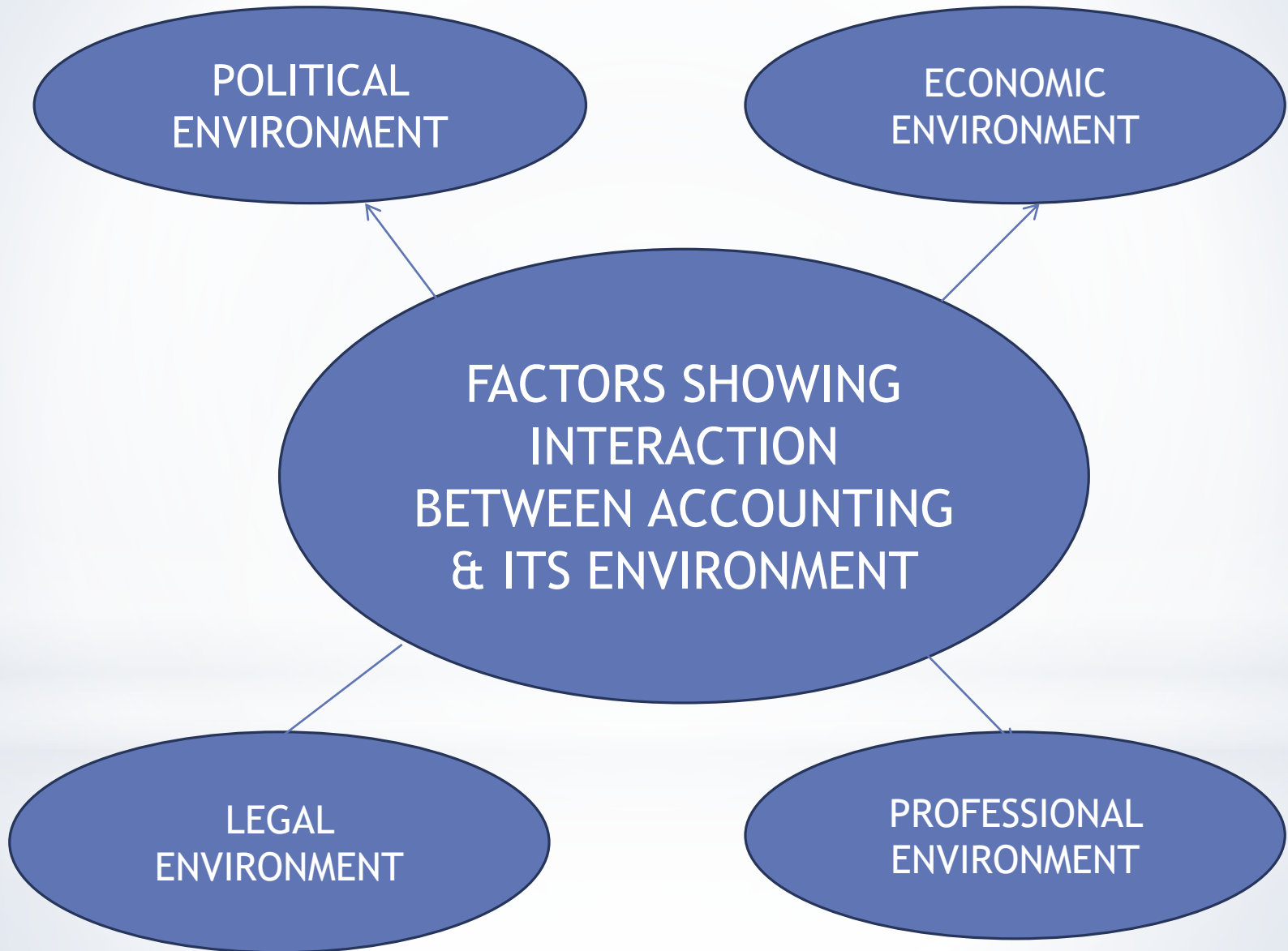


**\* INTERACTION  
BETWEEN  
ACCOUNTING AND  
ITS ENVIRONMENT**

# \* INTRODUCTION

Environment plays a dominant role in developing accounting. Accounting is the product of its environment. There is an interdependence between accounting and its environment in which it exists. A country's accounting regulations and practices are the product of a complex interaction of social, economic and institutional factors. The factors that impact accounting development at the national level also contribute to accounting at the international level.



## POLITICAL ENVIRONMENT

It is historical fact that accounting literature was more developed in politically stable countries like UK and USA in comparison to unstable countries like Sri Lanka, Bangladesh, Afghanistan.

# \* Political environment includes:-

## 1. Type of reporting regime

Countries such as UK and USA have mostly independent sets of rules for financial reporting and tax reporting. These countries have to be followed set detailed rules for both tax reporting and external financial reporting. However in countries with a single reporting system, inflation earning in financial reports comes to a high price in the form of a high tax liability.

## 2. Political & economic ties

Another important factor that shapes accounting development in countries is the political and economic ties between countries. They have the potential to influence accounting developments in countries.

For eg:- The accounting in Canada is greatly influenced by accounting in US because US represents the largest export market for Canada and also a large no. of Canadian firms listed on US stock exchanges and also too affects their accounting.

# ECONOMIC ENVIRONMENT

Economy wise classification  
of the whole world:-

Developed  
economies

Developing  
economies

Under-developed  
economies

# Economic environment includes:-

## A. Nature of a capital market

It includes:-

- i. Equity oriented or debt oriented market
- ii. Level of sophistication of capital market
- iii. Level of globalisation

## B. Type of business entities

## C. Level of inflation



# LEGAL ENVIRONMENT

IT INCLUDES:-

1. Type of legal system
2. Level of enforcement of regulation

# PROFESSIONAL ENVIRONMENT

IT INCLUDES:-

- A. Status of accounting profession
- B. Existence of a conceptual framework
- C. Quality of accounting education

# \* CONCLUSION

So there are different factors ie economic , legal , professional and political which gives the interaction between accounting and its environment.

\*THANKYOU