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The effect of environmental factors on accounting systems: a comparison between South Korea and Australia

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Abstract

As globalization of the business environment increases, cross-national accounting differences have been the main focus of international accounting research. Specifically, the relationship between accounting and environmental factors has been the subject of many debates over the last decade. In comparative studies of accounting history, culture and practices, researchers have become increasingly aware of the importance of environmental factors in shaping a country's accounting system. This study explores whether environmental factors influence accounting systems by comparing South Korea and Australia. Although both South Korea and Australia were colonies, they had different cultural backgrounds and different legal/judicial systems. Australia's accounting standards-setting process is based on business practices and is relatively open to public opinion, while Korea's accounting standards tend to be enforced by the government and harmonized to tax law. Many prior studies suggest that environmental factors can be a valuable tool in explaining and understanding differences in the way in which accounting operates in countries with different environments. Based on environmental factors, this study found that cultural factors and institutional structures have a significant influence on the development of accounting systems and cause their differences. This study is expected to provide a systematic framework for differences in the development of accounting systems by analyzing the effects of environmental factors on accounting systems.

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1. Introduction

Accounting information performs a critical function in any economy because it serves society by allowing for increases in the efficiency of resource allocation among competing interests. This function is performed in domestic and international markets.

As the globalization of business environments increases, cross-national accounting differences have been the focus of international accounting research. In comparative studies of the history, culture and practices of accounting, there is a growing recognition that environmental factors are important in shaping a country's accounting system. The purpose of this study is to determine and compare the influence of environmental factors on accounting systems in South Korea and Australia. The economic relationship between South Korea and Australia has improved dramatically in recent years. Even as recently as a few years ago, Korea was not regarded as an important trading partner by Australia, which focused more on its relationship with large countries, such as the United States, Japan, and China. However, as of 2020, Korea represents Australia's fourth largest export market. Accordingly, its importance to Australia has increased dramatically. Based on the recognition of complementarity between the two economies, this relationship should continue to improve in the foreseeable future. This will require greater bilateral understanding of the mutual relationship to achieve its true potential.

Given that, as a language of business, the role of accounting is significantly important in bilateral trade and investment between two countries, greater bilateral understanding of cross-national differences in accounting will be critical for the improved cooperation between economies.

The relationship between accounting and environmental factors has been the subject of many debates over the last decade. Doupnik and Salter (1995) provided a logical and systematic framework for developing an accounting system by analyzing the influence of environmental factors on the accounting system.

The following section of this paper lists and discusses individual environmental factors that influence accounting practices based on Doupnik and Salter (1995). The third section briefly describes the accounting systems in both South Korea and Australia. In the fourth section, the influences of environmental factors on accounting systems in both countries are discussed and the environmental factors perceived to have an influence are proposed. The final section provides a summary and conclusion.

2. Environmental Factors Affecting Accounting Systems

Accounting that provides financial information plays the role of an information system. It is formed by the business environment and develops following changes in the business environment. Accounting reporting is influenced by many economic, social, and political factors.

Doupnik and Salter (1995) organized the factors to shape a structured model of accounting development, described as follows (p.129):

There are three elements which appear to determine a nation's accounting development: (1) the external environment, which affects both a society's culture and its institutional structure and provides external stimuli (intrusive events) that initiate changes; (2) cultural values, which affect the institutional structure and govern the interactions between components of the institutional structure in evaluating suitable responses to external stimuli; and (3) institutional structure within which responses are made.

Table 1 shows the individual environmental factors for external environment, cultural factors and institutional structure, suggested by the Doupnik and Salter (1995) model.

Table 1. Environmental factors affecting accounting systems.

External environment	Cultural factors	Institutional structure
• Economic conditions	• Societal values	• Legal systems
• Colonization	• Accounting	• Capital market systems
• Historical factors	• Subculture values	• Business enterprises

2.1. External Environment

Accounting systems are influenced by a variety of external environmental factors, such as economic conditions, colonization, and historical factors. The nature and extent of economic conditions will be influential because information needed in any society depends on the type of economic system it employs for the size and composition of the aggregate output. A small developing country in which production is relatively low and the diversity of industries is limited requires a lower amount of information and a less developed information network than a large, economically sophisticated country. Inflation is often associated with economic growth and is a major influence on accounting where hyperinflation is rife to the extent that alternative systems to the traditional historic cost approach are preferred.

Political factors have played a vital role in shaping and forming accounting standards and principles. One important political aspect is the transfer of accounting systems from one country to another through colonization. Many of the colonial or occupying powers impose their own ideas of accounting on the countries they colonize.

Historical factors, such as language, religion and ideology, influence social and economic developments, which, in turn, contribute to changes in the accounting system. For example, Confucianism has had a major impact not only in China, but also in Korea and Japan. In addition, it is suggested that Confucian values may have contributed to this phenomenon, since Korea's economic development mainly followed Japan's economic growth model.

2.2. Cultural Factors

Culture is considered as one of the important environmental factors that can influence the evolution of accounting systems. Culture is defined in several ways. Hofstede and Hofstede (1984) defined culture as "*the collective programming of the mind which distinguishes the members of one human group from another*" (p.23).

To describe the diversity of culture, Hofstede (1980) identified four dimensions of values: 1) individualism and collectivism, 2) power distance, 3) uncertainty avoidance, and 4) masculinity and femininity. These can be used to classify cultures and understand differences among countries. The advantage of this model is that it identifies national cultures by measuring common components in the mental programming of "the very different peoples that together make up a nation" (Hofstede, 1987). The Hofstede model is useful for showing how cultural influences affect national differences in accounting and management practices.

Gray (1988) proposed a model by recognizing the mechanisms related to the accounting subculture in which social values directly influence accounting practices. Gray (1988) identified four value dimensions of the accounting subculture (professionalism, uniformity, conservatism, and secrecy) related to social values using Hofstede's Culture-Based Social Values. In addition, the accounting system was classified following each of the four accounting values.

The values of the accounting subculture can affect certain aspects of accounting practices, namely 1) authority for accounting systems, 2) force of application, 3) measurement practices used, and 4) the extent of disclosed information.

The degree of professionalism preferred in an accounting subculture affects the nature of authority in the accounting system. The higher the degree of professionalism, the greater the degree of professional self-regulation and the lower the need for government intervention. The degree of uniformity preferred in an accounting subculture has an effect on the manner in which the accounting system is applied.

The higher the degree of uniformity, the lower the extent of professional judgement and the stronger the force applying accounting rules and procedures. The amount of conservatism preferred in an accounting subculture influences the measurement practices used. The higher the degree of conservatism, the stronger the ties with traditional measurement practices. The degree of secrecy preferred in the accounting subculture affects the scope of information disclosed in accounting reports. The higher the degree of secrecy, the lower the degree of disclosure.

The associations between culture-based societal values and accounting systems are identified in Table 2. Any given aspect of accounting practice, however, may be influenced by more than one accounting value. For example, disclosure is susceptible to not only the degree of secrecy, but also the degree of conservatism, uniformity, and professionalism favored by the accounting subculture. A higher degree of conservatism favors prudence over disclosure: the higher the degree of uniformity, the greater emphasis placed on compliance rather than disclosure. Therefore, the scope of disclosure of financial reports appears to vary from country to country depending on the differences in the value orientation of the preparation of the reports.

Table 2. The associations between culture-based societal values and accounting systems.

Societal values	Accounting values	Accounting practices
Individualism	Professionalism	Authority
Power distance →	Uniformity →	Application
Uncertainty avoidance	Conservatism	Measurement
Masculinity	Secrecy	Disclosure

2.3. Institutional Factors

Accounting systems are influenced by institutional structure factors, such as the legal/judicial systems, capital market systems and business enterprises. One of the most important institutional factors affecting accounting is the type of legal system in a nation. The representative legal systems are code law and common law. Countries following a codified legal system (Code law) adopt a legalistic approach to accounting more often than countries using common law systems. Moreover, accounting practices in code law countries tend to comply with the requirements of tax laws.

The sources of finance are another important influence. Clearly, public accountability and pressure to disclose information will be greater when financing comes from external capital markets, as opposed to banks or family sources, where information is more directly available. Government–business relationships are also an important institutional factor influencing accounting systems. Governments have intervened systematically to stimulate economic growth and protect the development of certain industries. Various forms of government–

business partnerships can be identified depending on the degree of government participation and the cultural and economic environment.

2.4. Legal/Judicial Regime

A country's legal/judicial regime can influence its accounting system. Considerable research on legal/judicial regime issues begins with Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) and La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000). The legal rules protecting investors and the quality of their enforcement vary widely and systematically from country to country. These rules differ according to their legal origin, common law, or code of law. Their results provide evidence that common law countries have stronger external investor legal protection. Supporting the research by Porta et al. (1998), Beck, Demirgüç-Kunt, and Levine (2003) empirically assessed the influence of legal origin on financial development. They came up with two reasons why common law countries have stronger protection for outside investors' rights than code law countries. First, the legal tradition of common law regimes, which emphasize the decentralized nature of state power, has evolved to protect the property rights of individuals. Second, the legal tradition of code law regimes is inflexible and inefficiently rigid than common law regimes, thus the legal tradition of code law leaves significant gaps between legal capability and commercial needs. La Porta, Lopez-de-Silanes, and Shleifer (2006) examined the effect of securities law on stock market development. They suggest that the securities laws of common law countries emphasize market discipline, private litigation, and standardized disclosure, which benefit the stock market. Consequently, a common law regime offers stronger legal protection for investors and is more market-oriented than those of code law regimes.

Ball (2001) argues that these differences between common law and code law regimes affect the quality of financial reporting since in common law regimes, information asymmetry between management and the contracting parties of firms is resolved by public financial reporting and disclosure, while in code law regimes, information asymmetry is resolved by private communication. Therefore, common law regimes have evolved into a well-developed and reliable public financial reporting and disclosure infrastructure. This includes:

1) Independent audit professions since independence from management can objectively monitor and observe management without any constraint. Accordingly, independent auditors increase the quality of financial reporting.

2) Efficient corporate ownership and governance systems to process reliable public information since the provision of fair and honest financial statements is the primary responsibility of the top management. The board of directors and the audit committee are responsible for monitoring the financial reporting process. Thus, efficient corporate governance can achieve higher quality financial reporting.

3) A system for setting and maintaining high quality and independent financial accounting standards because governments in code law countries establish and enforce accounting standards that are representative of the interests of various political groups, such as financial institutions, unions, and governments. Hence, political influence impairs the quality of financial reporting.

4) Independent legal systems to protect, and punish fraud, manipulation, and failure to comply with accounting standards and disclosure because standards such as the Sarbanes–Oxley Act 2002 can be expected to reduce accounting fraud and force management to ensure a higher quality of financial reporting.

Based on well-developed infrastructure, common law financial accounting standards emphasize credibility and accountability more, compared with code law accounting standards. Hence, earnings quality in common law countries is generally higher than in code law countries.

Ball, Robin, and Wu (2003) classified countries into common law (shareholder governance model) and code law (stakeholder governance model) models, respectively, and they examined the properties of accounting information defined as timeliness and conservatism[1] in different legal regimes. Common law regimes focus on shareholder rights; therefore, financial accounting practices in common law countries are market-oriented and have evolved into a non-legalistic approach such as accounting custom. The purpose of the accounting system in common law countries is to fulfill the decision-making needs of investors and creditors. In contrast, code law regimes are legalistically oriented and tend to protect stakeholders. Governments in code law countries establish and enforce accounting standards that are representative of the interests of various political groups, such as financial institutions, unions, and governments. Thus, the demand for accounting information is strongly influenced by stakeholders, rather than by stockholders.

Empirical results show that accounting income in common law countries is significantly timelier than in code law countries due to quicker recognition of economic losses. Hung (2000) investigated the effect of accrual accounting on the value relevance of financial statements across countries with different legal regimes. Consistent with Ball et al. (2003), the use of accrual accounting increases the value relevance of financial statements in common law countries, whereas in code law countries, it does not increase the value relevance of financial statements. Haw, Hu, Hwang, and Wu (2004) examined the role of legal institutions and earnings management induced by the control-ownership disparity of controlling shareholders between common law and code law countries. They documented that earnings management induced by control-ownership disparity is significantly limited in common law countries where there is stronger outside investor protection and

[1] Ball, Kothari, and Robin (2000) interpret that both timeliness and conservatism capture the concept of financial statement transparency.

higher disclosure and accounting quality compared with code law countries. Bushman, Piotroski, and Smith (2004) analyzed corporate transparency determinants, interpreted as financial transparency[2] and governance transparency[3] across countries. They found that governance transparency is primarily related to the legal/judicial regime and is higher in common law countries than in code law countries, while financial transparency is significantly related to political regime and is higher in countries with lower state ownership of firms and banks. DeFond, Hung, and Trezevant (2007) explored the association between the financial reporting environment and the information content of annual earnings announcements across 26 countries. They found that annual earnings announcements are more informative in countries with less earnings management and stronger investor protection, such as enforced insider trading laws.

3. Accounting System Developments in Two Countries

3.1. South Korea

In 1962, the first five-year economic development plan was announced, demanding the development of the domestic capital market and foreign capital investment. With the enactment of the Commercial Law and the Securities and Exchange Law, the legal basis for regulation on the issuance and secondary markets was established.

Under the Securities and Exchange Act of 1963, mandatory audits were made compulsory for listed companies and branches of foreign banks from 1964. As a result, as the role of certified public accountants was strengthened, the Certified Public Accountants Act was passed, and the Korean Society of Certified Public Accountants (the Capital Market Promotion Act enacted in 1968) induced companies to issue stocks, increasing the importance of financial reporting.

In 1977, the Korea Securities and Exchange Commission (KSEC) and the Securities Supervisory Board (SSB) were established to identify major issues related to the issuance and fair transaction of stocks and the supervision of stock institutions.

With the rapid growth of the Korean economy and capital market, the demand for improved reliability of corporate financial statements and other disclosures increased. The External Audit Act of Corporations was enacted in 1981, requiring independent audits by a certified public accountant for companies with total assets exceeding KRW (Korea Won) 3 billion (revised to KRW 7 billion in 1998).

Two accounting principles existed before December 1981; one was applied to publicly traded companies and the other was applied to other types of business entities. Because these two sets are similar in nature, they have been combined to form a new set called "Accounting Standards for Businesses", also known as "Financial Accounting Standards" (FAS). The FAS has been amended more than five times since 1981 due to changes in society, law, and the internationalization movement. The economic success resulting from a series of five-year economic development plans simultaneously spurred the growth of the Korean capital market. This made Korean accounting standards more compatible with accounting standards in other countries, and certain standards related to securities and foreign exchange gains and losses were revised in 1990. Korea has been a member of the International Accounting Standards Committee (IASC) since 1988 and has continued the policy of amending the existing FAS to be consistent with the International Accounting Standards (IAS) and adopting more IAS. As a result, on April 1, 1996, the FAS have been greatly revised due to the expansion and globalization of the Korean capital market. After the Asian financial crisis in 1998, the Korean Accounting Standards Board (KASB) was established and has adopted the International Financial Reporting Standards (IFRSs) as the Korean IFRS (K-IFRS). The K-IFRS are completely identical to the International Accounting Standards Board (IASB), except for timing differences for newly published IFRS and some additional disclosure requirements. The K-IFRSs are kept up to date as the IFRS change. The K-IFRS have been required for all listed companies in Korea since 2011.

3.2. Australia

The Australian accounting system, like many other countries in the Asia Pacific region, has been heavily influenced by offshore developments.

As evidenced by Australia's historical background, Australian financial reporting during the colonial period was characterized by strong influences on British accounting practices. From 1862 to around 1970, Australian company law generally tended to follow the development of British corporate law (Gibson, 1979). In 1896, the Victorian government amended the colony's company law to distinguish "public" and "owned" companies. This law introduced mandatory audits of state-owned enterprises (SOEs) for the first time and required all SOEs to send an audited annual balance sheet to shareholders in a standard format.

The development of accounting in Australia in the first half of the 20th century was significantly influenced by the British Institute of Chartered Accountants of England and Wales (ICAEW), a professional British accounting institution. The Institute of Chartered Accountants Australia (ICAA) adopted the official guidelines for the ICAEW's Accounting Principles.

[2] The intensity and timeliness of financial disclosure, interpreted and distributed by analysts and the media.
[3] The intensity of governance disclosure and the intensity and timeliness of financial disclosure used by outside investors.

Until the early 1980s, Australian accounting professionals tended to adopt American-style self-regulating accounting practices, and prior to 1984, professional accounting bodies led the development of accounting standards. That year, the Australian government established the Accounting Standards Review Board (ASRB), the regulatory body that succeeded the Australian Accounting Standards Board (AASB), to approve accounting standards and provide legal assistance. The Australian Accounting Research Foundation (AARF) as a private sector institution is responsible for developing accounting standards. This relationship is similar to that between the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) in the United States.

Australia is an active participant in the development of the standards set out by the International Accounting Standards Committee. The two professional accounting bodies, the AASB and the AARF, released a statement in 1995 supporting harmonization with International Accounting Standards, except in exceptional cases. Australia adopted IFRS in 2005, and non-public accountable entities that can follow simplified disclosures are subject to Australian Accounting Standards (AAS), which are partially consistent with the IFRS.

4. Influence of Environmental Factors on Accounting Systems

4.1. External Environmental Factors

4.1.1. Economic Conditions

Australia's economic scale is similar to that of Korea. Australia is a mature economic society, while the primary industries, such as agriculture and minerals, account for a large proportion of the economy, and the scale of social welfare is broad. Since the early 1970s, the Korean economy has achieved high growth through a huge influx of foreign capital and technology. One reason for Korea's strong economic performance has been growth in exports, particularly in the manufacturing sector.

Both Australia and Korea have export-led economic structures and have strong motivations for market opening, so they seek to harmonize financial market globalization and financial reporting. For this reason, they are actively increasing the acceptance and adoption of International Accounting Standards.

4.1.2. Colonization

All countries in the Asia-Pacific region except for Japan and Thailand were colonies before the 19th century. Australia became self-governing at the beginning of this century, and Korea gained independence after World War II. The detailed information is shown in Table 3.

Table 3. Colonizer and period of colonization.

Colony	Colonizer	Period of colonization
South Korea	Japan	1910–1945
Australia	Britain	1788–1901

Prior to 1970, Australian accounting was influenced by British accounting practices and thought. Australia's accounting system adopts accounting values such as honesty, fairness, prudence and professional judgment. The development of Australian accounting in the first half of the 20th century was significantly influenced by the Institute of Chartered Accountants of England and Wales (ICAEW). Prior to the introduction of the IFRS, the Australian accounting system tended to adopt the US model due to the significant economic impact of the US. South Korea's accounting system before 1945 was largely influenced by Japanese accounting systems. Most of South Korea's legal system, including accounting code, originally came from Japan. When US forces occupied Korea in 1945, financial statements of Korean companies were required by the US government. Since then, the development of the Korean accounting system has been influenced by the Japanese and US accounting systems.

4.1.3. Historical Factors – Language, Religion, and Ideology

The two countries have different linguistic and cultural backgrounds. English is spoken in Australia, and Korean is spoken in Korea. Interestingly, Australia adopts the Anglo-American system and practices for both the law and business systems, whereas Korea adopts the civil law system for the legal system and the Anglo-American system for business.

Ideology and religion indirectly influence social and economic development. Since Confucianism, the basic ideology of East Asia, emphasizes blood ties, business growth in East Asia has been based on the family-oriented philosophy of family business succession. Most businesses in Korea are controlled by a small number of family groups. Many previous studies (e.g., Ball et al., 2003; La Porta et al., 2006) argue that the low fair disclosure and transparency in the publicly disclosed financial statements of Korean firms is attributable to family control. The traditional religion of Korea is Buddhism, but Christianity has been spreading rapidly since the early 20th century. However, religion's impact on economic development and business practices varies from country to country but is recognized as playing a neutral role in economic growth.

Table 4. Societal and accounting values by country.

Cultural values	South Korea	Australia
Societal values (Hofstede)		
- Individualism	Low	High
- Power distance	High	Low
- Uncertainty avoidance	High	Low
- Long-term	High	Low
Accounting values (Gray)		
- Professionalism	Low	High
- Uniformity	High	Low
- Conservatism	High	Low
- Secrecy	High	Low

Source: Hofstede and Hofstede (1984); Hofstede (1987); Hofstede, Hofstede, and Minkov (2005) and Gray (1988).

4.2. Influence of Cultural Factors

Table 4 shows the combination of social values of both countries to derive each country's accounting system based on Gray (1988).

The societal values of the two countries are dramatically opposed. For example, Korea's high savings rate is explained by Koreans' long-term oriented life goals and the Confucian-based emphasis on economy. Conversely, Australia's voluntary savings rate of close to 0% may be attributed to Australia's social values, which are the opposite of those of Korea.

Given these opposing social values, the accounting practices and standards-setting processes in the two countries are expected to be very different. Australia, which has a more open and individualistic culture than Korea, is open and receptive to public opinion in the process of setting accounting standards. Accounting standards in Australia are published by private organizations, such as the Australian Accounting Research Foundation, and public sector participation is increasing. When applying accounting standards, financial reporting based on substance rather than form is emphasized along with professional judgment. There is also more voluntary disclosure, and the independence and autonomy of the accounting profession is emphasized.

On the other hand, in Korea, accounting standards are established and published by the KASB (Korea Accounting Standards Board), a private sector company, but the KASB is greatly influenced by the government and government agencies (the Korea Financial Supervisory Service), thus accounting standards are very detailed and tend to be enforced by law. In addition, the measurement method is more conservative, and the disclosure of financial statements is limited compared to Australia.

Table 5 below summarizes the major accounting system differences between Australia and South Korea.

Table 5. Accounting system difference between Australia and South Korea.

Country	Authority and application	Measurement	Disclosure
South Korea	Standards set by private bodies influenced by government; statutory control; rigid and detailed rules; strictly enforced to assure uniformity	More conservative	Secrecy and limited disclosure
Australia	Standards set by private bodies; professional judgement requirement; substance over form; fair disclosure	Less conservative	Substantial mandatory and voluntary disclosure

4.3. Influence of External Environmental Factors

4.3.1. Legal/Judicial system

There are two major legal systems: 1) code law and 2) common law. South Korea is classified as a code law country, while Australia is a common law country with British common law heritage. Tax laws in code law countries such as South Korea stipulate minimum accounting requirements, and normative and procedural accounting rules are applied, meaning that compliance with the laws is crucial.

In contrast, common law countries such as Australia encourage experimentation without allowing more than what the law requires for judgment. Therefore, accounting rules under common law national frameworks tend to accommodate more practical and innovative methods.

4.3.2. Capital Market System

Both Australia and South Korea have well established stock exchanges to stimulate private sector capital markets. As of 2020, the market capitalization of the Korea Stock Exchange (KSE) is US$2.37 trillion, while that of the Australian Stock Exchange (ASX) is US$1.86 trillion. To promote the globalization of capital markets and to monitor securities markets, securities regulators have been established in both Australia and South Korea with a role similar to that of the Stock Exchange Commission in the US. In addition, strict trading and disclosure rules for securities have been applied, and audited financial statements must be submitted periodically.

For both Australian and Korean companies, the main source of funding is stocks on the capital market. However, despite the growth of the stock market, the traditional source of funds for Korean companies is bank loans, and banks have played an important role in the economic development process. A company's financial statements are therefore less important as a means of disclosing relevant information to decision makers, as financing through a bank allows both formal and informal financial information to be obtained from a company.

Recently, the accounting system in Korea has changed significantly due to the rapid development of the stock market. The Korean stock market's rapid development is resulting in larger and more decision-related disclosures in financial reporting. In addition, the information demand of foreign investors and the growth of the Korea Stock Exchange became the driving force for Korea's early introduction of the IFRS. However, as the ownership of a company is concentrated in a small number of controlling shareholders, providing information for decision making and improving transparency is still controversial.

4.3.3. Government–Business Cooperation

In Korea, the government has traditionally protected the development of specific industries and intervened throughout the economy through various channels in order to systematically drive economic growth. The government managed the infrastructure industry through state-owned enterprises and established various consultation mechanisms to cooperate with the private sectors. The Korea Fair Trade Commission was established to improve corporate monopolies and control opportunistic behaviors of companies.

Unlike the Korean government, the Australian government is somewhat pro-business but does not play an authoritative role in business relations. This is referred to as a silent partnership. The role of the government is to provide the environment and infrastructure for companies to thrive, but it does not direct companies to expand or launch business opportunities.

5. Conclusions

This study follows the suggestions made by Hofstede and Hofstede (1984); Hofstede (1987); Hofstede et al. (2005) and Gray (1988), and it extends the research of Doupnik and Salter (1995) by considering the accounting system development model. Prior studies suggest that environmental factors can be a valuable tool in explaining and understanding differences in the way in which accounting operates in countries with different environments.

This study compares South Korea and Australia to explore the impact of environmental factors on the countries' accounting systems. The basic contention of this study is that environmental factors based on the external environment, cultural factors, and institutional structure can affect the accounting systems in Australia and Korea. This study is expected to provide a systematic framework for differences in the development of accounting systems by analyzing the effects of environmental factors.

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