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Translation of IFRS: Language as a barrier to comparability

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ABSTRACT

This study examines the translation of International Financial Reporting Standards (IFRS) from the official English version into Spanish by Mexican professional accountants. The use of IFRS in languages other than English creates the potential for translation differences that may introduce variation in accounting outcomes when different languages are used. In particular, given the move toward principles-based standards, with the corresponding increase in the proportion of generic phrases, the consistent translation of these terms is likely to become increasingly important. Thirty-eight participants translated (from English to Spanish) a total of 47 phrases excerpted from five different IFRS. Consistent with our hypotheses, we find that translations of accounting-specific phrases have less variation in translation than generic phrases, as exhibited by greater inter-rater agreement and lower relative dispersion.

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Introduction

The purpose of this research is to analyze differences in how professional accountants translate IFRS from the official English into another language. In this study, we examine the translation of phrases found in IFRS from the original English into Spanish by professional accountants in Mexico. This research addresses an important aspect of how accountants practicing in non-English speaking environments translate IFRS published in English. Translations from the official English by practicing accountants is relevant because time lags exist between the initial publication of IFRS in English and the subsequent publication of official translations into various languages (Larson & Street, 2004), thus necessitating intermediary translations by individual practicing accountants.

The International Accounting Standards Board (IASB), Financial Accounting Standards Board (FASB), and Securities and Exchange Commission (SEC) have each indicated that increased comparability is an important goal

associated with convergence of accounting standards internationally (Barth, 2008; IASB, 2006; SEC, 2008, 2010). At the same time, previous research has demonstrated the existence of differences in translation of IFRS (Doupnik & Riccio, 2006); and it has been suggested that these differences may give rise to a variety of problems (Baskerville & Evans, 2011; Nobes, 2006; Wong, 2004; Zeff, 2007). Chief among these is the potential for decreased comparability (Tsakumis, Campbell, & Doupnik, 2009). The SEC recently reiterated the concern that differences in translation may reduce the benefits of adopting a single set of global accounting standards (SEC, 2010).

Also, the IASB should be concerned about the importance of translation issues as these bear on its legitimacy as a rule-making body.¹ Accordingly, an increased understanding of the sources and nature of translation differences is important as it will aid standard setters in responding appropriately to this threat. We add to the existing research

¹ The European Union (EU) translates all of its laws into all of the EU's 23 official languages (http://ec.europa.eu/dgs/translation/translating/official-languages/index_en.htm). According to Larson and Herz (2011) the EU produces this comprehensive set of translations in order to enhance the legitimacy of its due process.

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in this area by examining translations of IFRS by practicing accountants in Mexico, from the original English into Spanish. As discussed in more detail below, IFRS are initially developed and published in English. According to the IASB website, as of September 2012, the entire body of IFRS (the 2009 or later version of these standards) has been officially translated into 18 additional languages.² Spanish is one of the languages for which a 2011 version of IFRS exists.³ While accountants in a large number of countries have access to the most recent version in their own language, accounting standards are continually updated and there will always be some time lag between the development of an accounting standard in English and its official translation into other languages.

A 2002 survey on the topic of convergence conducted by the six largest accounting firms indicates that practicing accountants sometimes translate from the official English version into their working language (BDO et al., 2003). Also, the existence of an official IFRS translation into a particular language does not necessarily imply widespread availability given various impediments (e.g., cost, availability). Therefore, accountants in countries where English is not the official language at times employ English versions of IFRS in lieu of versions in their native language, and translate into their native language in the process of applying the standard(s).

Previous research in accounting and other fields has indicated that words are not easily translated from one language to another (Archer & McLeay, 1991; Doupnik & Richter, 2003). In fact, it has been argued that words in different languages are simply not equivalent (Saussure, 1915/1966). Thus, while standard setters may have a specific concept in mind when writing a standard in English, this concept may not translate directly into some other languages. Finally, when individual accountants translate from English, rather than using an official translation in their language, it is likely that a variety of words are used in practice within the same language, potentially leading to different accounting outcomes. In the next section of this paper we discuss literature that illustrates the impact of differences in how terms are translated and applied (Doupnik & Richter 2003, 2004).

An additional important element of the current accounting standard setting environment, globally, is the move toward principles-based standards. There is a general consensus that principles-based standards require relatively more professional judgment than rules-based standards. Baskerville and Evans (2011, p. 54) report that survey respondents "... suggest that precision in translation is even more important 'in principles-based standards where little additional guidance is provided' and that a principles-based approach allows greater flexibility in interpretation, and by implication, creates greater challenges and uncertainty in translation." Current U.S. Generally Accepted

Accounting Principles (GAAPs) are often characterized as being rules-based. Although it is possible that the advent of principles-based standards is beneficial on an overall basis, we argue that any problems that arise due to differences in translation are likely to be exacerbated in a principles-based *vis-à-vis* a rules-based setting. In particular, principles-based standards contain relatively more words that can be characterized as generic (as opposed to accounting-specific). We provide evidence that these words are more susceptible to variation in translation. Also, there are some cases where U.S. GAAP, generally considered rules-based, employs a specific percentage whereas IFRS uses a word that requires some amount of judgment. For example, with respect to the classification of leases, U.S. GAAP provides a numerical threshold for the lease term of 75% of the estimated useful life of the asset. IFRS on the other hand, focuses on whether *substantially all* of the risk of asset ownership has been transferred to the lessee. Given this increased likelihood of translation differences and the potential for problems as a result, it is important to understand the nature and extent of such differences.

Our research contributes to the literature by examining how IFRS phrases are translated from English into Spanish. Our study addresses an issue not previously studied; we compare variation in translations of two distinct types of phrases: generic and accounting-specific. Specifically, we document the existence of translation differences between professional accountants within a single country, Mexico.

We investigate the question of whether accounting-specific phrases reflect less frequent differences, relative to generic phrases, when translated by practicing accountants, from English into Spanish. Further, we quantitatively describe these differences. We hypothesize and find that translations of generic terminology display more variation as indicated by lower inter-rater agreement and higher relative dispersion compared to translations of accounting-specific terminology.

In the next section we review the relevant literature. Section three describes the research method. Results are presented in section four and section five includes our discussion. Conclusions, limitations, and directions for future research are included in section six.

Translation literature and hypotheses

The translation process

Concerns about translating IFRS (from English) have existed almost since their inception.⁴ Hussein (1981) argued that the International Accounting Standards Committee Foundation (IASCF)⁵ policy of allowing its members to translate into the various relevant languages left open the possibility of mistranslations. He suggested that the IASCF exercise oversight of these translation processes to ensure

² These languages are: Arabic, Chinese, Finnish, French, Georgian, German, Hebrew, Italian, Japanese, Polish, Portuguese (Brazil), Romanian, Russian, Serbian, Slovak, Spanish, Turkish, and Ukrainian. There are a larger number of languages for earlier editions.

³ A Spanish version as adopted by the European Union also exists. This version includes up to IFRS 8 (issued in November 2006).

⁴ Previously, the term International Accounting Standards (IAS) was used to refer to these standards. For convenience, we use the term IFRS throughout.

⁵ Until June 30, 2010, the trustees of the IASCF were responsible for selecting the members of the International Accounting Standards Board (IASB). As of July 1, 2010, the IASCF became the IFRS Foundation.

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