

THE DEVELOPMENT OF ACCOUNTING IN IRAN: ORIGIN, GROWTH AND PRACTICE

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ABSTRACT

The main purpose of this paper is to show the origins, growth and the practice of accounting in Iran. Influential factors such as financial markets, tax policies, privatization, membership in World Trade Organization, foreign investments and legal system are analyzed. Documents of ancient Iran show that in 550 B.C. (in Achaemenid age), all public incomes and costs were held and kept soundly and punctually; and then accounting has been developing during the next eras (that is, pre-Islamic era, post-Islamic era, and contemporary era). During the last two decades, Audit Organization has taken various measures to enhance accounting profession in Iran via harmonizing Iranian profession with global practices. Although now, Iran utilizes International Financial Reporting Standards as a basis for developing National Accounting Standards, there are still some differences between Iranian and international standards, and there are some International Accounting Standards without any application in Iran. In fact, special features of operating environment, existing laws and rules, religious beliefs, culture, and economic and political conditions in Iran, like other countries, have been considered in National Accounting Standards setting processes.

KEY WORDS: IRAN, Accounting History, Iranian Accounting standards, International Accounting Standards, Culture

1. INTRODUCTION

Recent improvements in information and financial technology have focused attention on the ideas of global business strategy and alliances. How well the outside world understands the business practices of a particular country could determine the difference between a successful and a failed outcome —especially if the country is an emerging economy (Ashraf and Ghani, 2005), such as Iran. An essential part of this understanding is to determine how a country's business entities measure, summarize, and finally report their economic transactions to their stakeholders. This is the focus of this paper: the origins and the development of accounting in Iran with emphasis on the factors that have influenced accounting disclosures and practices.

Earlier research focused on the development, variety, and classification of accounting practices of different groups of countries¹. A recent review of accounting literature reveals that the level of economic development, the nature of business enterprises and their relationships with providers of capital, political and economic ties, legal system (common vs. code law), tax laws, inflation levels, and level of education, are important environmental factors that influence accounting practices².

Islamic nations have been mostly left out of the accounting development research (Meek and Thomas, 2004); therefore, this study contributes to the literature on the development of accounting because Iran is an Islamic Republic and has a long and old history in accounting and auditing. Besides, because of its natural resources and new industries —such as petrochemical industry— Iran offers a capable investing opportunity to foreign investors who wish to diversify their risks by investing in capital markets of other countries and the results of this study will be interesting for them.

This study familiarizes the international authors with the professional situation of accounting in Iran. The first section of this paper is about social and economical indexes in Iran. Then, accounting position in Iran's history and its development during the time will be discussed. The next section is about the factors affecting accounting development in Iran, which include financial markets, tax policies, privatization, membership in World Trade Organization (WTO), and foreign investments. After that, the history of accounting standards and current standard setting processes in Iran will be discussed. Finally, we shall talk about the cultural factors affecting accounting development in Iran.

2. ISLAMIC REPUBLIC OF IRAN – AN INTRODUCTION

Iran, a nation of more than 69 million people is situated in western Asia, in a region commonly referred to as the Middle East. Geographically, Iran's surface area is 1,648,195 km².

Iran is a rich country with rich resources of oil and gas and other natural reserves. However, it is considered as a developing country³.

¹ - such as DaCosta, Bourgeois, & Larson, 1978; Douppnik, ;1987Frank, 1979; Nair & Frank, 1980

² - such as Douppnik & Salter, 1995; Gernon & Meek, 2001; Meek & Saudagaran, 1990; Mueller, 1967

³ - The World Bank defines a "developing country" as one whose average per capita income did not exceed US\$ 9266 in 1999.

For the recent decades , Iran 's population has been growing at an alarming rate and Exhibit 1 shows the population and its growth from 1978 to 2006.

EXHIBIT 1 IS ABOUT HERE

The majority of this population lives in the urban areas, and relies on an oil-based economy. Wheat, rice and date, are the main agricultural products .

At the time of the 1979 Islamic revolution, Iran had enjoyed almost two decades of rapid economic growth as well as huge changes in its social structures. The country attracted a number of multinational companies, some of which were listed on the Tehran Stock Exchange (TSE). After the advent of the Islamic Revolution, Iran changed its course considerably and established new social, economic and political structures. Instabilities arose in the redirection of political power with the overthrow of the Shah's government and the installation of the Islamic Republic of Iran. Under the Islamic government, developmental policies sought to achieve the multiple objectives of social justice, modernization, and 'politically correct' Islamic institutions.

Gross national product (GNP) has increased during the last quarter of last decade (without considering the oil price). However, in case of oil price, there is no increase in GNP. Exhibit 2 shows the related process after the Islamic Revolution.

EXHIBIT 2 IS ABOUT HERE

Owing to the special economic structure of Iran, foreign trades have always been one of the most important parts of economic development process in the country. It has been for years that the people in charge of Iran economics have been trying to balance the foreign export and import figures, but there has been no agreement in a single plan for balancing the foreign trade. After oil discovery and its profit making in Iran, it has always been discussed that the dependency on the oil income should be decreased and the export of other products should be increased. Many plans have been proposed in the field of decreasing imports and dependency on foreign goods. Although foreign trade balance has been in deficit for a long time in Iran, imbalance in foreign trade has been increased during the years. Exhibit 3 shows the import and export figures in the final quarter of the last decade.

EXHIBIT 3 IS ABOUT HERE

Inflation pressures began in Iran's economy, especially in 1974 when oil income increased by four times and reached its highest level in 1977. After the Islamic Revolution, capital – going out, economic embargoes, imposed war and huge compression of capital in service sector, made the prices increase. Inflation is mostly the result of high demand. Besides, variables in economic demands such as cash hold in private sector, credits assigned to private sector, components of governmental cost budgets, quantity and the method of budget deficit recovery, and the population growth rate, were not in a correct process and have

been an important role in destroying the Iran economic. Exhibit 4 shows the changes in inflation rate during the last quarter of last decade.

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3. ACCOUNTING HISTORY IN IRAN

Accounting in the world has a background of 6000 years and the first accounting documents were discovered about 3600 BC. The document of ancient Iran shows that in 550 B.C. (in Achaemenid age), all public incomes and costs were held and kept, soundly and punctually. In this section, we shall discuss the accounting history in Iran in three different eras: *pre-Islamic era*, *post-Islamic era (From Abbasid to Qajar age)*, and *contemporary era*.

3.1. ACCOUNTING IN PRE-ISLAMIC ERA IN IRAN

According to the historical evidences and documentaries, Iran has had an illustrious and great antecedent in trade history; Iranians were the greatest land and sea trade leaders in the history. In fact, as long as the history recalls, Iranians changed into adequate traders (Motazed, 1987). If we take a deep look at the trade evidences of the Achaemenid dynasty from the time of Cyrus the Great, we will find out that trade meant a lot to them. Darius the Great administered justice and safety of the roads and the sea. He showed a great deal of interest in progressing trade (Zarrinkub, 1996).

The economy in the Achaemenid age especially under Darius was really regulated and organized like all aspects and issues. The economic system was built upon obviating of needs among different social groups from the poorest to the richest.

The bredehs of Takhte-Jamshid rampart best reveals the upheaval and solidarity of the social and economical system. These bredehs show the economical process, which has taken place regarding payment, reception of allotment and a high detailed report of exchanging goods in different areas. In addition, they indicate the economical upheaval from a very primary stage into a dynamic and complete one, which was based on coin and money.

Surely, it cannot be claimed that the bredehs of Takhte-Jamshid rampart can completely cover all aspects of the economic system related to this era. In the meantime, the information extracted from these bredehs is significant. This information is the result of the secretaries and counselors' efforts in registering the remarkable financial reports of those days.

In fact, Darius the Great was the originator of the economical and financial affairs, shown by the bredehs. Some of these bredehs show that the tax officers received taxes. These envoys are identified by turnovers such as nomination and regulation of taxes, receiving and expending them. There was a person in charge to send the groups of envoys to the areas to collect taxes. In addition, he himself supervised the amount of the taxes. This process engaged many people in administrative positions such as secretary and counselor. They were responsible for registering all of the economical reports and providing the bredehs.

Today we have obtained the archived documents in two forms. One is rampart bredehs and the other one is called treasury of Persepolis. Accounting and

interpolation of accountancy reports are very important issues that should come into consideration. Examining these bredees will prove that accounting process and registering the reports were delicate, accurate and that they followed the basic accounting principles. The exact figures, which were used by the accountants, to show the exact amount of goods or allotment, best indicate the imitation of the exact accounting principles. Another accounting practiced by accountants was preparation of "Balance Sheet". These balance sheets were usually prepared for a few years and showed the exact date and exact financial figures to be used at the end of the year.

Tax has great history in ancient Iran. Receiving taxes also was customary during the Achaemenid era. During Seleucid era (312 B.C.), tax system was the same as the Achaemenid era. They collected taxes from great property owners (like Darius I) and they cut it down in smaller territories. In other words, they did not receive *percapita tax*. The main tax during the Arsacid era (187 B.C .) was the *territorial taxes* that they collected in cash or in substances. They also received *percapita tax*. One of the other kinds of tax collected in this era for the first time in Iran's history was *Custom Toll*.

3.2. ACCOUNTING IN POST – ISLAMIC ERA IN IRAN - -FROM ABBASID TO QAJAR AGE

The study of government's history expresses the evolution of financial and taxation concepts in Samanid, Safavid and Qajar ages, which will be discussed in the following.

In Samanid era, the government's income was largely earned from *percapita* and *territorial taxes*. The word "*Bureau*"⁴ was rooted in this age. *Bureau* meant bill and was related to the accountant and its issues. The *bureau* supervised the income and the expenditure forecasts. Expert governmental officers organized reference of all the rules and skillful accountants, which in case they need to refer to a rule, the curators would check the book that they also called *Bureau*.

During this era, there were some kinds of bureau such as "*Computation Bureau*", which is still used in Iran. In those days, this *bureau* was responsible for organizing the income and expenditure and the budget of the country. Calculation of the courtier staff's salary was also under the supervision of the chief in charge of this *Bureau*.

During the Seljuq Age, different accounting methods were invented for required governance and economic activities. Keeping the public income and expenditure accounts and keeping business operation accounts that entitled *Siagh accounting*, are good examples. *Siagh accounting* was a method according to which all accounts of each tribe were registered separately in related pages via *Siagh accounting*.

In the Safavid age (Shah Ismail and Shah Abbas), Iran's economical situation improved a lot. One of the most interesting issues, which we can find in time of Shah Abbas is the registering of trade records which are in fact the old version of journals. In this record, which is called *trade record*, all the traders' transactions, their payables and receivables were registered in these records. This

⁴ - Divan (in Persian)

record was a valuable document to the traders and the judges and 0.5 percent of all transactions were paid for the registration.

Iran's permanent income in the Qajar age was earned from four sources: Direct tax, property income, customs, and leases. Government's indirect income was also earned from three sources: public confiscation, gifts related to Nowruz in March 21st and Prophet Mohammad's birthday, and extraordinary gifts such as bribes, etc. However, the main income was property tax, which was paid in cash or other asset forms. The first Iranian governmental bond was published in this age in 1892 in order to pay the required fine for Tobacco Company after its revocation. According to the beginning of national parliament era, in Qajar age, the governmental budget was prepared and given to the parliament for study and approval. Reviewing of this budget will show that the budget's study and approval has been done for the first time. Besides, it is obvious that the parliamentarian experts had been aware of other countries' budget systems. In different sections of this budget, we will point out the following expressions clearly: Expenditures, public debts, and forecasting incomes.

One of the first finance rules which was approved in the first and second Iranian national parliament, were functions law and its supplementary; transportation, tenement and tobacco tax law; and public accounting laws and accounting bureau.

The Siagh accounting invented in Samanid age was completed in the Qajar Age. *Five Books* was invented in this age, which were used to bookkeeping of main groups of accounts.

Modern bookkeeping and accounting has been introduced in Iran by the emergence of industries and their products, and foreign companies and institutes since 1900. However, it has been developing slowly due to invention and improvement in social and economic conditions (Molkaraee, 2004). Besides, the teaching of accounting in Iranian universities started while this subject was being taught in Dar al-Funun⁵ in 1911.

3.3. CONTEMPORARY AGE -FROM PAHLAVI AGE (1918- 1978) UNTIL NOW

Auditing idea in Iran was not the result of the changes in country's economics. In other words, the development of limited companies or development of capital market did not create the need for audit. At first, the idea of auditing was declared in Income Tax Law in 1949. The idea of controlling incomes and public costs was the result of Constitutional *Revolution* in Iran. Certified Public Accountants Association was established according to Direct Tax Law in 1963. The center of Iranian Official Accountants was established according to Direct Tax Law in 1966. Moreover, many other laws and regulation have been found which are related to auditing function and institutions and emphasize their necessity such as Tehran Stock Exchange Law that requires auditing in registered companies in Tehran Stock Exchange (TSE). According to the Cooperative Companies Law, auditing is required for Cooperative Companies too.

⁵ - Dar al-Funun is the first modern school that was established by Amir-Kabir (one of the most popular politician man in Ghajarian age)

Iranian Expert Accountants Association was registered in 1974. This association is still operating and is publishing the Monthly Journal of Accountant.

In view of the necessity of auditing based on the laws, a number of the largest foreign audit institutes chose Iranian Official Accountants as their partners and established branches in Iran and took the responsibility of big companies' auditing. The existence of these institutes redounded to a progressive flow in accounting profession and education in Iran.

Pursuant to the Islamic Revolution of Iran in 1979, according to a bill ratified by the Revolutionary Council, many enterprises were confiscated or came under direct supervision of the government. To audit and perform statutory examination of these enterprises, three audit firms were established in the public sector, i.e., Nationalized Industries and Plan Organization Audit Firm (1980), Mostazafan Foundation Audit Firm (1981), Shahed Audit Firm (1983).

In 1983 an act was ratified by the Iranian parliament to merge and embody these three audit firms together with Audit Company (established in 1971 to audit government corporations) to establish Audit Organization. Audit Organization's by-laws was also approved by the Parliament in 1987 and the Organization was established as a legal entity with financial independently affiliated to the Ministry of Economic Affairs and Finance to follow those audit firms functions and pursue the activities legislated in the Organization's Act and by-laws.

4. FACTORS AFFECTING THE DEVELOPMENT OF ACCOUNTING IN IRAN

Mueller (1968) suggests that the stage of economic development, type of the economy, and the growth pattern of the economy, can exert an impact on a country's accounting practices. Doupnik and Salter (1995) argue that the stage of development affects the type of business transactions conducted in a country and the type of economy determines which transactions are more prevalent.

On similar conceptual lines, we can relate the evolution of Iran's accounting practices to five economic issues—financial markets, privatization, tax laws, joining World Trade Organization (WTO), and legal system, which will be discussed next.

4.1. FINANCIAL MARKETS IN IRAN

The idea of having a well-organized stock market, and to speed up the process of industrialization of the country dates back to the 1930's when Iran Melli Bank started a study about the subject. A report completed in 1936 worked out the details for the formation of a stock market and laid down the preliminary foundation to proceed with the plan. The outbreak of the Second World War and subsequent economic and political events, delayed the establishment of the stock exchange up to the year 1967 when the Stock Exchange Act was ratified. The Tehran Stock Exchange (TSE) opened in April 1968. Initially only Government bonds and certain State-backed certificates were traded in the market. During 1970, the demand for capital boosted the demand for stocks. At the same time, institutional changes, like the transfer public companies' shares and large private firms owned by families, to the employees and the private sector led to the expansion of the stock market activity. The restructuring of the economy

following the Islamic Revolution expanded public sector control over the economy and reduced the need for private capital. At the same time, the abolishment of interest-bearing bonds terminated their presence in the stock market. Because of these events, TSE started a period of standstill.

This trend ended in 1989 with the revitalization of the private sector through privatization of state-owned enterprises and promotion of private sector economic activity based on the *First Five-year Development Plan* of the country. Since then the TSE has expanded continuously.

4.2. PRIVATIZATION IN IRAN

Post-revolution Iran faced two different processes of structural change—nationalization immediately following the 1979 revolution and privatization later in the 1980s⁶. Financial reporting has gained importance in Iranian companies following international pressures from the World Bank and the IMF in connection with privatization. Though the working of the stock market is essential to facilitate increased private sector participation in Iran's economic development and growth, the stock market has so far failed to restore the role of the private sector. Akhavi-pour (1994) explores the reasons for the failure of the stock market in post-revolutionary Iran. He cites information asymmetries resulting from the lack of adequate disclosure by companies as crucial factors. In recent years, privatization of economic entities in Iran has enhanced the need for publicly available financial information.

If firms are looking for capital from the public, they need to provide adequate levels of disclosure in their financial reports to inspire investor confidence.

Privatization in Iran started in 1991 based on the ratification of the Ministers' Board. In this ratification, the sale method of the public companies' share in TSE was taken into consideration. However, some shortcomings such as lack of relevant facilities for privatization, non-comprehensive ratified laws related to privatization, lack of separation of social and economic aims of privatization and lack of a suitable system to pricing of the sectors to be surrendered aborted all privatization purposes during that period. Exhibit 5 presents the privatization process in Iran during 1991-2002.

EXHIBIT 5 IS ABOUT HERE

4.3. TAX POLICIES IN IRAN

Since the victory of the Islamic Revolution in 1979, the taxation system has been the important point of attention. Nevertheless, an efficient taxation system has not yet been enforced in the country and for this reason, not only the government has been deprived of a healthy and efficient taxation system, but also it has worsened the imbalance in the distribution of incomes in the society. Now, the most important taxation law applied in Iran is Direct Tax Law and is used as a reference most of the times.

Any way, current tax laws are taken into consideration in completion of Iranian accounting standards. For example, the main challenge for accounting

⁶ - Nationalization is the transfer of the ownership and management of large-scale established industries or services to a state. Privatization is the transfer of a function and activity from the public to the private sector (Akhavi-Pour, 1994).

standard setters in Iran about acceptance of fair values is tax laws. Besides, tax laws are the main effective measurements of depreciation methods in financial reporting.

4.4. MEMBERSHIP IN WORLD TRADE ORGANIZATION (WTO)

Joining WTO is a gradual, multi-step and long process. This activity has an effect on trading environments of countries. When about 97% of the world trade is done in an official organization, which has its own rules and regulations, so it should not be slighted. It is wrongly believed that joining WTO is not related to accounting and finance fields. Since accounting is trade language, it should go to be international gradually. The mentioned fields are not separated from trade and economic areas and there is natural relationship between them. It is not possible to compile and execute accounting standards and financial report without considering the environmental factors. On the other hand, financial reports affect the economic and financial decisions. In fact, the decisions made by financial reports are affected by economic and job environment. It is expected that the increase in competition, removal of encumbrances in the free trades, and satisfying other conditions of joining to WTO will lead to development of Iranian merchandising and financial markets and accounting standards, as well. According to Wolk and Heaston, (1992) there is a need for harmonization of international accounting standards among nations because:

1. The increasing globalization of business operations (e.g. the growth of a global market economy including the rise of multinational firms),
2. The need to communicate financial accounting information to an international audience by increasing improvements in information technology, and
3. Higher degree of comparability among financial reporting on an international basis.

4.5. FOREIGN INVESTMENTS IN IRAN

Increase in foreign investment results in development of financial reports in accounting area because investors and foreign lenders such as domestic investors and foreign lenders are interested in financial reports related to the trade companies. Observing the accounting standards, especially in the international level, makes the reports more useful. To attract the direct foreign investment in Oil and- especially- non-oil products, financial report should be cleaned up by development of accounting standards. Exhibit 6 presents the foreign investment in Iran during a ten-year period (1993-2002). This table shows that foreign investment in Iran is low and it has to be developed and one of the ways for this purpose is to improve accounting standards and financial reporting.

EXHIBIT 6 IS ABOUT HERE

Development of privatization and growth in private sector in economic, development of foreign investment, and Iran's effort for entering world trade, toward membership in WTO, redound in increasing necessity for improvement in audit and accounting standard setting in Iran. However, the main reason for

auditing and accounting standard setting in Iran was laws and regulations, but the academic and professional development also affects accounting too.

4.6. LEGAL SYSTEM IN IRAN

International accounting literature has long recognized the prevalence of a particular legal system (common-law or code-law) to be an important variable affecting the accounting system of a country (Berry, 1987; Fantl, 1971; Nobes, 1983). The literature recognizes that common-law countries are oriented towards fair presentation, transparency, and full disclosure (known as the Anglo-Saxon model). Standard setting is carried out in these countries by bodies in the private sector, and the stock market is the dominant source of financing for corporate entities. By contrast, in code-law countries, banks or governments are the main sources of financing and financial accounting geared towards creditor protection (known as the Continental model). Financial reporting, in these countries, is characterized by low disclosures and an alignment of financial accounting with the tax laws. In addition, governments have a strong influence in setting accounting standards. Recently researchers have shown a renewed interest in empirically examining the relationship between accounting systems and legal system in various countries. La Porta, Lopez-de-Salines, Shleifer, and Vishny (1997, 1998, 2000), suggest that the type of legal system a country has predisposed it towards a principal system of finance. That is, a common-law legal framework emphasizes shareholders' rights and offers a stronger investor protection system as compared to that of a code-law legal system. This linkage leads to the development of strong equity markets in common-law countries and weak ones in code-law countries. Consequently, in code-law countries, debt rather than equity is the dominant source of financing.

According to the above explanations, Iran exhibits many characteristics of a code-law country. It has a weak equity market, strong preference and use of debt as a source of financing (as against use of outsiders' equity), and a general perception of low quality of financial reporting. Thus, it can be argued that Iran should be considered as a code-law country. This implied that lack of investor protection (e.g., minority rights protection, insider-trading protection), judicial inefficiencies, and weak enforcement mechanisms are more critical to explaining the state of financial reporting in Iran than are cultural factors. This insight has policy implications for developing countries that are making hard work to improve the quality of the financial reporting of their business entities.

4.6.1. CORPORATE GOVERNANCE IN IRAN

Although in early 1961, stock exchange was established and the process of establishing and controlling the companies was slightly mentioned in Trade Law and especially in its amendment in April 1968, the corporate governance issue with its modern conception was not important. This case was addressed in the early 2000 for the first time. At that time, the managers of Tehran Stock Exchange (TSE), Islamic Parliament Research Center, and a specialized committee in Economic and Finance Ministry, started to do some surveys about corporate governance in Iran.

Surveying the corporate governance characteristics in Iran shows the approximation of them to the internal control systems. The internal control corporate governance is a system in which all the listed companies in one

country are owned and controlled by the minor and major shareholders. These shareholders can be divided into different groups. Some may be the members of the foundation group, some may be the creditor banks (which are a small group), and some are the other companies or even the government.

However, in the past few years the efforts to expand the capital market, show that Iran is interested in changing this system to external control corporate governance. For instance, in the third and the fourth Economic Development Plan, privatization of governmental organizations comes into a great deal of importance. It seems in case of reaching this goal (to privatize the governmental organizations) and increasing the shareholders, corporate governance system in our country with regard to the other countries' experiences, has changed its aim to making external control system.

Nevertheless, observing the companies and stock market in Iran shows that nowadays there are some external control mechanisms. For example, mention can be made of the legal warden because of Trade Law (especially clauses 144-156), stock exchange laws, Audit Organization statute, and Iranian Official Accounting Society rules.

In fact, the capital market in Iran is very new and somewhat inefficient. The major shareholder's supervision and motivating them depends on some activities such as buying controlling stock and the rule of institutional investors. Supervising minor shareholders is not permitted. However, auditing the financial statements of registered companies in stock exchange is compulsory. In addition, there is no ranking institution in Iran. Unfortunately, there is not any proper supervision system for internal control mechanism. Despite the board of directors' issue and some other issues related to executive management, such as dividing the responsibilities between executive managers, the role of non-executive managers is very weak and there is no care about supervising organizational morality.

Fortunately, in the late 2004, TSE Research and Development Center published the first edition of Code of Corporate Governance in Iran. This code was regulated in 22 clauses and contained some necessary definitions, management board and shareholders' responsibilities, financial disclosures, accountability and auditing concept. According to the ownership structure, the capital market situation, and the Trade Law, this code was edited in the next year (2005). The second edition of Code of Corporate Governance in Iran was regulated in 5 chapters and 37 clauses. This code has been declared via media and has been implemented by many companies. In appendix 1, there is a summary of the second edition of Code of Corporate Governance in Iran

5. CODIFICATION OF ACCOUNTING STANDARDS IN IRAN

5.1. HISTORY OF ACCOUNTING STANDARDS IN IRAN

Prior to 1979, financial reporting in Iran was influenced heavily by Anglo-American practices (Mirshekari and Sudagaran, 2005). There were no national accounting standards and disclosure requirements were based on tax law, corporate law, and stock exchange regulations. The tax law required firms

to prepare a balance sheet, income statement, and a list of shareholders (with their holdings).

The tax law also prescribed a set format for reporting tax-deductible expenses, computing depreciation, and accounting policies related to certain expenses. The main disclosure requirements of the corporate law were contained in Section X of the 1969 Amendment to the Commercial Code with Articles 232–242 specifying the rules for preparing financial statements, disclosing any changes in accounting methods, contingent expenditure and the required methods of depreciation. In 1970, the tax law decreed the Iranian Official Accountants Institute, and Official Accountants were in charge of verifying the tax liability reported in financial statements.

From 1966 to 1978, there were requirements for corporate financial statements to be audited. For example, the regulations of the Tehran Stock Exchange required that publicly traded companies have their financial statements audited by Official Accountants. Therefore, all the Big Eight international accounting firms in Iran had Official Accountants as their employees. In the 1960s and 1970s, the Big Eight dominated the public accounting profession in Iran. While there was an emerging cadre of local and Western trained Iranian accountants, the Big Eight tended to be dominated by expatriates from the United Kingdom, United States, and South Africa. This contributed to accounting and auditing in Iran being influenced by foreign practices. However, these developments were ad hoc and there was no systematic structure in place either for setting national accounting standards or for adopting International Accounting Standards.

Following the Iranian revolution, in 1980, an amendment to the Direct Tax Law disbanded the Official Accountants Institute. The public sector's control and ownership of previously private enterprises entailed the establishment of audit enterprises for managing business entities expropriated by the government. Therefore, during 1980–1982, the government established audit enterprises and Budget, Planning and National Industries Organization. These new organizations recruited a large number of accountants previously employed with private auditing firms. In 1987, following the merger of the public sector audit entities, the Audit Organization was established as the sole auditor of organizations with public ownership and as the only regulatory body for national accounting and auditing standards. Audit organization is responsible for compiling and determining principles and rules of audit and accounting in Iran. The audit reports and financial statements in which, the determined principles and rules are not observed not allowed to be used in any of governmental offices.

The Audit Organization's main objectives are:

- To provide government with basic needs in the field of auditing and specialized financial services for state owned and government supervised entities;
- To set Accounting and Auditing Standards and Professional Ethics in compliance with Islamic Rules as well; and
- To research in scientific and practical methods of accounting to enhance accountancy compatible with country's needs.

Audit organization has operated so well in compiling accounting standards. In 1992, Committee of Compiling the Accounting Declarations was assigned to codify necessity guidance to provide consistency and remove the

current incompatibility, based on valid standards and concerning environmental conditions. Considering the importance of taking an opinion poll about accounting standards, the committee supplied drafts of nine accounting declarations and the framework for preparation and publication of financial statements. Next, it provided other five declaration drafts and sent them to public and some other drafts to some special groups in 1996. Then, with regard to relevant and professional suggestions, the committee published and declared first set of accounting declarations in 1999.

During the mentioned time, there has been impressive success in the field of introduction and execution of accounting declarations by holding useful educational programs. After that, the name of that committee changed into Accounting Standards setting Committee. Considering the feedback of educational programs, changes of international standards and experts' opinions in managing the compilation of accounting standards, the committee compiled the draft of the first collection of accounting standards and presented it to the Technical Committee. After necessary examination and balancing by the Technical Committee, these standards were given to the board of the audit organization for taking the final approval of the audit organization's public convention.

After approval of the audit organization's public convention, accounting standards 1 through 22 were issued and have been indispensable since 2001.

Next, Accounting Standards setting Committee included three other standards in its work (joint ventures, pre-operation entity's reporting, and segment reporting). Then, after finalization, the committee assigned them to the Technical Committee. These standards were studied in the technical committee and went to the board. On the base of audit organization's public convention approval, these standards have been indispensable since 2002.

In order to comply with the Article 4 of the Third Economic, Social and Cultural Development Plan, Audit Organization's by-laws were revised and approved by the Council of Ministers in 2003 and the Organization's legal status changed to State Owned Limited Company.

The Audit Organization is responsible for:

- Audit and Statutory Examination
- Financial and Management Consultancy Services
- Setting Accounting and Auditing Standards
- Training, Research and Publications

5.2. ACCOUNTING STANDARD DUE PROCESS IN IRAN

During the last two decades, Audit Organization has taken various measures to enhance accounting profession in Iran. It has harmonized Iranian profession with global practices via translation of International Accounting Standards (IAS), preparation and publication of a number of textbooks complying with developed countries' accounting and auditing standards, issuance sets of accounting and auditing manuals for special topics, and accounting and auditing guidelines that are published at a superior level.

In continuation of the above efforts, the Audit Organization has prepared and issued the accounting and auditing standards and code of ethics.

Accounting standard due process includes different steps in Iran like other countries that provide standards. Audit organization is the official and legal responsible for standard setting in Iran right now. The organization recognizes the needs and the users' points of view. Some needs are identified by communication with scientific and industrial society and some of them due to its responsibilities to external auditing by considering financial reporting problems and defects and discussing with management of the related entities.

Another part of identifying the needs and subject begins with publishing new international standards. Iran like most countries, has accepted international standards for more convergence. Therefore, in most cases, standard setting will start after new international standard is published.

In summery due process of accounting standard development may be shown as follows:

1. *Deciding on a subject for research.* The Accounting Standard Setting Committee decides on the topics to be considered by Standard Setting Department.
2. *Preliminary studies.* After deciding on the subject, necessary research and studies are commenced by the advisors of the Standard Setting Department. In this phase, the standards of other countries such as USA, UK, Australia and Canada, International Accounting Standards, research carried out in relation to the subject, accounting practice in Iran and the law and all issues relating to the subject are recognized, collected and studied. The result of this phase is presentation of study reports.
3. *Deciding on the necessity of a standard development.* The Standard Setting Committee decides on the necessity of development of a standard based on the result of preliminary studies.
4. *Preparation of primary draft.* If the Accounting Standard Setting Committee requires the standard development, the advisory group prepares a primary draft based on study reports, after field studies and some meetings with professionals and constituents. One of the main policies of accounting standard development is compliance with International Accounting Standards. Therefore, concerning the subject on which there is an International Accounting Standard, this International Accounting Standard is used as the main basis for the standard development. The outcome of this phase is the primary standard draft.
5. *Development of standard draft.* In this phase, the Accounting Standard Setting Committee presents the final standard draft, after deep and broad reviews and necessary amendments. The outcome of this phase is the standard draft.
6. *Public comment.* For public comment, any standard draft is made available to the public by different ways like publishing in professional journals, Internet (Audit Organization Site), etc. In addition, according to the subject nature, the standard draft is separately sent to some authorities. The opinions received in respect of the standard draft is concluded and presented to the Accounting Standard Setting Committee by the Standard Setting Department. The Committee amends, if

necessary, the standard draft and after approval by the Technical Committee, the revised standard draft is presented to the Board of Executive of the Organization.

7. *Ultimate approval.* The final statement will be published when the Board of Executive and the Board of Governors of the Organization approve the final text of the standard. The Board of Executive reviews the Accounting Standard, and after possible amendments, approves and sends them to the Board of Governors of the Organization for the ultimate approval. After approval by the Board of Governors, the final text of the accounting standard is published and becomes operative. Exhibit 7 shows accounting standard due process in Iran.

EXHIBIT 7 IS ABOUT HERE

Exhibit 8 shows the listed of Iranian National Accounting Standards (NASs) and similar International Accounting Standards (IASs). Until now, 27 accounting standards have been issued and 2 accounting standards are in process by Audit Organization; however, other tasks are in process in order to adjustment of present standards and issuance of new ones.

EXHIBIT 8 IS ABOUT HERE

6. THE IMPACT OF CULTURE ON ACCOUNTING IN IRAN

The influence of culture on national accounting systems has been a feature of the international accounting literature over several decades with connections drawn from the work of Gray (1988) and Hofstede's (1980) social value dimensions. A critical facet of these enquiries has been the notion that cultural values influence accounting values and hence accounting practice (Foroughi, 1981, Hussein, 1996, Jaggi, 2000). Belkaoui, (1994) argued that first of all, accounting is in fact determined by culture and second the lack of consensus across different countries as to what represents proper accounting methods. This lack of consensus relates to culture, not technical aspects of accounting⁷.

Some researches have been conducted in this regard in Iran. Poorjalali and Meek (1995) studied about changes in culture of Iran before and after Islamic revolution and its impacts on accounting values. The results conformed to Garry's theory and confirmed the impact of culture on accounting values. However, in recent researches, different results were obtained. Rezazadeh (2002) studied the relationship between social values based on culture- including power distance, ask for confidence, individualism, and masculinity- and accounting values (conservatism and concealing). Unlike Garry's opinion (1988), the results showed that in Iran while masculinity is increasing, tendency to conceal was decreasing. Noravesh & Dianati (2003) found out that Garry's opinion has little explanatory ability in Iran.

⁷ Belkaoui 1991, (p.118): "Culture is considered to be one of the most important environmental factors affecting on accounting systems of a country".

7. CONCLUSION

The primary purpose of this paper is to explore the origins, growth and development of accounting in Iran and the factors that have influenced them. So, we traced the early days of accounting in the ancient Iran. Documents of ancient Iran show that in 550 B.C. (in Achaemenid age), all public incomes and costs were held and kept, soundly and punctually. Then we discussed the accounting history in Iran in three different eras: pre-Islamic era, post-Islamic era (From Abbasid to Qajar age), and contemporary era). For an emerging economy like Iran, we argued that six important issues—financial markets, privatization, tax laws, joining World Trade Organization (WTO), foreign investments, and legal system are important keys to improving the quality of financial reporting. Prior to 1979, financial reporting in Iran was influenced heavily by Anglo-American practices (Mirshekari and Sudagaran, 2005). There were no national accounting standards and disclosure requirements were based on tax law, corporate law, and stock exchange regulations. However, during the last two decades, Audit Organization has taken various measures to enhance accounting profession in Iran via harmonizing Iranian profession with global practices.

Besides, we argued that Iran exhibits as a code-law country. We conclude that lack of investor protection (e.g., minority rights protection, insider-trading protection), legal inefficiencies, and weak enforcement mechanisms are very critical to explaining the state of financial reporting in Iran. This insight has policy implications for developing countries that are making hard work to improve the quality of the financial reporting of their business entities.

In summary, special features of operating environment, existing laws and rules, religious beliefs, culture, and economic and political conditions in Iran, like other countries, have been considered in National Accounting Standards setting processes.

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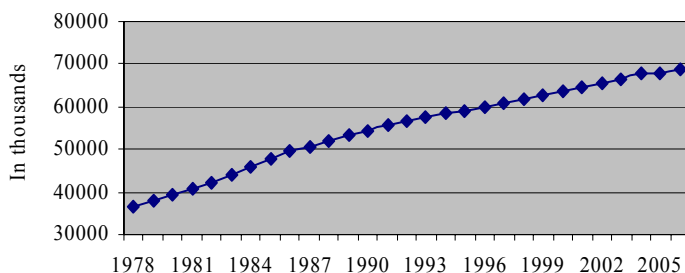
www.cbi.ir/simplelist/latestEconomicData-fa.aspx, Reports of Islamic Republic of Iran's Central Bank

**Exhibit 1 -Panel A, Iran ’s population growth rates (in millions),
Panel B ,population and population growth rate in Iran (in thousands).**

Panel A - The Iran's population from 1978 through 2006

Year	Population (in thousands)	Growth	Year	Population (in thousands)	Growth
1978	36332	.038	1992	56656	.015
1979	37730	.038	1993	57488	.015
1980	39192	.038	1994	58331	.015
1981	40718	.039	1995	59187	.015
1982	42313	.039	1996	60055	.015
1983	43979	.039	1997	60937	.015
1984	45721	.039	1998	61831	.015
1985	47541	.040	1999	62738	.015
1986	49445	.040	2000	63658	.015
1987	50650	.040	2001	64592	.015
1988	51890	.024	2002	65540	.015
1989	53167	.024	2003	66480	.015
1990	54483	.025	2004	67410	.014
1991	55837	.025	2005	68018	.010
1992	56656	.015	2006	69000	.014

Panel B - The Iran's population during 1978 - 2006



Source: The site of Iranian's statistics information

Exhibit 2- Gross National Production (GNP) during last quarter-from 1980-2005

In constant Rials- in billion Rials

Year	GNP* (without oil)	GNP*	Growth%		Year	GNP* (without oil)	GNP *	Growth%	
			GNP* (without oil)	GNP*				GNP* (without oil)	GNP*
1980	166022	219191	2.6	-7.4	1993	202426	245036	11.7	12.1
1981	209919	209919	1.6	-4.2	1994	212200	254823	4.8	4
1982	178149	178149	-2.4	-15.1	1995	213844	258601	.8	1.5
1983	170281	170281	-5.3	-4.4	1996	217760	259786	1.8	.5
1984	191667	191667	1.9	12.6	1997	224805	267534	3.2	2.9
1985	212786	212786	12.9	11.1	1998	240762	283807	7.1	6.1
1986	208516	208516	1.4	-2	1999	251005	291769	4.3	2.8
1987	212686	212686	2	2	2000	258403	300140	2.9	2.9
1988	193235	193235	-8.5	-9.1	2001	265426	304941	2.7	1.6
1989	191312	191312	-3.1	-1	2002	277274	320069	4.5	5
1990	180822	180822	-7.8	-5.5	2003	292512	330565	5.5	3.3
1991	160255	191503	5.7	5.9	2004	315945	355350	8	7.5
1992	181171	218539	13.1	14.1	2005	334516	379009	5.9	6.7

**In Basis, price (total)*

Source: Reports of Islamic Republic of Iran's Central Bank

Exhibit 3 -Exports and Imports and Exchange Rates during 1978-2005

Year	Mar ket exch ange rate*	Offic ial exch ange rate*	Total mercha ndise exports #*	Total mercha ndise imports #*	Surplus (Deficit)
1978	79.99	70.62	23974	18917	5057
1979	91.1	70.48	16203	13872	2331
1980	159.5	70.48	24970	10020	14950
1981	234.2 5	70.62	12293	13441	-1148
1982	395	78.33	10959	15515	-4556
1983	475	83.6	22082	14345	7737
1984	403.5 8	86.36	21507	20603	904
1985	610.6 7	90.03	17087	14494	2593
1986	639.6 4	207.3	14175	13721	454
1987	815.1 7	217.5	7171	11827	-4656
1988	1134. 6	221.5	11916	13326	-1410
1989	954.1 7	237.1	10709	11696	-987
1990	1431. 3	299.1	13081	13448	-367
1991	1525. 8	394.3	19305	18330	975
1992	1535. 2	511.7	18661	25190	-6529
1993	1624. 5	686.2	19868	23274	-3406
1994	1968. 8	1222. 5	18080	19287	-1207
1995	2602. 2	1750	19434	12617	6817
1996	4049. 3	1750	18360	12774	5586

1997	4445. 55	1750	22391	14989	7402
1998	4781. 5	1752	18381	14123	4258
1999	6468. 36	1752	13118	14286	-1168
2000	8657. 68	1752	19726	13433	6293
2001	8188	1752	28461	15086	13375
2002	8008	1752	23904	18129	5775
2003	8019	---	28237	22036	6201
2004	8323	---	33991	29561	4430
2005	8747	---	44403	36639	7764

**Dollars in Rials - #Balances of payments*

Source: Reports of Islamic Republic of Iran's Central Bank

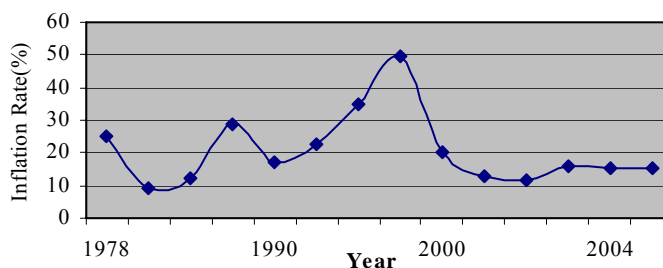
**Exhibit 4 -Panel A , Inflation Rates Duding 1978-2005,
Panel B ,population and population growth rate in Iran (in thousands)**

Panel A- Inflation Rates Duding 1978-2005

Year	Inflation Rate (%)	Year	Inflation Rate (%)
1978	25	1996	49.4
1979	9.2	2000	20.1
1980	12.3	2001	12.6
1989	29	2002	11.4
1990	17.4	2003	15.8
1994	22.9	2004	15.6
1995	35.2	2005	15.2

Source: Reports of Islamic Republic of Iran's Central Bank

Panel B-flationr rate during 1978- 2005



Year	The Privatization Volume in public firms		Year	The Privatization Volume in public firms	
	Current prices	Fixed prices		Current prices	Fixed prices
1991	266	1435	1997	173	173
1992	229	857	1998	726	645
1993	288	840	1999	2348	1654
1994	924	1996	2000	1722	1078
1995	516	746	2001	201	113
1996	1091	1280	2002	3131	1520

Exhibit 5 - The Privatization process in Iran during 1991-2002

Source: Reports of Islamic Republic of Iran's Central Bank

Exhibit 6 - The foreign investment in Iran during 1993-2002

Year	Foreign Investment	Growth Rate	Year	Foreign Investment	Growth Rate
1993	20/3	--	1998	72/9	64-
1994	187/8	825	1999	1047/1	168
1995	251/2	34	2000	491/1	-53/1
1996	132/3	-47	2001	620/9	26/4
1997	203/9	54	2002	52/1	-91.6

(In billion Dollars)

Exhibit 7 –The accounting standard due process

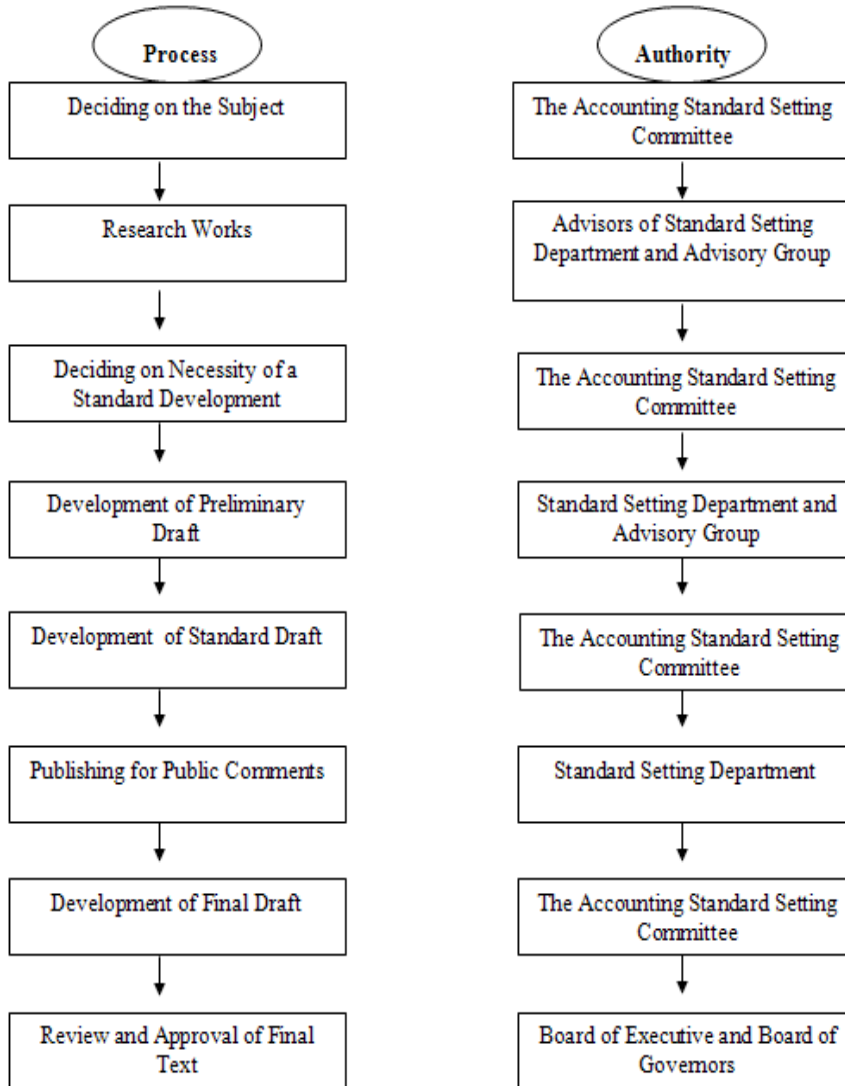


Exhibit 8 - Iranian National Accounting Standards (NASs) and similar

NASs Num	Subject	IASs Num
1	<i>Presentation of Financial Statements</i>	1
2	<i>Cash Flow Statements</i>	7
3	<i>Revenue</i>	18
4	<i>Accounting for Contingencies (is deleted now)</i>	10
5	<i>Accounting for Events After the Balance Sheet Date</i>	10
6	<i>Reporting Financial Performance</i>	8
7	<i>Accounting for Research & Development Costs</i>	38
8	<i>Accounting For Inventories</i>	2
9	<i>Accounting for Long-term Contracts</i>	11
10	<i>Accounting for Government Grants</i>	20
11	<i>Accounting for Tangible Fixed Assets</i>	16
12	<i>Related Party Disclosures</i>	24
13	<i>Accounting for Borrowing Costs</i>	23
14	<i>Presentation of Current Assets & Current Liabilities</i>	1
15	<i>Accounting for Investments</i>	32,39
16	<i>Foreign Currency Translation</i>	21
17	<i>Accounting for Intangible Assets</i>	38
18	<i>Consolidated Financial statement and Investment in Subordinate</i>	27
19	<i>Business Combinations</i>	22
20	<i>Accounting for Investments in Associates</i>	28
21	<i>Accounting for Leases</i>	17
22	<i>Interim Financial Reporting</i>	34
23	<i>Accounting for Joint Ventures</i>	31
24	<i>Financial Reporting by Development Stage Entities</i>	N/A
25	<i>Segment Reporting</i>	14
26	<i>Agriculture</i>	41
27	<i>Retirement Benefit Plans</i>	26

International Accounting Standards (IASs)

APPENDIX 1

THE IRANIAN CODE OF CORPORATE GOVERNANCE (ICCG) - SUMMARY

*** Chapter 1 (Descriptions) – Clause 1**

In this chapter, there are the descriptions and expressions, which were used in this instruction manual, including independent manager, non-executive manager, minor shareholder, controlling, considerable dominance, stock trustee, stock services, major shareholder, important/large companies, secret information holders or insiders, main/mother corporations, subsidiary corporations, affiliated corporations, dependant individual, subordinates and main managers.

*** Chapter 2 (Board of directors) – Clause 2-20**

Board of directors' characteristics such as selection method, number, structure, and duties has been described. The most important issues in this instruction manual are:

1. The board of directors' qualifications and effectiveness
2. Clear separation of responsibilities between board of directors and administrative managers
3. Independence between the CEO and board chair
4. Number and the composition of the board of directors
5. The necessity for presence of non-executive managers as the majority of the board of directors
6. The necessity of meetings at least once a month
7. The necessity of the auditing committee formation and nominating its responsibilities
8. The necessity of having an effective internal control system for the safekeeping of properties, appropriate reporting, and observing the rules, and The necessity of annual evaluation of that system

*** Chapter 3 (Public assembly) – Clause 21-30**

In this chapter, the shareholders public society's characteristics and responsibilities have been discussed. Some of the important issues in this chapter are as follow:

1. Selection method of management boards of shareholders public society
2. The way for determination of compensation to each member of the board of directors
3. The necessity of the reports given by the board of directors, legal warden and independent auditor's report at least 10 days in advance of public assembly's meeting
4. The necessity of declaration of approved financial statements to public up to 10 days after public assembly's meeting
5. The necessity of the attendance of the majority of the board of directors, independence auditor, legal warden, and the representative of stock exchange in public assembly's meeting

*** Chapter 4 (accountability and disclosure) – Clause 31-36**

In this chapter, mandatory disclosures have been discussed, including annual financial statements, six-months financial statements, information related to stock transaction related to the board of directors and top executive managers and their families, information related to insiders, general information related to the organizational structure, products, human resource, social responsibilities and companies environment, and information related to the corporative governance such as audit committees and the board of directors' characteristics, and the dividends paid by company.

*** Chapter 5 (Frauds and Penalties) – Clause 37-38**

In this chapter, the managers' and companies' frauds and penalties have been discussed.