

The advantages and disadvantages of new accounting



The purpose of this essay is going to give a general idea about advantages and disadvantage of FIRS, which has been widespread debate in the business community. Main body The aim of the International harmonistic process of Accounting Standards is to reduce or overcome differences worldwide (Degas 2005). In order to reach a better international Comparability of financial statements, Australian companies have to continue its active participation with FRR to protect Australia's interests. Advantages of FIRS The following advantages can be seen from the standpoint of preparers and users of financial reports.

Multinational companies would make savings With a salary Internal reporting system wealth the company, which gives the chance of better comparisons, less confusion and mistakes beet; en the parts of the company (Neil 2002). It allows uncomplicated communication and transfers of finance personnel. By using one set of Accounting Standards in various jurisdictions and capital markets. Further cost savings can be realized, because the preparation of consolidated financial statements will be easier for companies.

Since there are no longer costly changes from several different accounting systems of each subsidiary, when the parts of the company are consolidated to one. With one set of Accounting Standards, the credibility of the externally reporting could be raised (Neil 2002). International companies can realism significant cost savings If they do not have To change their financial statements to conform to each country's rules, when lasting on security exchanges (Neil 2002). In other words the access to main financial to acquire capital simpler for them.

For example, a company, which has a subsidiary in Cuba, the parent company is located in Germany and the shares are listed on the NYSE. This company would have to prepare financial statements in Cuba, in Germany and in order to be listed on an U. S. Stock exchange it would have to prepare also financial statements in accordance with U. S. -GAAP. Thus, it is easy to understand the advantage that a world-wide accepted set of Accounting Standards would have (Speller 2001). From the standpoint of the users of financial statements.

Investors, banks or owners are interested in obtaining information, which enables them to make buy/sell/hold investment decisions (Neil 2002). It is easier for users of financial statements to make useful comparisons between countries and companies with similar financial statements. This can be explained with the circumstances that similar transactions are accounted for and reported in the same manner everywhere in the world. International financial reporting standards are accepted by most nations over the time.

The financial reporting council is working close with other countries to further minimize differences between Accounting Standards. For instance, the development of IFRS, which prescribes IAS with the beginning of year 2005, can be already considered to be a standardization process. Disadvantage of the IFRS The disadvantages of such an implementation mainly consist of the costs of the implementation itself. The risk that a new accounting system brings along in terms of possibilities for tax avoidance or fraud, that authorities composing the standard might have overlooked (Degas 2005).

The possibility of this happening is not unimaginable especially when the global standard will consist of a mixture of rules from around the globe (Speller 001). The necessary reform at tax authorities will be costly and possibly time consuming (Speller 2001). As most business are not familiar with the new accounting standards, the government have to give support to business community, this involves lots of time and money spending on training and the transition to FIRS.

Another disadvantage is the differences between Accounting Standards. Apart from international financial reporting standards, there are two other major accounting models---the Anglo-American Model and the Continental-European Model (Spencer 1998). The United States and Europe are the two most important capital markets, which make the company that use accounting standards other than those two, would make it hard to access capital markets.

International Financial Reporting Standard is becoming more important as key accounting rule makers worldwide work toward the goal of convergence. At the forefront is the IAC, committed to developing standards that will bring consistency to accounting policies worldwide. To protect Australia's interests, Australian business community and government have to work close with IAC, to ensure that Australia is well placed to adopt FIRS standards and secure its position in global capital market.