

Harmonisation of accounting standards essay sample

[Business](#), [Accounting](#)



International accounting harmonisation can be defined as “ the process of bringing international Accounting Standards into some sort of agreement so that the financial statements from different countries are prepared according to a common set of principles of measurement and disclosure”.

Harmonisation means that deviating rules, which do not exclude themselves, can continue to exist next to each other. That means harmonisation does not focus on the elimination of differences but on the reduction of contradicting rules. the aim of the international harmonisation process of Accounting Standards is to reduce or overcome differences world-wide, in order to reach a better international comparability of financial statements. Harmonisation has been broken down into two aspects: material and formal harmonisation * material harmonisation Material harmonisation refers to research from a practical point of view. That means that the harmonisation of Accounting Practice applied by different enterprises, is regarded.

It is about the consistency in actual application. * formal harmonisation Harmonisation in terms of formal harmonisation is researched from a theoretical point of view, which means that the similarities and diversities between rules and regulations of different countries, clusters or groups are regarded Advantages and disadvantages of the IAS Companies prepare financial statements. Therefore the following advantages can be seen from the standpoint of preparers of financial reports Internally multinational companies would make savings if all their subsidiaries could use the same Accounting System. A similar internal reporting system gives the chance of better comparisons, less confusion and mistakes between the parts of the company. It allows uncomplicated communication and transfers of finance

personnel. One set of Accounting Standards could be used in various jurisdictions and capital markets. Further cost savings can be realised, because the preparation of consolidated financial statements will be easier for companies.

Because there are no longer costly changes from several different Accounting Systems of each subsidiary necessary, 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. No longer different performance figures are shown for the same company in different countries. Furthermore, international companies can realise significant cost savings if they do not have to change their financial statements to conform to each country's rules, when listing on security exchanges. In other words the access to main financial markets will become easier for global acting companies and by this it will be possible to acquire capital simpler for them. The following example will make this more clear. Imagine 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, its is easy to understand, which advantages a harmonised world-wide accepted set of Accounting Standards would have. From the standpoint of the users of financial statements (e. g. investors, banks or owner) one can see the following advantages. Investors, banks or owners are interested in

obtaining information, which enables them to make buy/sell/hold investment decisions. We argue, that similar financial statements would make it possible for users of financial statements to make useful comparisons between countries and companies. This can be explained with the circumstances that similar transactions are accounted for and reported in the same manner everywhere in the world. With other words, similar Accounting Standards lead to a better comparability between companies. It would enable investors, banks or financial analysts to make better decisions. The disadvantages of such an implementation mainly consist of the costs of the implementation itself. For example, the necessary reform at tax authorities will be costly and possibly time consuming.

Another disadvantage could be 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, the possibility of this happening is not unimaginable especially when the global standard will consist of a mixture of rules from around the globe, considering the global nature of the IAS and you can figure out that all companies worldwide will be performing the same tricks which can result in a small (worldwide) financial disaster for tax authorities. This scenario however, can be avoided by taking care when constructing the IAS. Difficulties in implementing one accounting standard A challenge within the international harmonisation process, which the IASB has to overcome, are the differences between nations. These alteration in Accounting Practices are results of specific environmental factors, which have shaped them. Therefore, one of the first problems with

standardisation I conclude is that the result of the harmonisation process could neither be a copy of the Anglo-American Model nor one of the Continental-European Model.

The Anglo- American Model is too difficult to implement for most economies of the world at least in the short run. For example, it would be difficult for Germany to apply its diverse company law to the American system, which considers only a division between listed and non-listed companies. The Continental-European Model would not be accepted either because of its non-managerial orientation or its legal constraints. The second problem, is that in most Continental-European countries, professional accounting organisations do not have the responsibility or authority to set accounting Standards at all. Such matters are largely the responsibility of governments and the law. This can be contrasted with the situation in most Anglo-American countries, where the accountancy profession is much more influential in the standard-setting process. So here the problem arises of how to enforce one standard in all these different countries of whom the accounting authority differs. As mentioned before, standardisation does not take into account national differences.

Each country has its own set of rules and Accounting Philosophy, it will try to protect their procedures against a set of unknown standards, which they will be obliged to use. We see the advantage of harmonisation in the fact that it recognises national resources of each country and tries to conceal them with other countries. This process can achieve a high degree of acceptance in our opinion. However, as there are still options within the IAS and it is seemingly

impossible to enforce the IAS in every single country, we agree with Kleekämper et al. not to talk about a standardisation process. (Kleekämper et al., 2002) At least we think that this consideration is true for the international process. The development of the EU, which prescribes IAS with the beginning of the year 2005 can be already considered to be a standardisation process from our point of view. To overcome these problems an International Model, containing elements of several Accounting Practices was suggested. In my view an international organisation, such as the IASC, was necessary, in order to combine the different Accounting Philosophies and to develop an International Model (IAS).

Thus, one of the future tasks of the IASB is to further minimise differences between Accounting Standards, in specific the ones between IAS and U. S.-GAAP. The United States and Europe are the two most important capital markets. Interpretation and supervision of IAS/IFRS “ It is one thing to write an Accounting Standard. It is quite another thing to have to interpret it and apply the guidance in the standards to the billions of actual transactions that occur in the business world. This is especially true if the standards provide broad general principles” the IFRIC is responsible at the IASC Foundations for interpreting IAS. One critical fact of the standards of the IASB, resulting from the SEC Concept Release Project was the unsatisfying interpretation of IAS. As IAS are principle based standards there is even more interpretation necessary. Such could be provided by preparers, auditors or regulators as the SEC. However, the interpretations being made by various interpretative

bodies, preparers, auditors and regulators, a challenge exists with respect to ensuring convergence with interpretations of the standards as well.

Imagine the following: the IAS/IFRS would be expected of the SEC as Accounting Standards for listings on U. S. capital markets. First, the standards would be interpreted at the IFRIC. And on a second level, the SEC would interpret them as well, because it wants to assure investors protection and efficient functioning of the capital market. Therefore there is another challenge for the IASB to answer the question: What steps can be and should be taken that IAS/IFRS will be interpreted effectively and globally uniform? Another essential precondition for the acceptance of IAS is that they are not only standards of high-quality but also that their application is supervised. If there is no organisation, which observes the application of the standards then there is the risk that the standards are interpreted and applied differently in our opinion.

The problem of supervision can not be solved from the IASB alone, because it has no power of sanction. The proposed solution to this problem could consist of the following: a supportive infrastructure in order to solve the problem of supervision. Such a supportive infrastructure should consist of: * High-quality accounting and auditing standard-setters, * Active regulatory oversight and * Audit firms with quality controls world-wide (Turner, 2001). We further agree with Turner that efforts of interpretation and supervision of IAS/IFRS require the co-ordination of public companies, auditors, standard-setters, regulators and governments (Turner, 2001).

Conclusion

Approximately one-third of the 62 countries surveyed had responded to the challenge of convergence with an active agenda and had already proposed changes to national requirements. However, half of the countries surveyed reported significant differences between national and international standards, and have not implemented or proposed new standards. Major changes to international standards are being considered, and the differences between national and international standards will increase unless national standard setters redouble their efforts to keep pace with the changes. The seven firms advocate a single worldwide framework for financial accounting and reporting based on high-quality IAS. Achieving such a framework would improve investor confidence by providing greater transparency and comparability of the financial information used in investment decisions, and would thereby contribute to financial market stability and economic growth around the globe.

New standards in developing countries

How developing countries respond to the forces driving globalization will affect their growth rates, and development in the coming decades. In countries where institutions are not deeply rooted, shifting to the new business model may meet less resistance than in countries where those institutions are more developed. Indeed, in countries where corporate and political governance structures are very rigid (typically in tension-ridden societies), adopting the new business model is likely to be difficult. As a

result, these countries may fall even further behind during this wave of globalization. Some developing countries are flexible and can adapt quickly, but they may face obstacles instituting changes. In short, whether or not developing countries will benefit or lose from the new business model and its competitive strength remains an open question. It depends largely on how the governments of these countries respond.

The wave of the future is in flexible production and flexible organizations. In that regard, many developing countries should continue to improve the quality of their educational systems and their physical infrastructure (notably telecommunications and transportation), which will enable them to compete more effectively in local and regional markets and, in the case of some industries, in global markets.

The latest developments in global commerce are likely to lead to a further wave of deregulation and market reforms in local economies. The demands for capital of growing businesses from the major capital markets of the world are dependent on the convergence of local Generally Accepted Accounting Principles (GAAP) with IAS. More plainly, those seeking to raise funds will need to have their local adoption of IAS converge with the U. S. GAAP, the reporting standards of the dominant capital market of the world.

The establishment of IAS alone is not sufficient to achieve the type of regional business growth that we may expect. However, the convergence of a worldwide IAS with that of the accounting standards of the U. S. capital market will be of tremendous significance to effective capital flows. The U. S.

Securities Exchange Commission (SEC) is increasing its involvement in a number of forums to develop a globally accepted, high quality financial reporting framework.

The SEC will not permit a foreign company to trade their overseas stock on the New York Stock Exchange (NYSE) without first issuing financial statements in accordance with GAAP. This cumbersome and expensive translation requirement severely limits the access of foreign firms into U. S. markets and U. S. access to foreign investment opportunities. The investment potential is tremendous, as only about 10% of the more than 2,000 major foreign companies list on the NYSE. Many believe that unless U. S. policy is adjusted the U. S. stock market could lose world dominance to London or other European exchanges.

Thus, issuers wishing to access capital markets in different jurisdictions must comply with the requirements of each jurisdiction, which differ in many respects. Different listing and reporting requirements increase the costs of accessing multiple capital markets and create inefficiencies in cross-border capital flows. The SEC is working with other securities regulators around the world to reduce these differences. To encourage the development of accounting standards to be considered for use in cross-border filings the SEC has been working primarily through the International Organization of Securities Commissions (IOSCO), and focusing on the work of the International Accounting Standards Committee (IASC).

Yet global accounting policies may soon change as key accounting rule makers worldwide work toward the goal of convergence. At the forefront is the IASC, committed to developing standards that will bring consistency to accounting policies worldwide. The SEC is willing to compromise and last year accepted three international accounting standards on cash-flow data, the effects of hyperinflation, and business combinations for cross border stock filings. Still, the general consensus seems to be that before any progress can be made toward convergence, international standard setters need more resources and participation of the major parties involved.

A number of factors have contributed to this convergence. Specifically, large supranational corporations have begun to apply their home country standards in a manner consistent with IASC standards or GAAP. In addition, while the accounting standards used must be high quality, they must be supported by an infrastructure that ensures that the standards are rigorously interpreted and applied, and that problematic practices are identified and changed in a timely fashion. Elements of this infrastructure include: effective, independent and high quality accounting and auditing standard setters; high quality auditing standards; auditing firms with effective quality controls worldwide; profession-wide quality assurance, and regulatory oversight.