# Advanced accounting theory

Finance

Globally Accepted Accounting Standards Accounting is a complex but fundamental process that allows external stakeholders to know how a company is performing financially. The process of accounting is based on some assumptions and is generally guided by an underlying set of principles and regulations. One of these sets of principles is the GAAP, which refers to the Generally Accepted Accounting Principles. GAAPs derive their content and authority from all the sources concerned with the establishment of accounting standards within a particular jurisdiction. The concept of the jurisdiction is particularly noteworthy in the contemplation of GAAPs. It implies that a company is governed by the accounting standards and principles of the jurisdiction(s) within which it operates. Similarly, the preparation of its accounting reports is limited only by the GAAPs of the jurisdictions within which it operates. One of the arising issues when it comes to GAAPs is the need for a single set of GAAPs. This concept is discussed, with preponderance for the establishment of such a set of global GAAPs.

As it has been noted, one of the most significant notions, that is rather thematic of GAAPs, is the concept of jurisdiction. GAAPs operate within a particular jurisdiction, which may be a country, or an economic bloc, such as the EU. Traditionally, GAAPs tended to have the country as the highest territorial level delimiting their jurisdiction. This scope of jurisdiction tended to suffice, owing to the fact that most companies operated within a single nation. However, with increasing internationalisation, and the establishment of economic blocs such as the EU, there was need to establish a more comprehensive set of principles, in order to harmonize financial reporting. Such harmonization was desirable, in lieu of the fact that companies now operated within many different nations. Indeed, the EU has established several directives such as the 4th and 7th directives on company accounts (Elliott & Elliott, 2013). The question that then begs is, can the same scenario be replicated on a global scale?

One of the most significant trends is the globalisation of among other things, business activities. This globalization is not only in terms of firms reaching out to new markets, more increasingly, it is about such companies outsourcing their labour and ultimately, entire production processes. Since the countries are not within the same jurisdiction, territorial or otherwise, this implies that operations within different countries are subject to different accounting treatment. The number of treatments may be as numerous as the number of countries, depending on the existence of GAAPs at a higher jurisdictional level that is binding to these countries. The implication of such heterogeneity is that companies may take advantage of less stringent financial reporting requirements within a different jurisdiction to execute fraudulent accounting practices.

Based on the above premise, as well as the described threat, it is therefore desirable to establish a global set of GAAPs, which would set the bare minimum that must be adhered to by firms globally. Moreover, from a theoretical perspective, such a set of GAAPs is also attainable. The attainability is demonstrated by the realisation of similar accounting principles by the European Union. However, such GAAPs may not be practically feasible, owing to socio-political differences between different nations.

References

Elliott, B., & Elliott, J. (2013). Financial Accounting and Reporting. Harlow: Pearson Education.