

Preparing financial statements and costs associated with it

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Accounting is affected or takes place within all the institutions of a particular country. With the growth of capital markets worldwide, integration of accounting standards has become inevitable. Integration of these standards ultimately results in an enhanced capital markets and cost effectiveness.

Investors are continually investing in foreign markets with different accounting standards among other things (Scott, p542).

A response to integrate the capital markets suggested the pursuance of a set of common accounting standards. The IASB section 1. 12. 5 stipulates this response. The international accounting standards should supersede or substitute the local GAAPs in the capital markets. The aim of this substitution is to lower the cost of preparing financial statements and other associated costs as well as to increase comparability. FASB and IASB are continually being integrated to result into a high-quality integrated accounting standards. The two bodies individually have several similarities as well as differences (Scott, p548). Both FASB and IASB accounting standards directs that, other comprehensive incomes should immediately follow the net income in the income statement among others. Notable differences arises in LIFO inventory methods and upward revaluation of non-current assets in FASB and IASB standards. Those differences requires more progression in convergence of the two accounting standards (Scott, p550).

Despite the differences discussed above, a high-quality accounting standards should be adopted. This adoption helps economies with weak regulatory environments to operate most effectively. Integration of the FASB with the IASB as illustrated improves liquidity and synchronicity of the economy.

Daske and his colleagues examined the outcome of the mandatory shift from local FASB standards to IASB standards. They reported a substantial increase in liquidity in the market among other outcomes. However, Daske and his colleagues qualified their study and findings (Scott, p552). They argued that, some of the positive results were due to the increased disclosure regulations after adoption of IASB standards. IASB standards requires full application and disclosure while reporting. Empirical studies have indicated that, adoption of the IASB standards results in an increase in market liquidity and financial statement comparability.

Accounting standards in every country must be enforced and applied appropriately. Enforcement of the local FASB and the IASB falls on the jurisdiction of the country that apply them. Enforcement of these standards serves to protect the small investors in huge firms. Minority shareholders in firms that have a highly centralized ownership may be exploited in absence of those enforcements. Concentrated ownership reduces moral hazard problems but introduces problems associated with controlling and minority shareholders conflicts. Auditing is the most effective form of enforcement of FASB and IASB accounting standards. A well conducted audit contributes to investor confidence and trust. Minority investors are protected through full disclosure in the financial statements (Scott, p555).

The evidence suggest that, a shift from local GAAPs to IASB GAAPs benefits the country involved. However , the quality of the IASB GAAPs is crucial before adopting the standards. This is due to the fact that, foreign investors applying the IASB standards in reporting withoutreconciling with the local FASB standards. After an examination of several firms using the IASB

standards and FASB standards, research showed a significant incompatibility between the two bodies' standards. Recently, the compatibility has increased between FASB and IASB standards especially between countries under Common Law. In conclusion, the evidence on the quality of IASB standards is not conclusive (Scott, p558). However, the compatibility of the FAS and IASB standards will increase as convergence progresses.

Works Cited

Scott, William R. Financial Accounting Theory. Seventh Ed.