

Accounting principles and financial reporting standards

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



In 1971, the American Institute of Certified Public Accountants (AICPA) established two committees to study how accounting principles should be established. A committee named Francis Wheat, a corporate securities lawyer, head of the appropriately named Wheat committee, which in 1972 recommended that the Financial Accounting Standards Board (FASB) be formed. Quickly after the recommendation was made the AICPA established FASB as the official accounting standards issuing body (Richard G. Schroeder, 2011) A year later in 1973 the International Accounting Standards Committee (IASC) was created to establish a worldwide accounting standard.

The nine original members of the IASC included: Australia, Canada, France, Japan, Mexico, Netherlands, United Kingdom, United States and West Germany. In 2001, the IASC formed the International Accounting Standards Board (IASB) after a recommendation was made in a report called “Recommendations on Shaping IASC for the Future” (Richard G. Schroeder, Ch. 3 International Accounting, 2011). The IASB and FASB have developed a cohesive relationship to construct global standards that are consistent with current United States Generally Accepted Accounting Principles (GAAP). The IASB and FASB have completed projects to attain the uniform set of standards,

- (1) FASB’s Short-term International Convergence Project,
- (2) Norwalk Agreement, and
- (3) Roadmap to Convergence (Richard G. Schroeder, Ch. 3 International Accounting, 2011).

The collaboration of the IASB and FASB on the Short-term International Convergence Project was aimed at identifying individual differences between International Financial Reporting Standards (IFRS) and U. S. GAAP. The idea in the short-term project is to select high quality solutions that were achievable in the short-term by selecting between current IFRS and U. S. GAAP (Richard G. Schroeder, Ch. 3 International Accounting, 2011). The Norwalk Agreement was an understanding that both parties would work together to establish “ high-quality compatible accounting standards”. To safeguard the idea that standards would be able to be applied both domestically and cross-border to financial accounting both the IASB and FASB agree to a set of proposals:

1. Undertake a short-term project aimed at removing a variety of differences between U. S. GAAP and IFRSs.
2. Remove any other differences between IFRSs and U. S. GAAP that remained on January 1, 2005, by undertaking projects that both boards would address concurrently.
3. Continue the progress on the joint projects currently under way.
4. Encourage their respective interpretative bodies to coordinate their activities. (Richard G. Schroeder, Ch. 3 International Accounting, 2011) One of the biggest obstacles for companies that were non-U. S. companies was the requirement of reconciliation of their financial reports from IFRSs to U. S. GAAP. In order to continue to pursue the idea of a common set of high-quality standards the Securities and Exchange Commission (SEC) proposed a

Roadmap to Convergence, the roadmap contained seven milestones that would lead to the acceptance of IFRSs used by non-U. S. companies in 2014.

The seven milestones in the roadmap are:

- 1) Improvements to accounting standards.
- 2) Funding of the International Accounting Standards Committee Foundation.
- 3) Improved ability to use interactive data for IFRS reporting.
- 4) Improved education and training in the United States.
- 5) Limited use in a narrow group of companies
- 6) SEC to determine in 2011 whether mandatory adoption of IFRS is feasible based on the progress in the first five milestones.
- 7) Mandatory use. (Richard G. Schroeder, Ch. 3 International Accounting, 2011)

The conceptual framework for IASB and FASB pronouncements will help both boards to identify the equivalences between standards based on how closely identifiable their frameworks are.

The closer related the conceptual framework is the likely the proposed pronouncements will result in similar standards. Similarities in the framework will help consistency in the face of ever changing social impacts, changes in a fast paced global economy, and the impact of government leadership. The current conceptual framework for both the IASB and FASB when concerning financial reporting:

FASB

- 1) SFAC No. 1. “ Objectives of Financial Reporting by Business Enterprises”
- 2) SFAC No. 2. “ Qualitative Characteristics of Accounting Information”
- 3) SFAC No. 5. “ Recognition and Measurement in Financial Statements of Business Enterprises”
- 4) SFAC No. 6. “ Elements of Financial Statements”
- 5) SFAC No. 7. “ Using Cash Flow Information and Present Value in Accounting Measurements”

IASB

- 1) The objective of financial statements
- 2) Qualitative characteristics of financial statements
- 3) The elements of financial statements
- 4) Recognition of the elements of financial statements
- 5) Measurement of the elements of financial statements
- 6) Concepts of capital and capital maintenance (Richard G. Schroeder, Ch. 3 International Accounting, 2011)

The outline of the conceptual framework appears very similar and possibly will provide an easy transition to convergence.

However, there are differences within the detail of this broad outline that can cause the convergence to become more tedious than and challenging. This has been a brief and short look at what the history of the IASB and FASB development from the early 1970's. Over the past forty years, both boards

have attempted to identify a way to converge the U. S. GAAP and IFRSs. Multiple projects have been completed to identify the similarities within each of the GAAP standards, with short-term and long-term solutions being identified. With this short introduction into the MSA program, I feel that the program prepares the individual for a professional career by introducing the historical background of the IASB and FASB, and identifying the relationship between the similarities and differences in the application of the IFRS and U. S. GAAP. Read also about sources of accounting standards

The program also offers stimulation by allowing interaction with other students of varying experience in the accounting industry to assist with an individual's personal development. Getting that important feedback and knowledge from daily forum discussions opens the mind to the possibilities of the application of GAAP. The program is also designed based on the National Association of State Boards of Accountancy recommended courses, so it gives the assurance that given the completion of the program a student will be prepared to begin their quest towards a CPA license if so desired.