

Abstract to my project

[Finance](#)



Accounting standards are crucial elements in the functionality of capital markets and businesses. These standards are essential in providing existing and/or potential investors adequate information to make informed and calculated decisions as pertains profitability of investments and management of these investments. These accounting standards are also important to regulators, reporters and the taxpayers. All parties with vested interests should be preview to the information generated as a result of the application of these standards. These standards interpret numbers and placing these numbers in the proper context so as to ensure a well-informed decision process.

Recent efforts have seen the move towards the convergence of international accounting standards. This is fundamentally the move to having all kinds off financial reporting produce a common result. This concept has been adopted by the SEC and the FASB to ensure the synchronization of all partners who have subscribed to these standards. The IFRS offers this opportunity by having a standard and uniform template upon which all financial reporting will be scrutinized. There is need to conduct further research on the issue of taking up a uniform standards of financial reporting globally. This is because there are some underlying effects that these standards may have on SME (small and medium size enterprises). The standards are developed to favour multinational cooperation, negatively impacting the small and medium size enterprises.

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Ethical Consideration²⁷

Introduction

Financial accounting practices are essential for determining the performance of organisations and their financial situations. Private, governmental and non-governmental organisations use accounting standards to improve their performance (Godfrey & Chalmers, 2007). There are many stakeholders of financial information who have an interest in the financial report for various purposes. Therefore, the method used and the influence of that method to the organisation and its financial statement is of great significance to the stakeholders of those organisations (Godfrey & Chalmers, 2007) The document focuses on the advantages and disadvantages of globalisation of accounting standards to various stakeholders. The project contains an abstract, introduction, the body of the report, glossary, conclusion, list of references and bibliography.

International Financial Reporting Standards (IFRS) is the main accounting systems under consideration for application as an international accounting system (Samak et al., 2012). The expansion of businesses across borders are faced with problems because they are required to used different accounting systems adopted by different nations in preparation of the financial accounts and reporting of financial information. This has forced various nations to consider the option of adopting uniform accounting system across the globe in order to ease the challenges of various accounting systems (Irvine & Lucas, 2006). Even though the use of national generally accepted accounting principles (GAAP) is considered to be causing challenges to beneficiaries of financial information the adoption of common accounting standards across the globe will still have various challenges and benefits to the stakeholders

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and the organisation.

Background

The growth of the economy and subsequent expansion of businesses to different parts of the globe have posed challenges to the accountants and other users of financial information (Winney et al., 2010). Various countries have different rules and religious practices that pose challenges in decision making based on the accounting information developed under various accounting systems. However, in the recent past different countries have started adjusting the processes for preparing financial reports and it has become evident that International Accounting Standards (IAS) is most likely to be adopted across the globe (Irvine & Lucas, 2006). IAS refer to rules, laws and regulations offered by various professional and independent bodies in order to specify the procedure for preparing accounting information to achieve uniform system for the users of the financial information (Winney et al. 2010).

“ Accounting harmonisation refers to a process that institutes accounting regulations at an international level to reduce conflicting accounting principles between national accounting standards used in financial disclosures” (Chen, 2009, p. 4). According to Thao (2010), the accounting standards should be appropriate in the sense of being compatible with organisation’s objectives of the accounting standards that aim to achieve the liability so that they capable of offering information that satisfies the needs of the beneficiaries of that information. The accounting standards should be clear and understandable by those responsible for preparing financial information and other stakeholders and be able to maintain the consistency and flexibility between those stakeholders (Zimmerman, & Werner, 2013). In <https://assignbuster.com/abstract-to-my-project/>

order for the accounting standards to maintain consistency, they should be the same across the globe and easy to incorporate with the business objectives. Finally, accounting standards should be synchronised with the environmental standards of the society where the business is in operation (Barth, 2007). Therefore, harmonisation of the global accounting standards requires the considerations of various business environmental circumstances and the establishment of uniform standards that can match with global business environment. However, it might not be easy to have common accounting standards that blend well in all business environments across the globe. Also, it may involve making compromises on some parts of accounting standards requirements in favour of the international accepted standards (Diaconu, 2007). That suggests there will be advantages and disadvantages of harmonising global accounting standards.

Chapter 1. Different Accounting Systems.

The accounting systems in different countries all over the world are not uniform and have a range of different features (Sucher & Alexander, 2002). The accounting system of the country is dependent on the economic environment. The demand of accounting information by the people of the country has shaped the accounting systems. In the age of globalisation when investments in the various parts of the globe by the multinational companies have increased, the comparability of the accounting systems followed in different countries has become an important issue (Ball et al, 2000). The multinational companies have required following the systems and accounting standards followed in the various economies of its operation for the preparation and reporting of financial statements. The companies have also faced difficulties in explaining their financial position to the investors due to <https://assignbuster.com/abstract-to-my-project/>

the difference in the accounting systems in different countries (Basu, 1997). A globalised accounting system requires the establishment of harmonious accounting standards such as International Financial Reporting Standards (IFRS) (Gaffikin, 2007) that can help the users of accounting information to apply the same rule during preparation and interpretation of the accounting information.

Various companies have gradually engaged in the establishment of "accounting standards that can be applied in more than one country" (Heidhues & Patel, 2012, p. 39). Some of the factors that influence the accounting system of the economy could be broadly categorised under the following; the country's historical origin, socio-economic demands, culture, institutional environment and many non-accounting factors such as values and beliefs (Gaffikin, 2007). These factors are different for every country. Also, the accounting systems of the countries vary from one another. The recent cause of fixing the uniform accounting standards has been the expansion of businesses into the international economies (Gaffikin, 2007). Many multinational organisations have established their operations in various nations either to take advantage of the resources available in those countries or to expand their market. However, as most business expand their territories, the challenge of preparing a statement and reporting the financial information to the stakeholders has continued (Stickney et al, 2009). A company must be on top of the numbers and should be able to report accurate information on a daily basis. Therefore, the cultural issues and worldwide networks of different business ethics within an organization, pose a challenge when trying to apply it into individual markets (Mckie, 1996). Also, differences in accounting can result in significantly different amounts

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being reported (Stickney et al, 2009). Having uniform global accounting standards will help businesses to compete effectively and compare the performances of the businesses across the globe using standard information.

A number of factors have caused the differences in accounting systems, in different countries (Zimmerman & Werner, 2013). The operation of capital markets is affected by accounting principles since different accounting rules have various effects on the values of the assets traded in the security market (Gibson, 2008). The financial reporting system used influences the value of the assets and the decision of the investors in the capital market. On the other hand, the activities of the capital market authority affect the rate of economic growth. Vibrant capital markets attract more investors and stimulates economic growth. Also, various nations use different financial reporting systems thus resulting in differences in accounting information. IFRS represents and captures the economics of a transaction better than "rules based" U. S. GAAP by being "principles based" accounting standard. Also, single U. S. accounting rule can be more than a hundred pages long (Gibson, 2008). Therefore, the IMF and World Bank have urged countries to adopt IFRS as the preferred international accounting standards in order to "stimulate the growth of capital market and economic stability" (Gibson, 2008).

The difference in the quality of accounting education and professional status of accountants in various countries is implemented to the establishment of uniform accounting standards because various nations would like to use the standards they can apply effectively (Stickney et al, 2009). Therefore, the establishment of uniform accounting standards will require an approach that

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will either make nations compromise the existing differences or address those differences in a friendly manner. The use of uniform accounting standards are not very effective internationally because various businesses are at different levels of growth and some cannot afford to hire competent accountants who are familiar with international standards (Gibson, 2008). In addition, some nations fear to use uniform global accounting standards for fear of effects of inflation (Guenther & Young, 2000). High inflation rates cause historical cost accounts to create misleading information about companies' performance by, for example, understating depreciation charges which are based on lower historical asset costs rather than higher current cost (Whittington, 1997). This affects the credibility of financial information because it does not present accurate value of assets. In some instances, the level of economic development and the way of life of the community affects the application of uniform accounting standards as many people prefer to retain the standards they are used to (Financial Reporting Council, 2014). For example, businesses operating in US are using GAAP since they are used to it and would prefer to continue with their system while those operating across the borders prefer IFRS for uniformity of financial reporting.

One of the biggest differences between GAAP and IFRS is that under IFRS companies have to use the first in first out (FIFO) form of accounting (Wolinsky, 2011). GAAP, on the other hand, allows a company to choose whether or not they want to use FIFO or the last in first out (LIFO) method (Wolinsky, 2011). For example, assume that the GAAP company is using LIFO and the IFRS company is using FIFO and all the units are sold at \$2. By using LIFO, the GAAP method would sell the last items into inventory before they sold the items valued earlier. This would lead to the same exact sales in both

companies, but by being able to include a higher cost of goods sold (COGS), the GAAP company will be able to lower overall income which means their tax liability will be reduced (Figure 1.) (Wolinsky, 2011)

Figure1. Declaration of Gross Margin under different accounting rules (Wolinsky, 2011).

Also, some countries have not taken the issue of uniform accounting standards because they consider this as a loss of their independence. The levels of economic development and differences in inflation in the economies have led to different accounting systems (Kieso et. al, 2010). The United States and United Kingdom are good examples of where inflation is generally under control due to use of the historical cost method . The accountants record the value of assets based on the actual cost that was carried to purchase the products thus the rate of inflation does not affect the cost of the assets in financial reporting. The Historical method of valuing the assets is not applicable in Mexico or Bolivia where the inflation rate is very high where they use present value to account for cost of assets (Fosbre et al., 2009). From the viewpoint of the investment, fair value is important however, presentation of fair market value could lead to annual increases in tax assessments (Wharton, 2001).

The functioning of the capital markets, the various sources of finance available to meet the capital needs of the companies, and the globalisation of the capital markets influence the accounting systems and reporting in different countries (Ali & Hwang, 2000). Depending on the trend of debt or equity capital raised by the companies, the accounting systems and the financial reporting provides emphasis to the dissemination of financial

information in these categories in order to communicate the desired information to the investors. Public companies raise capital by trading with securities in the security market. Therefore, the management have to prepare the financial report for the investors reflecting the summary of transactions in the security market in order to monitor the progress of the market activities.

The countries that have made significant advancement in businesses and have high standards of reporting in their home country also influenced the host county's accounting standards and reporting methods. An example is UK and US even though they use different accounting systems (Stickney et al., 2009). These developed countries have more commercial interests in various countries that they would like to safeguard through establishing uniform accounting standards. UK uses IFRS while US uses FASB. The use of different accounting standards by multinational companies in various nations affects business operations in those countries (Ball et al., 2000). In other nations such as Germany and Austria where the rules of accounting are set on the basis of Roman law, the statement of accounts and the financial reports are to be designed for tax purposes (Stickney et al, 2009). This is different in countries where the accounting and reporting methods are designed for business purposes and focuses on the transparency and communication of financial information to the users. For example, UK, India, China and US have designed their accounting systems for commercial purposes.

The laws and regulations of accounting provide the guideline on the process of financial accounting and reporting with strict conformance to the standards of accounting (Fosbre et al., 2009). The FASB (Financial

Accounting Standards Board) requires the use of rules while IFRS (International Financial Reporting Standards) applicable in UK requires the use of principles to determine and establish the accounting information in preparing financial statements (IFRS Foundation, 2014). The accounting system is oriented to individual business and their purpose of providing timely and transparent information to the users of financial statements. Small businesses operating in only one nation may not be interested in using international accounting standards because these may not add any value to their operations (Zimmerman & Werner, 2013). On the other hand, multinational corporations prefer international accounting standards for effective management of operations across the nations.

The political relations with other economies and the culture and belief of the countries have also played a major role in the differences, in the accounting systems adopted (Zimmerman & Werner, 2013). Many countries have set up their own accounting systems due to a lesser volume of international trade while other economies have moved closer to international standards of accounting in order to take advantage of globalisation. The accounting system of Canada has been influenced by that of the US as the US has major export ties with Canada (Alexander & Archer, 2008). The political co-operation, as well as dependence on other countries, has also influenced the accounting systems. The socio-cultural dependency over a long period on other countries like that of India and the UK has resulted in the influence of UK accounting systems over India (Gaffikin, 2007). The Indians have a long history of over two decades of interaction during colonial era thus Indians have borrowed some social and cultural values from Britons. The level of education and the quality of the accounting profession have also influenced

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the adoption of different accounting systems in the nations proposed under their independent frameworks. For example, India and Japan have high business intelligence that has made them express their willingness to adopt IFRS.

The attempt of accounting bodies across the globe to set up uniform accounting standards is disturbed by lack of fair value accounting given that various nations have different perceptions as to what comprise the actual value of the assets for accounting purposes (Alexander & Archer, 2008). The problem of such perceptions is that some countries may exert greater influence over others, thus resulting to unfair conceptual framework for accounting standards. For example, the United States has always attempted to defend the GAAP (Generally Accepted Accounting Principles) and have not been willing to compromise to IFRS. The effort to connect the accounting standards and establish uniform international concept is likely to cause various challenges (Sucher, & Alexander, 2002). For instance, the harmonisation of loan and accounting for financial securities may experience government influence especially from those with stable economies such as the United States, China and the UK. The use of IFRS as international standards reflect the actual value of the assets since the values are recognised in the current market value unlike the FASB accounting standards that are based on historic value of the assets. Therefore, the harmonisation of international accounting standards may present more external influence on the accounting practices.

IFRS is an International Standards of Accounting that is being followed by the members of the European Union since 2005 (Fosbre et al, 2009). Although the countries outside the European Union have been following their own

systems of accounting and financial reporting, there is an increasing trend of adopting accounting systems that are closer to the International Standards of Accounting (Alexander et al., 2003). According to Nobes & Parker, (1998), the application of the International Accounting Standards by all forms of businesses including small and large corporations would remove the differences in the accounting standards followed by the companies in their transnational transactions and would be easier for them to explain consolidated financial position of the company to their investors.

The multinational companies operating in different nations mislead their stakeholders by reporting non-uniform revenue under different accounting standards. Uniform accounting standards will enable multinational companies to recognise and report business revenue more accurately both in overseas and home country. For example, in 2007 General Electric Company reporting higher overseas revenue than domestic revenue, but the revenue for the first quarter in 2008 declined by 6% in the domestic country resulting to decline of its shares in the market (Fosbre et al, 2009). The companies using IFRS recognise revenue when a sale is made, while those using US GAAP recognise revenue after sales has been made. The investors view business revenue as its net worth and prefer investing in businesses reporting higher revenue. Therefore, organizations using IFRS have a better chance of attracting investors because of higher revenue over another business with similar performance but using US GAAP. The multinational corporations such as Du Pont, General Electric and Dow Chemical, Coca Cola and Pepsi have expressed their desire to shift from US GAAP to IFRS due to higher revenue they recognise overseas under IFRS than in home country (Fosbre, et. al, 2009).

Chapter 2. Advantages of Harmonising The Accounting Systems.

Comparability of various businesses across the globe

The globalisation of businesses has made different companies to operate in various countries. With the current accounting system of accounting standards, a company with its operations across countries has to follow the accounting policies applicable in that country of operation (Barth, 2007). For example, a company that has a branch in UK and in the United States has to use GAAP in the US branch and International Financial Reporting Standards (IFRS) in the other branch operating in the UK (Diaconu, 2007). The two branches in different countries appear different even though their economic status may be similar due to different accounting rules. For example, creditors may see different companies being extremely different when evaluating their creditworthiness due to differences in accounting standards (Godfrey & Chalmers, 2007). Therefore, global harmonisation of the accounting principles will make it possible for the investors to see the difference in performance of similar companies operating in different countries. It will enable small business owners to compare effectively various investment opportunities available across the globe without the extra cost of harmonising different companies to the same accounting standards (Elliott & Elliott, 2008).

With uniform accounting standards across the globe investors can easily make a comparison of different businesses and decide on the best investment opportunities available for them (Fosbre et al., 2009). The adoption of IFRS in Zambia has resulted to great benefit to Zambia's financial sector due to " high quality reports, as well as cross-border comparability of financial performance among banks," and it has helped "

India to get the benefits of greater comparability of financial information by attracting investors to invest in Indian firms" (Terzungwe, 2012, p. 100).

Expansion of business operations

Implementation of the accounting standards impose the businesses some cost (Samak et al., 2012). The cost of fulfilment with the particular countries accounting standards stops small businesses from extending their operations to other countries. Companies operating in more than one country have a lot of expenses because they are required to apply different accounting systems according to the accounting system used in that particular country. However, the harmonisation of accounting standards across the globe will reduce the cost of preparing accounting standards and make it easy for companies to extend their operations in different parts of the globe (Godfrey & Chalmers, 2007). The multinational companies will be required to prepare only one financial report for all their foreign branches in various countries instead of having to prepare various reports for those branches.

One authority

According to Terzungwe (2012), the current nature of the accounting standards allows different countries to set up their own accounting bodies to regulate accounting standards. There are challenges of having different bodies to regulate the accounting standards across the globe. Some of the challenges include disagreement among the regulators of accounting standards across the globe and in specific countries. Therefore, harmonisation of the accounting standards across the globe will ease the disagreement among the regulating bodies and reduce the cost of the compliance with the accounting standards.

The use of different accounting systems across the globe has limitations on <https://assignbuster.com/abstract-to-my-project/>

the operations in various capital markets (Gaffikin, 2007). Some companies are not recognised in the international stock market and cannot be listed in those security markets. For example, companies in Germany were using German GAAP as their accounting standards could not be listed in the New York Stock Exchange despite using “cost intensive dual accounting” system (Terzungwe, 2012, p. 99) because the system was different from the US GAAP. After the adoption of IFRS, the German companies were able to be listed in New York Stock Exchange across the borders.

International credibility

The harmonisation of international accounting standards provides all businesses with environment whereby no company feels disadvantaged because of the accounting standards applicable in their country (Jindrichovska, 2001). Various companies use similar requirements when preparing accounting information, therefore, such information is reliable to the various users of financial information. It gives investors confidence that information provided by various organisations reflects true and fair financial position of that particular company.

The adoption of IFRS will create fair presentation of financial statements. The fairness of financial statement should be reflected in the presentation of financial position, business cash flows and financial performance. The fairness suggests that those responsible for preparing financial information should be reliable when disclosing the effects of transactions with the logical procedure for appreciation of assets income, liabilities and expenditure laid out in the financial structure (Financial Reporting Council, 2014). IFRS is believed to respond to the requirement of fair disclosure of financial information. IAS 1 requires those making financial statement to make a note

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disclosing that the items of the financial reports conforms with all IFRS requirements. In some circumstances where they fail to comply with the requirements then it should be indicated as not compliant with IFRS (Financial Reporting Council, 2014). In extreme cases of non-compliance, the management should indicate that if they applied IFRS in particular circumstances the IFRS requirements would conflict with the objectives of the financial statement. Under such conditions, the entity should 'deviate' from the IFRS requirement but the management should give a detailed report of the issue, rationale and the effect of deviation from the IFRS requirements (Eichengreen, 2008). For example, the going concern principle require the entities used in the preparation of financial statement to be based on the assumption that the business will be in operation in the foreseeable future (Eichengreen, 2008). However, if the management have good enough reason to believe that the business is not likely to continue with its operations in the future they should indicate so at the time of making a financial statement (Alexander & Archer, 2008).

Efficient management of multinational companies

The use of standardised accounting information will enable companies to get information from international sources and to use that information to increase the efficiency of managing their organisations (Stickney et al., 2009). For example, the use of harmonised accounting standards will improve the sourcing of capital from local and international sources and can facilitate mergers and acquisitions of various companies across the globe. Although, this relies on the ability of investors to establish the performance of different companies across the globe, it has an additional benefit in that the managements of various companies are able to increase the

performance of their companies using various approaches such as lobbying for capital from international sources (Nobes & Parker, 1998). The companies will get an opportunity to be quoted in the international security market such as New York Stock exchange

Chapter 3. Disadvantages of Harmonising The Accounting Systems.

Additional cost to the organization

Addressing different accounting rules will require a business to offer training and educate the staff involved in preparing the accounting information and books of accounts. The cost of training of the employees is an additional cost to the organisation therefore that might be too much for small companies to handle. For example, the firms operating in the US will have to re-educate their accounting experts to on the requirements of the IFRS in the accounting process. The financial cost and the time assigned for the training may cause a disruption of business operations (Ball et al., 2000). Furthermore, the cost for those organisations with their operations in one country only will be too high in comparison to the benefits they expect from the harmonisation of accounting standards across the globe.

IFRS is Lack details unlike GAAP

The United States' GAAP provides detailed accounting information for the beneficiaries of the financial information in comparison to IFRS. Therefore, the U. S. and Canada will find it unnecessary to leave more detailed accounting standards and purchase a bit shallow standards for the sake of achieve uniform accounting standards (Kieso et al., 2010). Regardless of whether IFRS, US GAAP or any other accounting standard will be chosen as international accepted accounting standards, all other companies that were not using it before will have to adjust to it (Guenther & Young, 2000). The

small companies will have to incur a high cost in order to comply with the international accounting standards requirements. Furthermore, various countries will continue to use different laws and regulations that might make the comparability of financial statement across the globe still difficult, irrespective of the accounting standards being used (IFRS Foundation, 2010). As long as laws and regulation vary across the globe, investors and lenders comparing domestic and international companies might find it misleading to make a comparison of various companies and investment opportunities of those companies across the globe.

Discussion

The harmonization of international accounting standards is expected to improve the business performance and ease the procedure for the development of the financial statements (Alexander et al., 2003). The adoption of IFRS as the international accounting system will increase transparency, clarity and quality of the financial reports for the stakeholders across the globe. Uniform accounting information will enable investors and lenders to make an effective comparison of different companies and be able to make an informed decision in regard to the capability of the business to generate wealth for the investors and repay the loans and interest to the lenders (Heidhues & Patel, 2012).

The adoption of uniform accounting standards across the globe will reduce the “ barriers to cross-border trading on capital market and lead to more effective allocation of capital” (Chen, 2009, 14). This is expected to increase the flow of resources across the borders and improve the economic growth of the nations. The harmonisation of accounting standards is expected to reduce the expense of preparing financial accounts for the organisations

carrying out operations across the globe (Kieso et al., 2010). The business performance is likely to increase because of the ease of movement of human resources across the borders. Multinational organisations will be able to hire representatives to work in various branches across the globe thus increase the global competence of the organizations.

However, there is no evidence to indicate whether the harmonisation of accounting standards will be to solve “ all the differences of accounting practices and standards between countries” (Chen 2009, p. 15). The use of harmonised accounting information will result to additional cost to the small businesses operating nationally beyond the benefits they are likely to get. The high cost of training the accounting staff to adjust to the international accounting standards and cost of compliance with rules and regulations of accounting procedure will increase the challenges of operating businesses (Gaffikin, 2007).

Conclusion and recommendation

The adoption of harmonised accounting system will require the elimination of differences between various national GAAP in order to develop adequate motivation for the companies adopting international accounting standards. The adoption of uniform accounting standards may consume a lot of time to implement since it requires resources and training of the employees on the new requirements. There is no guarantee to the organisations that uniform accounting standards will generate any benefits to the organisations despite the cost of implementation. Furthermore, various nations have different rules and regulations that might continue to affect the preparation of financial statements for the businesses located in those countries thus affecting the benefit of harmonised accounting systems. Harmonisation of accounting

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standards has its benefits and challenges. The extent will be determined by the efficiency of implementation of the selected accounting system. Further research is essential to establish the benefits that small businesses operating in domestic countries will get by adopting the harmonised international accounting system.

Glossary of financial accounting terms (Pearson Education, 2006)

A

accounting - the process of identifying, measuring and communicating financial information about an entity to permit informed judgements and decisions by users of the information.

accounting standards - definitive statements of best practice issued by a body having suitable authority

Accounting Standards Board - the authority in the UK which issues definitive statements of best accounting practice

acid test - the ratio of liquid assets to current liabilities.

assets - rights or other access to future economic benefits controlled by an entity as a result of past transactions or events.

C

capital - an amount of finance provided to enable a business to purchase assets and sustain its operations.

capital markets - Markets for buying and selling equity and debt instruments

conceptual framework - a statement of principles providing generally accepted guidance for the development of new reporting practices and for challenging and evaluating the existing practices.

consolidated financial statements - present financial information about the group as a single reporting unit.

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consolidation - consolidation is a process that aggregates the total assets, liabilities and results of the parent and its subsidiaries (the group) in the consolidated financial statements.

cost - of a non-current asset is the cost of making it ready for use, cost of finished goods is cost of bringing them to the present condition and location

creditworthiness - the degree to which a organization is considered likely to pay back money that they borrow.

current asset - an asset that is expected to be converted into cash within the trading cycle.

current liability - a liability which satisfies any of the following criteria: (a) it is expected to be settled in the entity's normal operating cycle; (b) it is held primarily for the purpose of being traded; (c) it is due to be settled within 12 months after the balance sheet date.

current value - a method of valuing assets and liabilities which takes account of changing prices, as an alternative to historical cost.

D

direct method (of operating cash flow) - presents cash inflows and cash outflows.

E

effective interest rate - the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

entity, entities - something that exists independently, such as a business which exists independently of the owner.

enterprise - a business activity or a commercial project.

equity capital - the part of the share capital of a company owned by ordinary shareholders or in certain circumstances by other classes of shareholder

F

fair value - the amount at which an asset or liability could be exchanged in an arms-length transaction between a willing buyer and a willing seller.

FASB - Financial Accounting Standards Board has been the designated organisation in the private sector for establishing standards of financial accounting and reporting in the United States of America.

financial accounting - a term usually applied to external reporting by a business where that reporting is presented in financial terms.

Financial Reporting Standard - title of an accounting standard issued by the UK Accounting Standards Board as a definitive statement of best practice (issued from 1990 onwards - predecessor documents are Statements of Standard Accounting Practice, many of which remain valid).

financial statements - documents presenting accounting information which is expected to have a useful purpose.

fixed asset - an asset that is held by an enterprise for use in the production or supply of goods or services, for rental to others, or for administrative purposes on a continuing basis in the reporting entity's activities.

G

GAAP - generally accepted accounting principles. These include the standards, conventions, and rules that accountants follow in recording and summarising and in the preparation of financial statements.

H

historical cost - method of valuing assets and liabilities based on their original cost without adjustment for changing prices.

I

IAS - International Accounting Standard, issued by the IASBs predecessor
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body.

IASB - International Accounting Standards Board, an independent body that sets accounting standards accepted as a basis for accounting in many countries, including all Member States of the European Union.

IFRS - International Financial Reporting Standard, issued by the IASB.

indirect method (of operating cash flow) - calculates operating cash flow by adjusting operating profit for non-cash items and for changes in working capital.

L

liabilities - obligations of an entity to transfer economic benefits as a result of past transactions or events.

liquidity - the extent to which a business has access to cash or items which can readily be exchanged for cash.

M

market value (of a share) - the price for which a share could be transferred between a willing buyer and a willing seller.

net assets - assets minus liabilities.

P

principal (sum) - the agreed amount of a loan, on which interest will be charged during the period of the loan.

S

statement of principles - a document issued by the Accounting Standards Board in the United Kingdom setting out key principles to be applied in the process of setting accounting standards.

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Project proposal and literature search

Name: Ewelina Kobylanska

Pathway: Business

CLS tutor: Alex Winfrow

Project Supervisor: Alan Miller

List of the courses and institutions applied for:

University of Sussex: Accounting and Finance

Brighton University: Accounting and Finance

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A working title for the project:

What are the basic differences in accounting systems followed in different countries?

Objectives of project

The objective of this research project is to determine the relevant factors that have led to the differences in accounting standards in different countries. The project also seeks to explain the classification of the accounting motives and related accounting practises that are followed in different countries. The importance of moving close to the International Standards of Accounting would be explored through this research.

Hypothesis or Research Question

The research question for this project is, " What are the basic differences in accounting systems followed in different countries? Explain the factors that have led to these differences and the need to move to the international standards."

Literature Search

The literature on the differences in accounting systems in different countries could be searched from the existing books, journals and online referrals that contain the information on this topic. The literature review using the above mentioned sources of information would search on the basic differences in accounting systems followed in different countries. The various factors behind the differences in accounting and financial reporting in these countries and instances of moving closer to the international standards of accounting would be searched in the available literature.

Books:

Alexander, D. and Archer, S. (2008) International Accounting/Financial

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Reporting Standards Guide. CCH. Pp. 1-800.

Heidhues, E., & Patel, C. (2012) Globalisation and Contextual Factors in Accounting. UK: Emerald Group Publishing Pp. 30-79.

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McKie, S. (1996) Key Issues in Multinational Accounting Systems [Online]

Financial Reporting Council (2014) The Review of Conceptual Framework for Financial Reporting. FRC Response. Pp. 1-61. [Online]. Available at: Journals:

Ali, A. and Hwang, L. (2000) Country Specific Factors Related To Financial Reporting And The Value Relevance of Accounting Data. Journal of Accounting Research. 38(1), Pp. 15-27.

Fosbre, A., Kraft, E. and Fosbre, P. (2009) The Globalization of Accounting standards: Global. Journal of Business Research; Vol. 3(1). Pp. 61-71.

Proposed methodology

The methodology to be followed in this work is the secondary research method. The secondary sources of information like the books, journals and online referrals would be provided easy access to information on the topic. The research work would be completed in a specific time frame at affordable cost.

Proposed research analysis and findings

The research findings would be obtained from the books, journals and online referrals consulted on the topic of research. The research findings will be validated with the ideas obtained from the review of literature. The findings would include the basic differences in the accounting systems followed in different countries; the various factors that have led to this difference and the importance of following the international standards of accounting.

Ethical Consideration

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The research would be conducted ethically. Although the review of literature would provide an idea on the lines in which the research is to be carried out, the finds of earlier researches would not influence the research analysis of the current research work. After conducting the analysis, the findings of the research would be validated with the theories and arguments revealed from the literature.

Critical Evaluation

Working and studying proved me that the wise time management plays the most important part when drawing up the project timetable. Unfortunately, in the case of this project, my organisational skills have failed as I did not organise my the time wisely and also, I did not take into consideration aspects such as health or family issues. Therefore, did not meet all the planned deadlines and did not conduct as detailed research as would want. This resulted in my project not being as thorough and profound as it should be.

If I had the chance to start the project again I would most definitely start with the diligent learning of the terminology related to accounting. Also, the chosen title turned out to be too large as for a person who has never studied bookkeeping and have never had contact with financial accounting systems before.