



Review Article

The Legal Regulatory Framework of Accounting and Financial Reporting In the Brics Economies

Anatol MELEGA

PhD. student Ștefan cel Mare University of Suceava, Romania

*Corresponding Author

Anatol MELEGA

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Abstract: The emerging BRICS economies (Brazil, Russia, India, China, South Africa) are an important economic bloc for the global economy. Abundance of natural resources, cheap labor, permissive legislation are determining factors in attracting foreign direct investment flows. The growing number of multinationals and the growing desire of investors in developed countries to invest in the BRICS countries raise the issue of creating a legal framework for regulating financial reporting in line with international standards. The economic evolution of a nation is closely correlated with the customs, accounting and tax regulations, characteristics, nuances, values, practices, customs that have developed since the advent of the state. Without a preliminary analysis of these determinants, the task of understanding the accounting systems of the BRICS countries would be a difficult one to accomplish. The purpose of this article is to examine the accounting regulatory framework in the emerging BRICS economies, presenting the main regulatory acts governing accounting in the BRICS countries.

Keywords: accounting, legal regulatory framework, financial reporting, BRICS.

JEL Classification: G20, K11, M40

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INTRODUCTION:

Emerging economies BRICS is a political and economic bloc founded in 2006. Initially the group consisted of Brazil, Russia, India and China (BRIC), and in 2011 joined South Africa, thus forming BRICS. The main objective of the BRICS is to support the economic systems of developing countries. „These countries are characterized by an abundance of natural and human resources, with a developed industry, able to respond easily to economic and social crises” (Melega *et al.*, 2021). „In the international economic system, the BRICS group appears as a new center of gravity and as an engine of the world economy, playing an important role in providing investment and supply of goods and services” (Melega, 2020). For example, Brazil is one of the world leaders in the construction of civil aircraft, and Russia is one of the largest exporters of gas, South Africa is considered the largest producer of gold in the world, China is the second largest economy in world.

„Natural resources, cheap labor, the accelerated development of the BRICS economies are landmarks for investors. Thus, BRICS economies are one of the largest beneficiaries of foreign direct investment flows” (Melega, 2020). According to Melega *et al.*, (2021) „foreign investment flows in the largest emerging economies - BRICS (Brazil, Russia, India, China and South Africa) decreased by about -13.7% in 2020, a rather small decrease compared to the countries developed”. However, BRICS countries remain the largest beneficiaries of foreign direct investment.

In order to attract as much investment as possible, the governments of the BRICS countries, together with the accounting profession in these countries, have taken important steps to align national accounting standards with IFRS, adopting either partial or full adoption of International Financial Reporting Standards.

In this article we propose to make a presentation of the main normative acts that regulate accounting in the BRICS countries.

LITERATURE REVIEW

Accounting regulations and practices are the core on which a business is built or rather they are the basis of financial reporting. Their main purpose is to balance the relationship between the business environment and all stakeholders, through clear and well-structured rules, so as to create the right environment for business development.

Akhmetshin *et al.*, (2018) through an inter-institutional analysis analyzed the accounting regulations of the Russian Federation. The authors identified several inter-institutional discrepancies „between the law and accounting institutions, indicating non-compliance in accounting practice with the principle of substance over form, between recognition in accounting and tax accounting of the transfer of ownership of assets and liabilities, and differences in real estate investment in situations according to IFRS and Russian national standards”. Generalova *et al.*, (2015) analyzed the accounting reforms produced in 1992-2014 in Russia, highlighting the main aspects of the process of convergence and harmonization of accounting to International Financial Reporting Standards. The results of the research showed „that the limitations in the application of IFRS in Russia are related to the national peculiarities of the application of professional reasoning and the specific approach in the interpretation of the facts of economic life”.

Neiman & Fouche (2014) conducted a report analyzing South African practices and regulations for financial audit, emphasizing the idea that current regulations and practices „do not meet the reporting requirements of cooperatives in all respects due to the different nature of cooperatives. to entities owned by shareholders”.

Zhou (1988) made a foray into Chinese accounting, presenting the role of accounting and accounting regulations. According to Zhou (1988) „the Chinese Accounting Law has played a significant role in encouraging and motivating Chinese accounting officers and staff to exercise their rights and carry out their responsibilities; it has not only identified the functions and legal liabilities of accounting officers and staff, but it also has stipulated the precise legal obligations of authorities at different levels to protect the legal rights of accounting officers and staff in their work”. Islam & Gowing (2003) conducted a study to find out „whether there was a change in business ethics, accounting system and practice in Chinese business between 1978 and 2003, the results showed that there is general support as well. greater management of Chinese management than changing the culture and ethical practice in business ”.

Diwahaar & Bharti (2020) studied Indian accounting standards and policies claiming that they are the core of financial reporting. The quality of accounting

regulations and accounting practices has a direct influence on the quality of financial reporting.

RESULTS AND DISCUSSION

Brazil

Accounting in Brazil has developed from national accounting techniques. Although severely affected by international pressure, Brazil's accounting system has maintained its national identity and tradition. Today, accounting in Brazil operates according to the double-entry accounting system.

The bodies that issue and approve „accounting standards and procedures applicable in the public and private sectors” respectively are the National Directorate of Public Accounting and the Accounting Regulatory Council. The National Directorate of Public Accounting „develops the necessary actions for the dissemination, training and permanent updating of current accounting standards and procedures”.

The Brazilian legal system in the field of accounting is vast and very varied. This arrangement divides general, corporate and public accounting.

The main legislation dealing with Brazilian public accounting is Law no. 4320, of March 17, 1964, which establishes general rules of financial law for the preparation and control of the budgets and balance sheets of states, municipalities and the federal district. The National Treasury Secretariat is trying to develop accounting standards for the standardization and consolidation of public balance sheets, through numerous ordinances.

The laws that prescribe accounting in Brazil are: the law of government accounting; Fiscal law no. 11,941 of May 2009 with subsequent amendments and completions; Law no. 6,404, dated December 15, 1976, regarding corporations; Civil Code; Brazilian accounting standards, issued by the Federal Accounting Council; capital market rules, developed by the Securities and Exchange Commission (CVM).

Government accounting is a branch of the general theory of accounting that applies to governmental organizations, whose activity is governed by a constitutional framework, a legal basis and technical standards that characterize and differentiate it from accounting that applies to private sector entities.

The General Government Accounting Act (LGCG) sets out „the general criteria for government accounting and the issuance of financial information by public entities, in order to achieve their proper harmonization, in addition to contributing to measuring the transparency, effectiveness, economy and efficiency of the budgetary process”.

The LGCG also stipulates „that public entities must publish their annual evaluation program, methodologies and performance indicators, as well as their results, on their websites”. In addition, this law stipulates „that the Ministry of Finance and Public Credit (SHCP) and the National Council for the Evaluation of Social Development Policy (CONEVAL), within the limits of their competences, will send to the National Council for Accounting Harmonization (CONAC) the criteria for evaluating federally administered resources, the states, municipalities and political-administrative bodies of the territorial demarcations of Mexico City, as well as the evaluation guidelines that allow the approval and standardization of both evaluations as indicators, so that

CONAC, within its responsibilities, determine the formats for disseminating evaluation results”.

The general account of the Republic is the public management tool that contains information and analysis of budgetary, financial, economic, patrimonial results and the fulfillment of financial management objectives and indicators, in the performance of public sector entities during a fiscal year.

The Russian Federation

Accounting is governed by documents issued by the authorities at various levels. Depending on the purpose and status, the accounting regulatory documents are presented at four levels (Table 1).

Table 1. Accounting regulatory system in Russia

Types of regulatory documents	
Level 1	„Legislative acts of the Russian Federation, decrees of the President of the Russian Federation and decrees of the Government of the Russian Federation, which directly or indirectly regulate the organization and maintenance of accounting in an organization”
Level 2	„Accounting and reporting standards”
Level 3	„Methodical recommendations (instructions), instructions, comments, letters from the Ministry of Finance and other departments”
Level 4	„Working documents on the accounting of the enterprise itself: document on the accounting policy of the enterprise; forms of primary accounting documents; Chart of accounts; internal reporting forms.”

Source: <https://sbk03.ru/en/uchet-pbu-kratkaya-harakteristika-polozhenii-o-buhgalterskom-uch-te-prinyatyh-v-rf/>

The main act of the first level is the Federal Law On Accounting of November 21, 1996. No. 129-FZ, which defines the legal basis of accounting, its content, principles, organization, main areas of accounting and reporting, the composition of economic entities required to keep accounting records and provide financial statements.

Accounting standards (PBU) are designed to embody the Accounting Law. Internal PBUs, unlike international standards, are not consultative, but mandatory. Accounting standard 1/2008 "Accounting policy of the organization" and standard 4/99 "Accounting statements of the organization" regulate the list, composition and procedure for drawing up accounting forms. Provisions such as PBU 6/01 "Accounting for fixed assets", PBU 5/01 "Accounting for inventories", PBU 14/2007 "Accounting for intangible assets" are dedicated to the accounting problems of different groups of objects.

The methodological recommendations and instructions (third level) „are designed to materialize accounting standards in accordance with the needs of enterprises. They are developed by the Ministry of Finance of the Russian Federation and various departments”.

Level four normative documents include working documents on the accounting of the enterprise itself.

Accounting cannot be fully regulated due to the individual and sectoral characteristics of enterprises, different forms of ownership.

India

The law prescribing accounting in India is the Indian Companies Act 2013. In section 133 of the Indian Companies Act, Indian accounting standards are notified, which have been formulated while maintaining the Indian economic and legal environment for convergence with IFRS standards, as issued and whose copyrights are owned by the IFRS Foundation.

China

In China, the judiciary is not independent, it is controlled by the government. China has not accepted the binding jurisdiction of the International Court of Justice (ICJ). „The legal system of the People's Republic of China (PRC) is defined by the government as a socialist legal system”. However, despite the official definition, China's legal system is primarily based on the civil law model. The Constitution of the People's Republic of China is the highest law in China. The current version was adopted in 1982, with further revisions in 1988, 1993, 1999 and 2004.

The Ministry of Finance (MOF) is „responsible for formulating, promulgating and administering accounting regulations. In order to ensure an efficient platform in the development and implementation of

accounting standards, the Ministry of Finance created in 1998, in its structure, an Accounting Standards Committee composed of representatives of major Chinese investors". The purpose of this committee is „to provide advice on the overall planning, structure, and development of accounting standards; selection of accounting policies, as well as implementation of accounting standards" (World Bank Group, 2009). Both the Chinese Accounting Society (CSA) and the Chinese Institute of Chartered Public Accountants (CICPA) are responsible for leading, governing, supervising, reforming and developing the accounting profession in China. The Chinese Institute of Chartered Public Accountants (CICPA) also assumes a certain administrative authority, delegated by the Ministry of Finance (MOF), to serve as a bridge between the government and professional accountants.

The legal norm that prescribes accounting in China is the Law of the People's Republic of China no. 24 of 1999, which entered into force on 1 July 2000. This law is adopted in order to standardize accounting behavior, ensure the authenticity and completeness of accounting documents, strengthen economic and financial management, improve economic effects and protect the order of the socialist market economy. . State bodies, associations, companies, enterprises, institutions and other organizations (hereinafter uniformly referred to as units) must, in the management of accounting affairs, comply with this law.

Another important law related to the regulation of company accounting is the company law of the People's Republic of China no. 42 of 2005, which entered into force on 1 January 2006. This law is adopted to standardize the organization and behavior of companies, to protect the rights and legitimate interests of companies, shareholders and creditors, to maintain socio-economic order and to promote the development of the socialist market economy.

Chapter VIII "Financial affairs and corporate accounting" of the company law no. 42/2005 addresses issues regarding the organization of corporate accounting, deadlines for preparation and submission of financial and tax statements. According to art. 164 „the company establishes its financial and accounting system in accordance with the provisions of the laws, administrative regulations and rules of the finance department within the Council of State".

South Africa

The legal framework for financial reporting in South Africa is represented by the Companies Law no. 61 of 1973, which was amended in 2008 with the Companies Law no.71. The Companies Act of 1973 requires that „the financial statements of companies be prepared in accordance with generally accepted accounting practice"(GAAP) (South Africa, 1973).

The accounting norms are elaborated by the Ministry of Finance and representatives of the accounting profession.

The implementation of the Companies Act 71 of 2008 has brought with it the vision of promoting entrepreneurship, reducing the regulatory burden on smaller companies and increasing the transparency and accountability of larger corporations, especially given that company law has become more aligned with the contemporary (DTI, 2010).

The accounting profession in South Africa is largely regulated at a professional level, with the exception of registered auditors (RAs). The Independent Regulatory Council for Auditors (IRBA) is responsible for regulating all RAs in the country in accordance with the 2005 Audit Act.

CONCLUSIONS

The accounting systems of the BRICS economies are well structured and are in a state of constant change. The Government of the BRICS is meeting with members of the accounting department to pay close attention to the internationalization of soundness. It encourages companies to support the International Financial Reporting Standards, bringing them to the forefront of transitional and international guidelines.

Reforms initiated by the governments of the BRICS countries indicate their continued concern for the creation of a legal framework for accounting regulation to ensure the development of business and economic relations at the international level. However, the accounting legislation in the BRICS countries is permissive, leaving room for interpretations that lead to fraud, leaving niches for tax evasion, which is at its highest in these countries. At the same time, accounting regulations should include issues related to the social and environmental environment of the company, their impact and the role they should play. The attractiveness of BRICS savings for investors is due not only to the fact that they are rich in natural and human resources, but also to the precarious and permissive legislation. In the BRICS economies, the underground economy has reached its peak: undeclared work, unregistered business, etc. Some of the accounting legislation is outdated and does not meet current needs. Thus, the governments of the BRICS states must constantly adapt accounting regulations and practices to the current economic context.

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