

# [Does the achievement of international accounting harmonization have a long way to...](https://assignbuster.com/does-the-achievement-of-international-accounting-harmonization-have-a-long-way-to-godoc-flashcard/)

1 Introduction With the expansion of globalization, the economic connection among countries is tighter and tighter.

The existence of different local accounting standards becomes an obstacle in international financial area. Incompatible financial data, unacceptable game rules to regulate the behavior of multinational companies and indefinite financial performance in the eye of international investors are strong evidences. As a result of these problems, harmonization of the international accounting standards will not be a dream any more. In 1973, Canada, Japan, Australia, France, Germany, UK, Mexico, Ireland, the Netherlands and the US created the International Accounting Standards Committee (IASC) for the purpose of developing international accounting standards (Payne & Ranagan, 2008, p. 15).

International Accounting Standard Board was established by the IASC in 2001, in order to create the best accounting standards to be implemented by all countries in the world (Fajardo, 2007, p. 59). Every country is trying to make as much effort as they can in this global issue. However whether this global economic bridge can be built up smoothly and quickly is an issue which should be considered, because of the adoption of International Accounting Standards is not compulsory.

Different interests and different purpose of different countries will influence the harmonization process of International Accounting Standards. In this essay, I am going to prove that the International Accounting Standards will be adopted globally one day. Moreover, I will analyze the bad effects that the accounting standards harmonization incurs, the inherent disadvantages of this movement, the difficulty in practice and even the thoughts of different countries behind this global issue. Is every game player ready for this radical change that will govern their financial world? Does every game player push the achievement of the course on one hand and set the obstacles to slow down the process on the other hand? Following my analysis, we will find the answer soon. Globalization of International Accounting Standards can be achieved The development of international trade, which includes a large amount of goods and services transaction, is on its fast track.

Since 1950, the beginning of postwar recovery, the international average annual growth has been up to 3. 5%, while the value of trade in real terms has increased 6. 5% per year (Pennar, 1993, p. 60). This rapid growth stimulates the interactions among countries in the world. As a result, many multi-national corporations are established and expanding their market in different countries.

The globalization of accounting standards is necessary if the world wants to allocate the source freely and efficiently. This trend is encouraged and pushed forwards by corporations, investors and national regulatory bodies. 2. 1 Corporations’ need for universal accounting standards The cross-boarder corporations have their business in different kinds of countries with a variety of cultures, legal systems, levels of inflations, degrees of openness of capital markets and political and economic ties with other nations (Spiceland et al, 2007). The huge differences in these areas will lead to big differences in the rule of accounting.

Multinational corporations experience difficulties in meeting different kinds of requirements and rules to prepare the financial statements that are accepted by the countries they are trading with and to make sure the financial statements they prepared are useful in decision making. This is a very costly, time-consuming and resources wasted process (Fajardo, 2007, p. 57). However, without complying with the accounting standards of different countries, corporation is not allowed to enter into the particular market and raise enough capital for its further development.

With the purpose of profit pursuance, multinational corporations are more than happy to support the convergence of International Accounting Standards. Once the universal game rules governing economic and financial areas have been made, companies can save lots of time and money in raising capitals around the world. The financial statements prepared by subsidiaries will increase their reliability and comparability with each other. A more informed decision-making can be made as well. 2.

2 Investors’ need for universal accounting standards Investors are the main source for the development of a corporation. Without the enough capital from investors, a corporation can not start their projects and even expand their market. Therefore, investors’ confidence and trust are very crucial to a company. However, with the increase of financial scandals being revealed and several large multinational corporations’ bankruptcy, from Adelphi to Enron, from Worldcom to Global Crossing, investors are afraid of buying shares from companies (Jacob & Madu, 2004, p.

358). Their worries are more due to the incomparable financial information based on different accounting standards. Investors can not make a reliable analysis in investment decision makings. As a result of this, investors have no interest in the foreign market, which will hinder the development of the economy in the world and eliminate many great opportunities of investment. If there is only one accounting standards in the world, investors can compare with the financial information provided in the market which can reduce the risk of scandals, broaden the opportunity of investment and increase their confidence in the market.

There is no doubt that investors will stand with multinational corporations in pushing forward the process of accounting standards globalization. 2. 3 Regulatory bodies’ need for universal accounting standards As regulators, many governmental departments need different financial data and information to monitor the market and evaluate the economic system in order to provide a fair and healthy environment to participants. Moreover, it is the regulatory bodies’ responsibility to establish a set of clear and reasonable accounting standards for the participants to disclose their financial situations. Unfortunately, not all countries have such a high level of capability of making a set of suitable rules for this complicated financial game. It creates the chance for the company to make use of the unsound accounting standards to reveal fake data or cover the crucial information in order to attract investments.

However, with the help of developed and developing countries, a universal accounting standard can surely avoid these deficiencies and healthy the financial environment. Besides governmental departments, auditors from all ranges of public accounting firms also place a heavy role in market regulation. Different accounting standards give a huge difficulty to the auditors to perform their job accurately and precisely. This is a usual case of the auditing report for international companies. Indeed, if accounting standard can be converged, the international auditing firms can standardized training and better assure the quality of their work on a global basis (Fajardo, 2007, p. 60).

3 The globalization of International Accounting Standards is a long way for us to achieve Many countries have put the convergence of International Accounting Standards into their agenda. According to Deloitte and Touche (2005), 68 out of 132 reporting countries have adopted the universal standards, more than 21 countries have permitted reporting under it, and 8 countries partially recognize the implementation of the international standards. However, this does not mean that there are no obstacles in this harmonization process. It is a strong evidence to show that International Accounting Standards is not easy to be adopted worldwide.

Godfrey and Chalmers (cited in Godfrey & Chalmers, 2007, p. 60) present their view to this issue that “ a direct application of International Accounting Standards does not seem reasonable at present, but in the long term they are committed to a convergence process. ” 3. 1 Obstacles in economy slow down the progress of globalization of International Accounting Standards As we know, economy is the basis of everything. The benefits from economic aspect will accelerate the process of any projects while any drawback occurs in economy will apparently hinder or even stop the development of it.

The strong effect of economy also brings the harmonization of International Accounting Standards into dilemma. Since 2005, Japan has started its convergence program between the International Accounting Standards and its national accounting standards. A research has been conducted to see whether Japanese companies can benefit from this global issue. Unfortunately, the result showed that 500 largest companies were not happy, in which 7% of the respondents expressed that the cost of this convergence program was likely to exceed the benefits (Koga & Rimmel, cited in Godfrey & Chalmers, 2007, p. 60). The Japanese Counselor for the FSA expressed his idea in 2002 that, “… I think it is like putting the cart before the horse if the actual state of economy is interpreted differently depending on which accounting principle is to be used” (Misawa, 2005, p.

716). Besides Japan, Indian government saw this obstacle, so only the benchmark treatment of International Accounting Standards is allowed under Indian standards (Narayanaswamy, cited in Godfrey & Chalmers, 2007, p. 860). Moreover, the coexistence of the InternationalAccounting Standards and the local standards will have a negative effect on the comparability and relevance of financial reporting. Clearly, it will increase the risk of investment and the cost of capital.

This is evidenced by IBEX-35 companies in Spain. Compared with the accounting figures and financial ratios under the rules of International Accounting Standards and the local rules respectively, the researchers conclude that there is no improvement to the local stock market operators since the gap between book and market values is wider when International Accounting Standards are applied. Meanwhile, there is no gain in terms of the usefulness of financial reporting in the short-term and improved usefulness may be achieved in the medium to long-term (Callao, Jarne, & Lainez, 2007, 148). No great economic help but huge cost definitely will reduce the motives for accelerating the convergence process.

Besides the violation of “ Cost versus Benefit” principle, the convergence of International Accounting Standards has negative effect on tax as well. Culture, economic, and political system are three major elements in forming accounting standards (Lew, 2005, p. 31). These great differences exist in the world for many years. Cultural beliefs and values are always presented in law system. Accounting standards which is driven by local tax law are not easy to complete its convergence process.

Evraert and Robert (2007, cited in Godfrey & Chalmers, p. 860) shows that companies in France foresee a growth in the tax base because a number of provisions are unaccepted under the global standards and the fair value recognition for some assets is changed. The companies in Africa are reluctant to corporate with the process of harmonization due to the increased tax burden and lack of confidence of the new global standards in the capacity of solving all problems occur in an aggressive tax system (Quinn, cited in Nino, 2007, p. 91). From the economic drawback to the growth of tax burden, no matter how necessary the convergence of International Accounting Standards it is, the participants will not actively response to it but wait for a chance to achieve a win-win result.

3. Difficulties from other aspects slow down the progress of globalization of International Accounting Standards The convergence of International Accounting Standards can not be easily achieved if only the economic difficulties have been removed. This complicated and widely-influenced campaign will be influenced by many other factors. ? The complicated nature of the standards.

International Accounting Standards are established for the use of all the countries in the world. There is no doubt that it will lead to a set of complicated rules and regulations in order to comply with a variety of cultures and legal systems. This inherent disadvantage is the biggest impediment to achieving the harmonization of International Accounting Standards because the long, complicated and rule-based standards are difficult to implement (Williams, 2004, p. 15). ? Translation difficulty of the standards. As the official language in the world, English is used in writing of International Accounting Standards.

Except several major economic participants, other countries are not English-speaking countries. The translation and understanding of an accounting textbook is expensive and time-consuming, let alone a set of complex accounting standards. Most of the countries that need translations are the small players in the world economy. It is not easy to convince them to spend the time and money on the convergence of International Accounting Standards rather than on the development of their markets. Even if the International Standards Board would like to provide enough funds for translation, it is very difficult for them to convey the real meaning of English in a set of high-quality standards. ? Professional shortage in implementing the standards.

Without enough individuals who can implement the standards effectively and efficiently, no matter how suitable the standards are, it is just several pieces of paper. The International Accounting Standards with complicated nature need large number of professionals involving in the training program in different countries. Today’s shortage of human capital is another big obstacle to hinder the globalization of the standards. 3. 3 Different attitudes towards adoption slow down the progress of globalization of International Accounting Standards All actions taken by countries are driven by interests.

This can be illustrated by Payne and Ranagan (2008, p. 18). Imagine that you organize a trip to Walt Disney World. You invite 18 closest family members to Orlando, FL. Amazingly, all of you are happy to drive in a convoy. This is exactly the same situation that all countries are happy to see the convergence of International Accounting Standards.

However, on the way to Walt Disney World, you and your closest family members can not make a decision about where and when to have lunch and dinner because the budgets and life style are different. All of you can not choose a motel to live in either. The occurrence of the disagreements is due to the interests of different people. People will not stop insisting on pursuing their interests when they are on travel, let alone the countries that focus on the issue of globalization of financial rules.

The aims behind this campaign are different from country to country. However, most countries would like to have an important influence on this global issue and be the one and the only one who has the power to govern the international financial market. There is no doubt that they will try their best to accelerate the convergence of International Accounting Standards if it is on the right track in their mind. At the same time, they will try to prevent the others from getting the position as a governor. Once the stalemate is reached, the process of International Accounting Standards harmonization will be hindered.

3. 3. 1 Attitude from United States will hinder the convergence of International Accounting Standards United States is an economic giant in the world. It has over 38% of all national markets (Nino, 2007, p. 8).

Facing with the trend of International Accounting Standards convergence, it will make the greatest effort to this campaign in order to reduce the negative influences to its national economy and consolidate its financial position in the world. It will not jeopardize its lead in the market place by rushing adoption (Nino, 2007, p. 88). Therefore, it holds a cautious but proactive attitude towards this issue. It is not surprised that the US does not give any commission to the date of adoption and does not talk about the adoption process in detail until now. It tends to wait for the result of adoption in European Union and decide the way and degree in adopting the standards.

However, the US position will be affected if a favorite result towards EU’s adoption, if investors start transferring their money to EU market because of the strong reliance on the International Accounting Standards, and if foreign companies move out of the American Exchange in order to reduce the cost and time in compliance requirements. 3. 3. 2 Attitude from European Union will hinder the convergence of International Accounting Standards European Union is the first one stepping nto the test of International Accounting Standards. Its success or failure gives a heavy influence on the further adoption of the rules in the world. Besides this, its attitudes towards the issue itself will affect the confidence in the convergence of other countries.

If EU slows down the adoption process, other countries will start to suspect the success of the campaign; if EU accelerates the course, it is surely a great support to the globalization process. However, we can not make sure that all the attitudes from EU to the world are not distorted. It will be a long-lasting process if EU wants to hold this advantage position and become the giant of the financial market in the world by misleading other countries. 3. 3. 3 Attitude from the Third World Countries will hinder the convergence of International Accounting Standards All of the Third World Countries are developing countries.

The educational level in these countries is quite low compared to the developed countries, like United States, Europe, Australia, Canada etc. They even lack of professionals in the area of accounting. The worldwide education in International Accounting Standards just starts. Even the developed countries need a lot of time in training and large number of professionals to meet these global requirements, let alone the Third World Countries.

Moreover, most companies in these regions are medium or small companies (Nino, 2007, p. 88). They don’t have well-developed performance history, attractive projects and strong competitive advantages. If we put these representative companies in the world exchange together with the companies from the developed countries, they don’t have even a tiny chance to raise the capital from investors. These weaknesses reduce the Third World Countries’ motivation to adopt the International Accounting Standards.

No matter how many efforts they make, they can not gain a portion of the global market. Why not wait for the help from the developed countries when they consider the globalization of International Accounting Standards is a must. 4 Conclusion The convergence of International Accounting Standards gives the world economy a lot of benefits. It is evidenced by the response from many countries.

There is no doubt that this international game rule will be adopted in the orld one day. However, everything has its weaknesses. The process of International Accounting Standards globalization will be hindered because of its negative influence in economy and tax burden, difficulties in translation and training. This, coupled with the interests of different countries behind this global campaign, decides its long-lasting nature. References: Callao, S. , Jarne, J.

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