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THE GREEK ACCOUNTING SYSTEM AND ITS CLASSIFICATION: A BRIEF REVIEW

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ABSTRACT

In this paper we are trying to analyze the Greek Accounting System during the modern history of accounting. We are concentrating on the development of the Greek financial reporting system and we are making reference to the environmental factors that helped for the risingof the financial reporting system in Greece. These factors are including the role of the state, the accounting and auditing profession, the legal system, the legislation governing financial reporting, the nature of business, and international influences. Finally, we will are referencing to the culture of the Greek financial reporting system as a determinant of the behaviour within and across the system.

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INTRODUCTION

Many and different countries have contributed to the development of accounting over the centuries. The archaeologists many times discover ancient remains with writing and numbers on and they can be sure that also those societies had the need to keep account. The Romans have developed the single-entry accounting and later Italy helped to led to the emergence of the double entry-system due to the increasing business. During the seventeenth century, we meet for first time the public subscription of share capital in Holland. Moving on we have the growing separation of ownership from management raised and the need for audit in nineteenth century in Britain. The majority of the European countries have contributed to the development of accounting: France led in the development of legal control over accounting, Scotland gave us the accountancy profession and Germany gave us standardized formats for financial statements. In the late nineteenth century the United States has given us the consolidation of financial statements, management accounting, and capitalization of leases and deferred tax accounting.

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Although international influences and similarities are very clear, there are great differences among the countries particularly in Europe. In this study we are trying to provide a description of the major characteristics of the financial reporting system in Greece as it has been formed during the recent past. Specifically, we will describe the Greek financial reporting system the time of the introduction of the consolidated accounts in 1987. Furthermore, we will analyze the most recent developments until 1994 that have contributed to the improvement of the accounting system and its current state. These developments will be explained as a consequent of the introduction of the consolidated accounts and we will estimate their impact.

According to the literacy, the modern history of accounting in Greece can be divided into four phases:

- The first covers the initial efforts towards accounting standardisation up to 1975.
- The second covers the period up to the adoption of the Fourth EU Law Directive and the development and application of the General Accounting Plan (GAP), which is up to 1987.
- The third phase covers the period up to 2004.
- In the start of 2005, all listed companies in the European Union are required to prepare their financial statements in

accordance with International Accounting Standards (IAS). So the fourth phase covers the period from 2005 until nowadays.

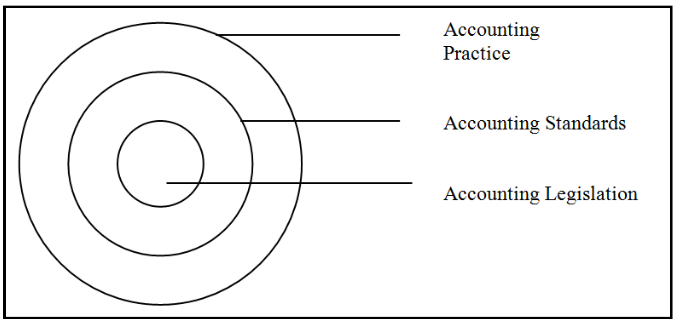
The study will concentrate on the development of the Greek financial reporting system andthis will be achieved by making reference to the environmental factors that gave rise to financial reporting system in Greece. These factors include the role of the state, the accounting and auditing profession, the legal system, the legislation governing financial reporting, the nature of business, and international influences. Furthermore, there will be reference to the culture of the Greek financial reporting system as a determinant of the behaviour within and across the system.

Accounting Systems

The criticism of Nobes (1998) of existing literature on classification studies provides useful guidelines for the clarity of the current study. He pinpointed that one must be very careful when defining "accounting practice", "accounting systems", and so on. The current study will use the term financial reporting system or accounting system to define mainly financial reporting regulation. Furthermore, there will be reference to financial reporting standards as well. Of course, a financial reporting system consists of regulation, standards, and practices. However, there will not be any structural investigation in the financial reporting practices of the Greek financial reporting system. The main reason for that is the minor and insignificant difference between regulation and practice in Greece.

Relationship between Accounting Regulation, Standards, Practice

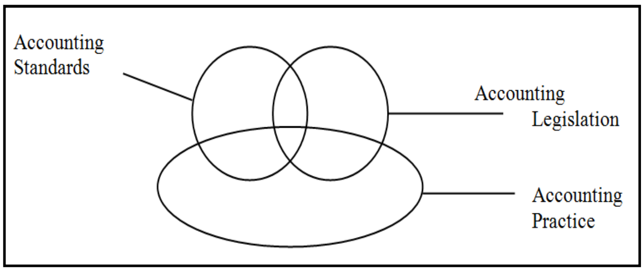
The relationship between accounting regulation, standards, and practice is evident in figure 5. Accounting practices include the general rules that accountants use in the preparation of financial statements and describe the usual way of doing that by the majority of companies. However, figure 5 does not provide the real picture of that relationship. A more exact relationship is shown in figure 6. There are as many similarities as differences that lead to conflicts between accounting regulation, standards, and practices.



Source: Adapted from Venieris (1999).

Figure 1. The relationship between accounting legislation, standards, and practice

The main sources of accounting practices are the experience of the accountants emerging from their past dealings with the same matters, the guidelines concerning accounting treatments that have been developed by the companies or by audit firms, the judgement of prominent professionals, and the background of the accountants themselves. On the other hand, accounting standards cover a wide range of directives that prescribe the rules that should be followed in the preparation of financial statements. Their distinctive characteristic is that they are not laws. However, they attract the respect and compliance of the accountants. They do so because they consider accounting standards to be set by accountants for accountants. It has to be noticed that they do not always comply with the standards.



Source: Adapted from Venieris (1999).

Figure 2. The relationship between accounting legislation, standards, and practice

Specifically, accounting standards cover a wider spectrum of matters than regulation does. Therefore, they extend or supplement regulation, when it does not include some matters or it is inadequate in dealing with some others. The existence and application of accounting standards reduce the ability of the accountants to manipulate the financial statements by using accounting practices that are misleading. Figure 1represents accounting regulation, accounting standards, and accounting practices in a hierarchical order. Actually, this relationship could be more aptly presented in Figure 2. A closer look to figure 1 could shed light to the actual relationship between the three elements of financial reporting. We have to bear in mind that there are accounting practices that are neither prescribed by regulation nor included in the accounting standards.

The Role of the State in Greece

Greece is a presidential parliamentary democracy. According to the Greek constitution, the legislative power is exercised by the Parliament. While judicial power is exercised by the courts of law, executive power is exercised by the government and its ministers. This fact has serious implications on financial reporting and moreover to the accounting system because the government is the only true rule – issuing body in Greece. There are two main reasons for this involvement:

- Tax liabilities in the corporate sector are calculated on the basis of published financial statements, and
- These statements must be accurate, clear and reliable, containing indisputable information to be used by investors in the capital and money markets.

The Accounting and Auditing Profession

The Greek Institute of Certified Auditors (SOE) is the official body of the auditing profession. In 1993, SOE numbered about 1000 members, 600 of them originated from the former Institute of Chartered Accountants (SOL) and the other 400 from the Association of Chartered Accountants and Auditors (SELE). There has been no considerable increase since that date (Venieris, 1999). SOE is under the supervision of the Ministry of National Economy and is governed by a seven-member Supervisory Council, which is elected from the general assembly of certified auditors. The council has the authority to regulate the profession within the framework of the law and to monitor the activities of the registered members. A further development in the accounting and auditing profession is the creation of the NCA, which was initiated by the need for a more professional approach, as opposed to the state, to accounting issues. Specifically, as the revision of the GAP is an ongoing process, and because new problems in its application are continually arising, Law 1041/1980 provided for the creation of the NCA (Venieris, 1999). The NCA is a specialised government body and its objective is to issue opinions to the government which are necessary for the smooth and the continuation of the accounting process. The NCA is a standing committee consisting of the chairman and 23 other members. The members must be university graduates with experience in accounting, and the chairman must be one of the following: a university accounting professor, a university graduate with fifteen years of professional accounting experience, or a holder of a PhD in accounting with ten years of professional accounting experience. The membership of NCA is presented in the table below.

1	Chairman
3	Senior officials from the Ministries of National Economy, Trade and Finance
1	Director of the National Service of Statistics
1	Director of the Accounting Harmonisation Directorate of the Ministry of National Economy.*
3	Representatives of the Greek Economic Council
2	Representatives of the Confederation of Traders
1	Representative of the Association of Chambers of Commerce
1	Representative of the Confederation of Greek Industries
1	Representative of the Union of Greek Banks
1	Representative of the Agricultural Union
1	Representative of the Union of Sociétés Anonymes and Limited Liability Companies
1	Representative of the National Union of Accountants
1	Representative of the Institute of Certified Auditors
6	Specialists in accounting matters.

Source: Adapted from Venieris (1999)

Figure 3. The membership of NCA

The profession of accounting in Greece has not yet achieved the level of development found in the United States and most of the European countries. The Institute of Greek Chartered Auditors was established in May 1993. For this reason, according to Caseley (1998) little or no attention has been given to the setting and application of accounting standards, or to dealing officially with current accounting issues such as the European Monetary Union. However, the status of the accounting profession is continually increasing in Greece via the establishment of committees such as the NCA with wide representation of professional and academics accountants. Finally, these committees increase the influence of the profession in the rule making process.

The Legal System

Greece is a codified law country. The sources of law are legislation and custom. Under the Civil Code, legislation is the most influential source of law in Greece. Law making is the responsibility of the legislature. It is not formally admitted that judges create rules of law. The courts are not bound by judicial precedent, as they are under Anglo-American common law. Custom contributes to clarifying the ideas and intentions of the legislature. It is not of equal importance with legislation andit cannot overrule stature law. Generally accepted rules of international law also constitute a source of law under the Greek constitution. With the country's accession to the European Union, EU law has become part of the Greek legal system.

International Influences

The accounting system of Greece has been influenced to a significant extent by international developments, particularly as a result of the recommendations of the IASC and the requirements of the Fourth and Seventh European Company Law Directives. However, according to Venieris (1999) the implementation of the Fourth and Seventh European Law Directives has been the most important international influence on financial reporting in Greece and are considered to be a milestone in Greek accounting history. Indeed, Greece became the tenth member of the European Economic Community in 1981, and the project to implement the directives in Greek law led directly to the development of the General Accounting Plan (GAP). This fact reinforces the scope of the study as it attempts to explore the Greek financial reporting system by examining its reaction to the Seventh Directive.

Legislation Governing Financial Reporting

The General Accounting Plan: The most important development in the financial reporting system in Greece has been the General Accounting Plan (GAP). The introduction of the GAP has been a great step forward in the process of producing information which is more useful to the management of the company, its investors and the public in general, and which is free in tax orientation at least in principle. It also facilitates uniformity in terminology in the presentation of financial statements, and lays down common valuation rules. Accounting information today is more reliable and extensive which contributes towards the development of Greek companies and also helps the authorities to exercise a fairer taxation policy. However, Venieris (1999) noted that it should be emphasised that the existence of the GAP and the efforts that have been made towards harmonisation, financial reporting in Greece still has a very strong orientation towards tax assessment. In other words, there is still a degree of conflict between tax accounting and financial reporting compounded by the fact that the state, the ultimate and most powerful rule-issuing body has a greater immediate interest in collecting revenue from taxes than in the flourishing of accounting standards and practices. From 2005 Greece as a member of the European Union is using financial statements in accordance with International Accounting Standards (IAS)

The Books and Documents Code

The Books and Documents Code, published as PD 186/1992, governs the rights and obligations of businesses and professionals with respect to bookkeeping and the issuance of documents, and also sets down certain rules with reference to the assessment of taxation (Karadanis, 1992; Melas; 1992 in Venieris, 1999). Failure to comply with these regulations for tax purposes may result in heavy fines. Basicallythe tax law, the Books and Documents Code have contributed to the developments of the body of accounting principles in force in Greece. The Tax Data Code (the predecessor of the Books and Documents Code) had given and almost total tax orientation to accounting. In contrast, the new Code incorporates to a greater extent other developments in accounting theory and practice by ensuring compliance with the GAP and by giving some validity to accounting records as the basis for the calculation of tax liabilities. Furthermore, the Books and Documents Code has a particular bearing on financial reporting in Greece in that it extends the provisions of the GAP on certain issues.

Company Law

Law 2190, first approved in 1920, governs all activities of Greek companies. This law has been amended several times, most recently to incorporate the First, Second, Fourth and Seventh European Company Law Directives in compliance with the GAP. Law 2190/1920 defines the disclosure requirements of the companies. It also emphasises that financial statements must give a true and fair view of the company's financial position and results. The principles that must be followed in the preparation of the financial statements are set down in the law as well:

- The entity principle,
- The consistency principle,
- The principle of conservatism,
- The accrual principle,
- The principle of valuation on an item by item basis.

The Greek Accounting Standards

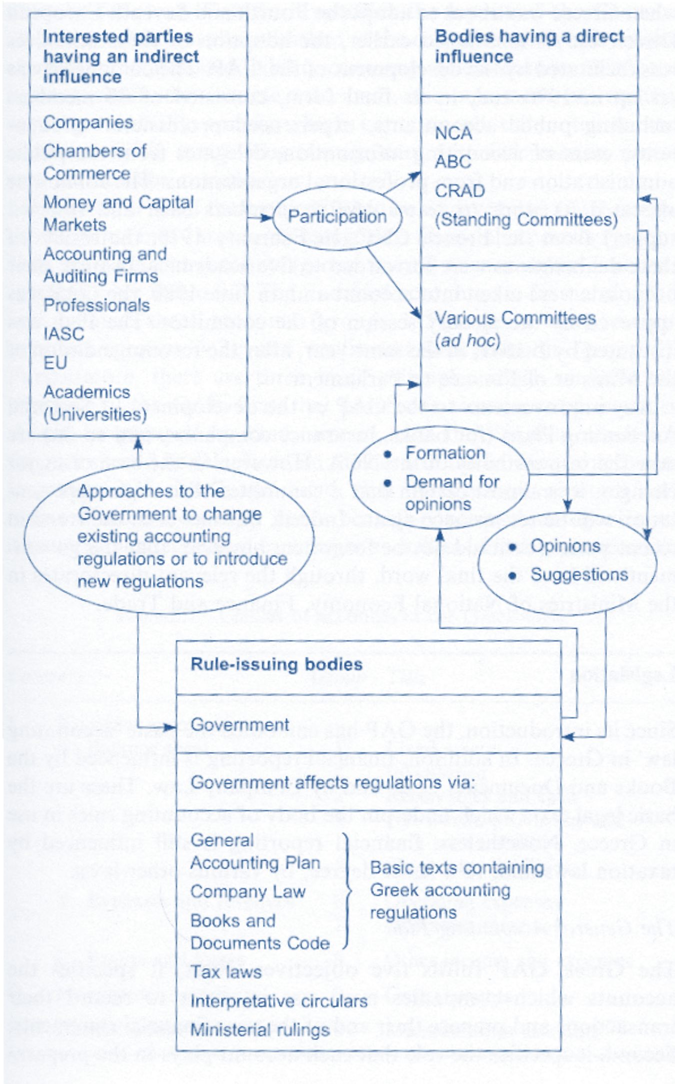
The Greek Accounting Standards have been formed as a result of the implementation of the Fourth EU Law Directive in Greece and they mainly refer to valuation rules. These standards are included in the General Accounting Plan, the Company Law, and the Books and Documents Code. The major characteristic of the Greek accounting standards is that they are found in various legal documents in a more or less abstract and general form. This fact minimises their status and force the application. In contrast, the International Accounting Standards refer every time to a specific issue defining the proper accounting treatment in a comprehensive way. Another major characteristic of the Greek Accounting Standards is the fact that they are tax-orientated. This is mainly due to the fact that the state, the ultimate rule issuing body in Greece, has a greater interest in collecting taxes than contribute to accounting advancement. This view could be justified by the fact that a company could prepare its financial statements based only on the tax law (Varvatsoulis, 1995). The nature of the Greek Accounting Standards, as described above, reduces their importance and, consequently, increases the power of legislation. This fact has serious implications for accounting practice as well.

The Financing System

Banks are the major source of short-term founds in Greece and, therefore, one of the main users of financial statements. Another source of financing, mainly, long-term is the Athens Stock Exchange (ASE). The ASE has been in operation for the last 116 years, but during the last seven its organisational and operational structure has changed substantially and this has attracted many more Greek as well as foreign, mainly institutional investors.

The Corporate Sector

In recent years there has been a substantial increase in the corporate sector. Specifically, the number of industrial companies in Greece increased from 3210 in 1986 to 4112 in 1990 while the number of commercial companies increased from 2753 in 1986 to 4180 in 1990. Given the existence in 1990 of another 2022 companies rendering services, a total of 10314 companies publish end-of-year financial statements. It is these companies with are subject to financial reporting regulation in Greece. Most of these companies are family-owned, medium size companies.



Source: Adapted from Venieris (1999)

Figure 4. The process of accounting regulation in Greece

Environmental Factors Influencing the Accounting Harmonization

International accounting liaison broadly argues that accounting harmonization is largely lead by environment existent in different countries. Market and cultural forces consist in a multifunctional context where IAS's effectiveness becomes ambiguous. Relative international literature by: Gray 1988; Zarzeski 1996; Gbenedio *et al.* 1998; D'Arcy 2001;Barbu 2005; assert that: *Education level* is the prop for modern complex accounting systems. It has been found that there is a positive link between education level and the aptitude of professional accountants (Gernon *et al.* 1987). The implementation of IAS is a very complex and crucial decision; it requires a high level of education and skilfulness able to perceive and interpret these standards. In a complex process as

IAS's frame professional judgment must be exercised trough qualification and well-training procedures (Doupnik *et al* 1995; Street 2002). In essence in countries where the education level is low and expertise is weak, there is a substantial handicap to the embrace of IAS. *Economic conditions* are another basic determinant in the completeness of a country's accounting system. Specifically, it has been founded that a country's level of economic growth has a strong effect on the development of accounting policy (Adhikari *et al*. 1992). Indeed, as mush the level of economic growth is relatively high as much the social function of accountancy is considerable important. Where information has been the cornerstone of economic life (Abdolmohammadi *et al*. 2002; Nobes 1998), the accounting system becomes subject of significant changes in response to evolutionary economic conditions of a more dynamic business environment. Therefore by adopting IAS is like to imprint the *economic growth*.

External opening in economy, external conditions could potentially impact the adoption of IAS. Investors, multinational enterprises, international accounting firms, and financial institutions are the primary components behind the development and adoption of IAS. Cooke *et al*. (1990)mentioned to the relevance of external environmental factors in trying to conceptualize accounting systems. For example factors as the degree of outside "*economic openness"* is critical since the more a country's economy is open to the outside world, the more the country's exposure to diverse global pressures. Such pressures which define the "global players" affect largely the adoption of IAS.

The subsistence of a capital market is considered one of the key factors in a country's economic evolution on account of its role in the beneficial allocation of resources among various economic sectors and among firms. High quality accounting information is a critical element in the evolution of an efficiently functioning capital market. According to Gray *et al* (1984), investors demand quality financial information for being able to make beneficial by analyzing investment opportunities. Occasionally, they fully exert pressures to reforming the accounting system of a country. Therefore in developing capital markets, the regulator bodies tend to promote sophisticated accounting systems utilized by investors in making their decisions (Adhikari *et al* 1992). *Cultural symmetry in a group of countries,* culture reasoning is a significant factor in adoption of accounting statutory. Countries belonging to a culture cluster adopting the accounting policy inspired by countries with similar cultural peculiarities (Nobes 1998). Abdelsalam *et al* (2003) enlightened the contribution of familiarity and language to the process of implementation of a new accounting frame. They demonstrated that both factors, i.e., familiarity and language, seem to function in favour of countries in the Anglo-American group, primarily on account of the predominant Anglo-American influence in the elaboration of IAS and also because English is the language of communication within the major institutional bodies IASB, FASB . So assumedly the predominance of the Anglo-American influence on the IASB's work (Chamisa 2000; Hove 1986), we presumably consider that adoption of IAS would be easier for these countries nearest to Anglo-American culture because of resolving easily interpreting conflicts.

Greek National Capacity and advancing for convergence on IAS: All the above mentioned factors and the statement of United Nation conference (2006) that "Effective implementation also calls for a mechanism for ongoing interaction between the standard setter and national regulators……..and additional mechanisms are needed to cope with demand of such scope and diversity" are so important. In addition the survey of National Accounting rules written by: Deloitte Touch; Ernest &Young; Grant Thornton; KPMG; PricewaterhouseCoopers, (2000) where Greek accounting requirements based on corporate Law 2190/1920 outline a tax-driven regime with no-supporting a fair view context. So we easily approach the National attitudes and practices consistent in Greek accounting statutory. More specifically almost all of Greek companies listed on the Athens Stock Exchange (ASE) have suffered from heavy consequences related with decline fidelity and credibility. Particularly during the years 1999-2000 the Greek companies were faced with onerous depression as local accounting standards were partially responsible for this. Generallythe Greek companies were too far from a harmonizing accounting context. Greece adopted accounting harmonization quite recently with the enactment of Law 2992/2002 by which Greek listed companies can apply the IAS starting calendar year 2003.

However a key issue arising from doing so is the readiness of Greek companies and the substantive qualitative harmonization. In an innovative paper by Floropoulos (2003) carried out a survey for examining accounting harmonization in a sample of companies in North-Eastern Greek and Thrace. The results have given the evidence that "the use of IAS in Greece is far from the desired level" and also that there is a lack of professional experience and knowledge of IAS among accountants. A recent survey was carried out by Athianos, S. *et al*. (2006). They have examined the implementation of IASs on the comparability of three accounting practices, inventory, depreciation and financial statement presentation for each fiscal period 2004 and 2005. The findings confirm the fact that harmonization occurred passing from 2004 Greek accounting statutory to 2005 obligatory IAS adoption, indicating the alignment with new accounting frame. Generally speaking as long as Greek economy is lead by global market forces harmonization process will gain ground as result of financial evolution to maturity.

Conclusion

The above description of the financial reporting regulation system in Greece made obvious some of the elements of the system. Firstly, the dominant role of the state has been established. Financial reporting in Greece serves to a high degree the objectives of the government as stated above. Secondly, the continually increasing role of the profession is a very important consideration. However, at present is of secondary importance. Thirdly, international organisations appear to have had an enormous impact on the system. They could be regarded as being intrusions to the system and change in a way structure or the elements of the system. Finally, we identified the neighbouring systems of financial reporting system, namely the financing system, the nature of the business, and the legal system. In addition, each and every of the mentioned systems have their own culture. These conclusions are helpful because it's more than obvious the interaction of the elements of the system itself (intra-systems activity) and the interaction of the system with the neighbouring systems (trans-systems activity).

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