the respondent it was not true because it is the parent company of Unilever in London that determine the accounting standard of the other subsidiary companies, including Unilever PLC, Nigeria .
2. Harmonization of accounting standard does not have any impact on the determination of accounting standard in parent subsidiary relationship. This null hypotheses was rejected because the Unilever PLC prepared their group accounting using international financial reporting standard which the company in Nigeria have agreed to comply with into 2012.
- 3.Local culture and the political environment does not have impact on the determination of accounting standard in a parent subsidiary relationship this statement was rejected because local culture and political environment have impact in the determination of accounting standard because despite the worldwide global accounting standard local and culture political environment have impact because the political environment in Nigeria is different from the political environment in the head quarters in London.

#### **IV. Conclusion**

It suffice to say judging from findings of this study, that accounting standard, between parent and subsidiary operation in the global community is moving towards single set of worldwide accounting rules which is referred to as harmonization. The parent subsidiaries in Nigeria, The Nigerian federal executive council (FEC) mentioned of recent that a company that has more than 500m should start using IFRS as from 2012 to prepare their financial statement.

#### **Recommendation**

The gap between parent subsidiary companies has been thoroughly ascertained in this study. Upon the findings of this study, the following recommendations are therefore made:

1. parent subsidiary companies should comply with the international Accounting standard for transparency, accountability, so that the preparation and presentation of financial statement will be reliable, credible and comparable with other financial statement globally.
2. The firms should work with executive who are trained and skill to deal with a variety of current culture and bring diverse teams together to achieve common goals. The executives should also be personnel who reflect global view, who have multi country, multi functional, multi-company and multi industrial experiences in international operations of firms.

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