International accounting standards and the problems flashcard

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International accounting standards is a board that looks into the well being of all accountants in the whole world and helps them in putting professional ethics and the systems that are workable and may help an average accountant at any place in the whole world. There are many problems associated with the accounting profession in the world.

Some of this may be long lasting and some may be short term depending on the technical situation as it is. Many of these problems are addressed by the international accounting standards board which oversees the management of the accountants and also involved in the formulation of the strategic and systematic professional ethics that the company uses in their day to day running of their businesses as noted by Penn son (2004). The challenge is that, should there be a difference in the International accounting standards? This is because accountants do find problems in using them especially in small business unites which have to use the same accounting principles as big corporations which need to account for billions of dollars in the stock market investments. In US during 1980s, there was an argument that required big companies to meet one set of standards while small business unites meet another.

However, during this time the idea was not focused on much. It only came up when Cheney (2004), asserted that there must be a division in accounting between public and small business units. He further argued that International Standards inevitably apply to big, International Companies which are inappropriate to smaller; non public Companies. Cheney's assertion was fine however, there must be an equity method in the whole world to be used by all accountants as this small Companies Cheney refers

to often expand and become big corporations which are profit making, instead other accounting problems should have been dealt with. One particular problem of the accounting profession is to measure the financial instruments and the non financial instruments.

Several other ways have been put up by the mere fact of the measurement. It's the measuring of the financial instruments at the fair value and also the measuring of the non financial instruments at their fair value that has been debated upon for quite sometime. Thus, all financial assets are measured by the fair value. All this items appear in the balance sheet just before being acquired.

But after they have been acquired then they should be measured at the original recorded amount less principle repayments and the like. While the essentials of standard are simple, it is the detailed structure that is so involving to the effect that, it is hard for the common people to understand. This is the biggest problem to any individual who wants to use the information for purposes of the investment. International Accounting Standards Board; the board that formulates the rules and the regulation for the effective and expert advice to the whole accountants , defines a financial instrument as any contract which gives rise to financial asset in any company and gives equity to other company as notes Fess (2005). The fair value as stated above is the amount at which an asset or liability may be bought or sold within the framework of the transactions between the willing buyer and willing seller agreement.

This is devoid of any coercing and or forced liquidation. While the financial liability refers to the contract obligation to deliver cash to another firm under the conditions that may be unfavorable to the both parties. The financial liability constitutes what is called a debt in accounting. While equity refers to an instrument that will accrue some form of interest on a particular asset in a given company. These means that their need to be a good measurement instrument in order to stimulate the good workings of the companies way of businesses. This good instrument helps in analyzing both economical and the financial data as which one is required for measurements as put by Mash (2002) There need to be good explanation as to why they are using a given instrument and not the other.

They need to explain to the public and the investors which instruments they are using in order to permit the public and the investors to get a clear and well meaning way of measuring a given financial data or the economic data. For instance, if they decide to use the exit prices, they will need to inform the public of why they are using the exit price and not other instruments such as the entry price or others like the current value. This enables investors to gauge their preferred method and may present their findings to the company during the annual year meeting or during the annual general meeting. This helps the company to know which instrument and why it has to be used. From the International Accounting Standards, 39, as outlined by Wood (2001) all the financial liabilities and the financial assets that includes the derivatives must be recorded and analyzed on the balance sheet when they were measured initially at cost price. After this they are again measured at the fair value.

But the following should be measured at the amortized cost: All the loans and receivables that originated from the firm and are not held for trading in the market, all other fixed maturity investments that the business entity or organization may or is able to provide and intend to hold their maturity and all other financial assets whose which is fair may be measured well with the reliability for example derivatives and others linked to such instruments with the absence of the quoted market price as noted by the Sally (2005). Then what follows after this is the acquisition of the said resources process. Here most of the liabilities should be measured at the original recorded amount less the starting amount which is the principle repayment. The financial assets and the liabilities that may undergo measurements again need to undergo the measurement using the fair price value.

The firm can recognize or make sure that, the adjusted difference is reflected in the profit and loss account during the financial year. The firm can also recognize the income levels and statements for those financial assets and financial liabilities that the fair value was used on. Thus, the valuation of the assets and liabilities in terms of finance which are normally used as hedging instruments are linked to the instruments being hedged. The preposition is that any gain or loss must be accounted for any item that is being hedged as noted by Warren (2003). The International Accounting Standard defines shareholding as that which may confer important influence in the business of running a company. Then in the balance sheet these individual firms may make these investments which may be carried at the cost or may even be accounted for using the equity type of the method.

Also, they may be financial assets that are available for sale which are measured at the fair value. The international accounting standards board also had to offer the accounting world a single set of carefully developed standards across different boundaries in the whole world. It has indeed helped many people to advance their accounting profession in the whole world. The reasons for establishing, improving and protecting the single set of these rules are the work of the (IASB) International Accounting Standards Board. Thus, it oversees the administration of the various accounting procedures and helps in streamlining the regulation and the well being of the various aspects of accounting as noted by the Nobes (2006). Another problem with the International Accounting standards is the taxation.

Though this problem has since been revised, it was made basing on the wrong accounting procedures and the general practices. The international Standard proposes the use of the principle of that, tax expense for any accounting period should be calculated by looking at the tax effect accounting. This principle is differed and gives a wrong assumption on the tax. This is because if every time that the tax expense is recognized, does not come at the same time like the when actual tax is paid. When it comes to timing the difference between accounting value and the tax value of the value of the asset and liability value is faced off. All this major difference include among others, the classic time differences as between the accounting income and the income adjusted for tax purposes and the available tax loses ahead to future accounting or rather the next financial period as noted by Hopwood (1999) Certain financial instruments such as

convertible bonds may constitute both bond and any equity statement that may be coming from the issuer.

Though, the International Accounting Standard requires that all this elements be valued separately and also that be of different classification in the balance sheet of the issuer. This ensures valuation to be done by all methods. The allocation of the financial element or value that represents the difference between the total values of both the instruments. And secondly, determining the value of the element which is the easiest in calculations arising from the financial instruments is closed done and ascertained as noted by Carmon (2004) The other method of valuing the financial instrument includes the valuation of the both the element separately and making any further or smaller discrepancies in order that we come up with the total value of the financial instruments.

After all this is done, the treatment of the receipts should be the same with all those in the balance sheet classifications. This further enables the issuer to get of interests, gains, losses and any dividends arising from the financial liability. All this constitutes the revenue or expenses of the issuer. Furthermore, all this revenue and expenditure that comes as a result of the equity instrument may be recorded in the equity directly.