

Differences in  
accounting standards  
confuse investors and  
decrease capital  
supply...



Due to multiple grounds ( e. g. civilization, legal system, economic development ) , there is a immense differences between different national accounting criterions. Taking as an illustration, The News Corporation ( an Australian house ) reported 1992 net incomes of \$ 502 million. Under US GAAP, net incomes would hold been about \$ 421 million. The difference is about 16 % of income under Australian GAAP ( Jeffrey, 2009 ) .

There are terrible issues raised by those differences in accounting criterions as an addition in planetary trading and it is widely debated that whether a set of planetary accounting criterions is the key to those issues. By critical analysis impacts of planetary accounting criterions, this essay tried to reply the inquiry that to work out those issues, whether a set of planetary accounting criterions is needed and whether the current international accounting criterions are fit for intents.

National accounting criterions ' differences has incurred a immense costs to the planetary market

From the companies ' point of position, reassigning fiscal statements to run into multiple demands can be a immense cost. For case, as WSJ described the costs incurred by an international house which sought to sell an offering of securities in the US, Canada, and the UK are amounted to \$ 2. 8 million to acquire the \$ 55. 5 million offering registered ( Jeffrey, 2009 ) .

Advocates of planetary accounting criterions argued that a set of planetary accounting criterions can salvage the readying costs of fiscal statement for multi-national companies since they do non necessitate to fix their fiscal statement under different regulations ( Stolowy & A ; Lebas, 2002 ) .

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Additionally, there are some possible decrease in preparation and scrutinizing cost ( ACCA, 2003 ) . Given a unvarying international accounting criterion, hearers can salvage a big sum of attempts in scrutinizing fiscal statements under different accounting criterions. Due to a lessening in the work load of comptrollers, fees of preparation may be saved

However, some of those statements above may non be wholly true. Like for the auditing fees, literatures find out more audit attempt is required because of IFRS ' trust on increased just value coverage ( Diehl, 2010 ) .

More significantly, the costs incurred by enforcing planetary accounting criterions are ignored in those statements. To implement the planetary accounting criterions, companies have to put in preparation, reforming and even redundancy. Those investings are important and unaffordable to most little concerns. Take the European leasing industry as an illustration. As reported by EU concern, since alterations to international rental accounting criterions, European leasing concern have to alter to an highly complicated attack to rent accounting and smaller houses in specific could hold a much harder clip in corporate finance. ( Eubusiness, 2010 )

The cost of capital is increased because differences in accounting criterions confuse investors and diminish capital supply.

Uncertainties of companies under different accounting criterions will increase since the lessening in comprehensibility and comparison of fiscal statements. Additionally, differences in accounting criterions besides decrease the supply in the capital market. As a consequence, differences in accounting criterions increase the cost of capital for companies.

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It is argued that acceptances of planetary accounting criteria diminish the cost of capital. This statement is examined by a big sum of literatures both from the investors' position and the supply-demand position. From an investors' position, due to an addition in comprehensibility and comparison, investors feel less hazardous and so diminish the needed rate of return.

From supply-demand position, For case, as Korok Ray ( 2010 ) shown that unvarying accounting criteria can increase the capital supply for houses.

However, this statement is based on the premise that planetary accounting criteria will increase the comprehensibility and comparison of fiscal statements. In fact, this premise is extremely doubted and debated. There are literatures reasoning that planetary accounting criteria may convey confusions to stakeholders. For case, Roberts et Al ( 2005 ) pointed out that stakeholders may non be able to understand alterations caused by enforcing planetary accounting criterion.

Take the just value measuring as an illustration. By presenting a four - degree of just value measuring, IASB tried to better transparence of fiscal statements and contribute to investor apprehension of the hazard profiles of these establishments. However, A big figure of literatures ( e. g. ACCA, 2007 ; Tim, 2008 ; King, 2006 ) doubted the dependability and comprehensibility of just value measuring. Problems with comprehensibility are terrible when there is no active market for some sort of assets.

Additionally, leting finding just value by rating techniques gives directors possibility to `` cook the book '' , which really reduced the investors' religion in the fiscal statements. Fair value is besides blamed for lending to the

recent recognition because of its negative effects during economic convulsion ( Zhou, 2009 )

Furthermore, it is sensible to doubt that non all houses can profit from the decrease in cost of capital, particularly those houses with less entree to fiscal market. This statement is supported by a scope of literatures. Sunder ( 2007 ) suggested that even voluntary IAS acceptance do cut down the cost of capital ; those findings are non necessary generalizable to compulsory IAS acceptances. Those statements are supported by groundss on the capital market effects ( cost of capital ) of planetary accounting criterion. Daske et Al ( 2007 ) found the capital market effects are positive, Leuz ( 2003 ) found they are impersonal while Shibano ( 1990 ) found they are negative.

There is no understanding on what is a good set of accounting criterions.

Given there is no single criterion compositor can supply the best solutions to accounting issues and there are no worldwide accepted accounting criterions, an acceptable accounting pattern under one set of accounting criterions might be viewed as unacceptable under another accounting criterions ( e. g. LIFO stock list in the united provinces ) .

Advocates of planetary accounting criterions argue that an accounting criterions compositor with monopoly power is needed to stop the contentions and supply ultimate solution to accounting issues. In fact, current planetary accounting criterions compositor, IASB is dedicated to win acquiescence for a joint conceptual model for fiscal coverage ( Martin, 2010 )

For case, whether the stewardship should be included in the determination - usefulness nonsubjective or separated as an indispensable aim of a fiscal statement is widely debated and doing confusion to both companies and their stakeholders. Actually, dividing stewardship as an indispensable aim of fiscal statements suffers from high costs and it is argued concern should contract the focal point to the present and possible investors. Furthermore, determination - utility is board adequate. s. To turn out that, Stoner et Al. ( 1997 ) stated that capital suppliers are interested in the two elements while doing determinations, viz. profitability of entity and stewardship duty of direction. As international accounting standard compositors, IASB/FASB made the determination to subsume the stewardship under the determination - utility, which is believed to be right and good to the accounting universe.

However, possibly there should non be a monopoly in accounting criterions putting at first topographic point. It is non logical to give a set of planetary accounting criterions monopoly power merely because no 1 has it. Since no 1 is certain what is good, coercing a individual planetary consensus will stop up with non better harmonizing criterions but a logical muss ( Martin, 2010 ) . What is more, fluctuations in accounting criterions encouraged competition, which normally is a good thing in footings of development. By contrast, a individual uniform planetary accounting criterion may stop up as poorer criterions than any national accounting criterions.

More significantly, As Beaver and Demski ( 1979 ) suggested, `` Choice of an income regulation can non be resolved by using cardinal measuring statement. " The fluctuation of accounting criterions is a consequence of <https://assignbuster.com/differences-in-accounting-standards-confuse-investors-and-decrease-capital-supply-accounting-essay/>

successful versions to the demands of a peculiar economic system.

Importing planetary accounting criteria is hazardous because they may not be suited to its new institutional environment. Additionally, As Lewis and Pendrill ( 2004 ) pointed, the public presentation of taken the criteria is rely on states ' ain executive power and it may be viewed as a decrease in the national sovereignty if states are forced by monopoly accounting criteria composers to give up their ain accounting criteria. Opponent besides argued that an alternate manner, harmonisation, may be easier to accepted. As Nobes ( 2002 ) suggested, intrinsic benefit of harmonisation is that it does non coerce the riddance of national criteria, which could be met with important chauvinistic resistance.

Furthermore, Surveys of Ball ( 2009 ) , Wong ( 2002 ) , Walker ( 2008 ) shown that even when houses adhere to the same criteria, there is important fluctuation in describing patterns across states. It proved that even a set of monopoly planetary criteria can non halt contentions and fluctuation in describing pattern. Actually, it is argued that the motives houses have to do high quality fiscal studies, which are influenced multiple factors ( e. g. Torahs, competitions ) , is more of import than accounting criteria.

Individual national accounting criterion composers are non powerful plenty to work against political and jurisprudence force per unit areas.

Since there are many countries of fiscal coverage in which a national criterion composer finds it hard to move entirely. Harmonizing to Blake ( 2003 ) , components frequently complain that `` tough " criterion would set

local companies at a competitive disadvantage comparative to companies outside of their legal power. Actually, since the force per unit areas from policies, Torahs and finances, single national criterion compositors frequently face trade-off between high-quality criterions and extremely recognized criterions.

Advocates for a set of planetary accounting criterion argue that since planetary accounting criterion compositors have a multi - state authorization, independency can be ensured and since it is applied to all companies in all legal powers, it can extinguish sensed disadvantages. Take as an illustration, current international accounting criterions compositor, IASB is designed to be an independent, private administration.

Basically, individual criterions may non suit for demand for the different authoritiess. Harmonizing to Chapman, Cooper, and Miller ( 2009 ) , the possibility that accounting may both form and be shaped by institutional developments. In some instances, the authorities or the market 's control is beyond the economic system or the political persuasion ( common-law or code- jurisprudence ) ( Black, 2003 )

Arguably, planetary accounting criterions compositors will besides endure from external force per unit areas. Current accounting standard compositors, IASB is non independent funded. In 2008, American companies gave 2. 4 million dollars to IASB, more than those of any other state ( IASC, 2008 ) and the prostration of major US Bankss in 2010 lead to IASB 's support sufferings, coercing the organic structure to dunk into its militias ( accountancyage. com, 2010 ) . So it is sensible to believe planetary accounting criterions

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compositor will be influenced or at least receive force per unit areas from its givers.

More significantly, the differences in accounting criteria are so deep and legion that they are structural in nature. Take the differences in principle-based accounting and rules-based accounting as an illustration. By and large, regulations-based accounting suffers from complexity, overload and hold while Principles would be easier to grok and use to board of state of affairs. ( Chalmers K, 2007 ) Shortridge and Myring ( 2004 ) researched that a principles-based system would take to criteria that would be less than 12 pages long, alternatively of over 100 pages for investors and other users to read. However, regulations-based accounting provides more comparison and consistency because its enforceability. By contrast, rule accounting encourages more dynamic and invention in accounting universe. So there is no right pick between principles-based or rules-based accounting.

Summarized by Martin ( 2010 ) , Choices of accounting criteria are extremely influenced by the market context for accounting standard scene, the market completion function of information, the nature of house, the nature of fiscal systems, assortments of capitalist economy, the contractual and informational understandings and institutional development.

`` A little set of high-quality criteria offers the most executable and flexible scene to get by with progressively planetary capital markets. ``

( Wagenhofer, 2006 )

To reason, it is unjust to disregard the benefits of a set of planetary

accounting criteria bring to the universe economic system and current  
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international accounting criteria ( IFRS ) does supply solutions to some of the issues raised by different accounting criteria. While, it can not be the ground for the acceptance of the unvarying accounting criteria globally, particularly given the important amendments current international accounting criteria have caused and the high costs it will incur in the future.

However, there is no ground to follow a single set of planetary accounting criteria. It does not intend unvarying accounting criteria are not acceptable. Actually, a number of sets of unvarying accounting criteria may be a possible way to obtain benefits from both standardisation and fluctuation.