

# [Uniform accounting standards produce uniform](https://assignbuster.com/uniform-accounting-standards-produce-uniform/)

Financial reporting refers to the representation of financial information, in order to be uniform the uncial reporting must be based on a fixed set of rules, involve complete objectivity and no bias. The FIRS (International financial reporting standards) has indeed helped the uniformity of financial reporting. However, in some cases due to subjectivity involved, created by human Judgment, the financial information reported may not be uniform. Furthermore the various methods permitted by the FIRS for the valuation of assets, inventory, and other components, create non; uniform fallopian reports.

Uniform accounting standards are vital for uniform financial reporting as they specify he accounting methods used to interpret business transactions, this in turn creates an agreement on how commercial transactions are to be accounted for thereby creating uniform financial reporting. For example, the FIRS states that assets are to be recorded at the lower of their historical cost or net realizable value on the statement of financial position as a result all assets are reported in a uniform way.

There are many other cases that lead to uniform financial reporting, but the main point is the standard rules implemented by the FIRS lead to a uniform way of porting certain financial information. However there are some aspects of uniform accounting standards that can lead to non-multiform financial reporting. In the case of the FIRS there are some aspects involved that rely heavily on human judgment. This subjective element can lead to varying financial reporting. For example the calculation of fair value is a highly subjective process.

Especially for intangible assets like pension costs and share based payments, in both cases their respective fair values will be determined by hypothesizing what a market price would be If there were a market. Though these Judgments are based on a large amount of quantitative data there Is a large degree of human Judgment Involved. Similarly when It comes to depreciating an asset a firm has many options, which as will be discussed later pose other problem, under the FIRS an entity can be depreciated by several methods examples being the straight perception of how the value of an asset depreciates over time thus creating a subjective aspect.

It is worth mentioning however that this subjective component is crucial in capturing the realistic changes in value of an asset. If there were a rule dating that the only method allowed was the straight line though uniformity would be created across financial reporting a degree of realism would be removed for example a piece of agricultural land could degrade exponentially each year suggesting that an alternative method would be more accurate in capturing the value over time.

Another problem associated with the FIRS, in relation to uniform financial reporting, is that there are many methods one can use to present financial information. For example under the FIRS companies can employ one of three cost formulas when porting inventory expenses, specific identification, first in first out, or weighed average cost. Depending on what cost method is used inventory will be reported differently. Firms in many cases take advantage of this flexibility by employing the cost method that reports the cost of inventory at its lowest value thereby increasing profit.

This flexibility hampers uniform financial reporting . However the FIRS has enforced other rules that counter the flexibility of others. In the case of costing inventory though the firm has three options to choose from under the FIRS (SIS . 26)" an entity must use the same cost formula for all inventories having a similar nature and use to the entity. That is, a multinational company must use a consistent inventory policy election for each class of inventory in all of its worldwide subsidiaries".

Furthermore other accounting systems like the US GAP allow an additional method of costing inventory (last in last out), which creates even more flexibility and also do not provide any rules like SIS 2. 26 to counter such flexibility. Another important point is that certain firms may employ creative accounting to take advantage of the subjective component as well as the flexibility provided by the FIRS to manipulate certain financial information.

This produces non uniform financial reporting, however the use of auditors can be used to hinder this aspect as auditors will present a non bias report of the financial data. In conclusion uniform accounting standards in the context of the FIRS do, to a certain extent, produce uniform financial reporting as they specify the accounting methods used to interpret business transactions, which lead to agreement on how commercial orientations are to be accounted.

However in some cases these rules involve a subjective component, which can lead to non-uniformity because different people may have different perceptions of a certain accounting aspect like the fair value of an asset. In my opinion however in the context of the FIRS this subjective element does not lead to a great amount of non-uniformity due to the constant revaluations of components such as the fair value of assets. Furthermore the subjective decisions are based on large amounts of relevant data, which lead to fairly uniform reporting.