

# Accounting: goals and importance in the world

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Accounting, its Goals and Importance in the World In this era of fast flowing money and big multinational corporations, the practice of accounting for businesses has assumed greater importance. Not only does accounting provide valuable information for investors who want to invest in a company, it also provides shareholders with a mark sheet of the management's performance during a financial year. There are numerous other uses of the financial statements created by accountants and as the world economy grows and businesses become more interdependent, Accountancy gains further importance.

In recent years an important topic of discussion has been the adoption of global accounting standards. Different areas of the world follow different accounting standards with the US businesses following the GAAP under the FASB and many countries of the world, particularly in Europe opting for the IFRS that are moderated by the IASB (Epstein). There have been frequent cries about adopting similar standards and the FASB and IASB have even cooperated in 2002 to bring the two standards closer in conformity so as to adopt them in the US. This has many advantages in terms of allowing investors to compare companies across the world in terms of their relative performance. Since the world is becoming a global village, it is only fitting that such global standards be adopted to create harmony. However, some point to the disadvantages of the IFRS in the US. The GAAP is seen as being specific and fairly inflexible with rigid practices while the IFRS are principle based, allowing greater flexibility in the area of revenue recognition etc (Epstein). Furthermore, the US companies may have to incur major costs to shift to the new global standards which could be costly for many. Another point of contention is the funding behind the IASB which receives funds from <https://assignbuster.com/accountinggoals-and-importance-in-the-world/>

a few large corporations which may leave its integrity into doubt.

Another point in the news which highlights the major role accounting plays in the world economy relates to the Fair Value principles being used for businesses. These have both been espoused and opposed by many (Joseph-Bell). Numerous experts blame the fair market principles for the financial crisis plaguing the world today. Since most of the companies were required to report some of their financial assets at fair value, it resulted in inflated reporting as the house prices rose and the sudden adjustment downwards as the bubble burst leading to problems for many banks and financial institutions. The accompanying clause related to margin calls worsened the case for many banks. As such, arguments have been made to dispense with the fair market valuation method altogether. Many bank analysts don't agree that marking loans to fair value is the best way to assess loan portfolios (Joseph-Bell). There is also the case of struggle by the accountants in trying to measure representative fair values in volatile markets. The obvious benefits of allowing investors to get a good view of the accounts, with elements marked at today's value may be losing out on the disadvantages of the fair value method, as is evident from the financial crisis hitting the world today.

Along with the sub prime crisis, the news is abound with financial frauds and accounting scams ranging from the Satyam case in India to Parmalat in Italy (Byrnes). The investors who suffer in such scams rely on the work of independent auditors who review the financial statements of these companies and their reporting methodology and report any discrepancies so the investors know they can trust these statements. When such auditing firms failed, they were liable to prosecution. However, they used to be

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shielded from these lawsuits effecting their global operations as these auditing firms operate as memberships, with each affiliate company being a member of the global group and reporting to a central office. Thus a law suit against one member can not spread to the whole company. However, recent litigation threatens that shield as the courts are arguing that since the mission statement of the global auditors aims at controlling these members which are required to submit their documents for review to the central office and take recommendation about clients from other members, the whole company must be subject to a lawsuit if it arises (Byrnes). This places challenges for global firms like KPMG and Ernst and Young. As such, this does highlight the global role accounting plays in the world economy and how important an element it has become in financial decision making.

#### Works Cited

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