Convergence and global accounting standard

Business, Accounting

The current IAS status can be traced to Norwalk Agreement which was an agreement between International Accounting Standards Board and Financial Accounting Standards Board committing both bodies to convergence their respective sets of financial reporting standards. Both bodies were to make their financial reporting standards compatible as soon as is practicable, ensure maintenance of compatibility of financial reporting standards through coordination of their future work program. The need for implementation of another accounting standard which is different from US GAAP was also driven by a number of frauds that resulted in 1990s and 2000s.

(Epstein 2009 p 1337) The issue about which standards to take; rule based GAAP standards or Rule Based IASs has resulted to endorsement of a comprehensive compromise position, dubbed as objective-based standards. It is evident that a number of differences between the IFRSs and IFRSs have been eliminated. However, a there still remains a number of nominal differences between US GAAP and IFRSs. Where substantive difference exists, e. g. revaluing long term assets as per current value, the financial reporting has required the related disclosure to be extensive enough so as to minimize any risk of misleading the user.

(Epstein 2009 p 1337) USA is seeing accommodation of IFRSs as it relaxes some it's General Accepted Accounting Principles. The Financial Accounting Standard Board (FASB) which is accounting regulatory body is seeking to foster more close relationship with International Accounting Standard Board (IASB) which is the world accounting standards regulatory body. There has been slight difference in IFRSs and GAAP approach in accounting which is one of the problems currently being solved to reconcile accounting practice in US in accordance to IAS.

IASB standards are based on principles as opposed to those of FASB which are basically based on rules. By basing accounting standards on ‘ rule’ means that it is assumed that accurate and honest representation by financial statements will only be achieved through following specific rules. On the other hand, principles based standards means that, accurate and honest representation of financial statements will be achieved through employing basic accounting principles. As per rule standards, principle standards are likely to encourage much of accountant judgment.

On the other hand, rule standards are likely to encourage unraveling of loopholes in rules and encourage financial statements which do not represent true and honest financial position of an organization. IAS does encourage financial reporting that is capital market oriented. There fore implementation of these standards has greatly influenced the targeted user of financial statements. (Epstein 2010 p 4; Stickney etal 2009) Preparing for Period of adoption A number of accounting principles suggested by IFRSs are yet to be implemented e. g.

LIFO costing for inventories is banned by the IFRSs, but still remains popular financial reporting method as per US GAAP owing to its conformity rule permitting entities to employ the method tax reporting only if it is also employed for general-purpose external financial reporting. It has been clear that during times of increasing costs, this method almost inevitably results in tax deferrals and thus its wide employment. Therefore abandoning such a tax strategy by US companies by employing the IFRSs is a difficult and imprudent decision by any company.

(p 4) There also a number issues as far as interpretation of International accounting Standards is concerned. Therefore the International Financial Reporting Interpretation Committee (IFRIC) has to liaise with the U. S. Emerging Issues Task Force in setting the standards. Similarly, IFRIC has been working together with stock exchange regulators, whose decisions may affect the acceptability of accounting practices as well as affect interpretation of IFRSs. (Epstein 2010 p 7).

Application of IAS also threatens the consistency of accounting records of various companies as they try to transit from GAAP to IFRSs owing to first time adoption effects. Another issue has been the cost of applying the IASs. Thus cost/benefit analysis of IAS has to be considered by various companies where benefits accruing from implementation of IFRSs and are compared to the cost thereof. Where costs exceed benefits, companies have been reluctant in implementing the IFRSs. This issue should first be addressed so as to favor implementation of IASs by the companies in the US. (p 10)

Other issue which are expected to be fostered in an effort of implementing IFRSs will focus on accounting for non current assets disposal, presentation of discontinued operations, accounting for costs owing to exit or disposal activities, how to account for grants from the government, costs of idle capacity inclusion and inventory spoilage, accounting policies presentation and changes estimates as well as errors correction, accounting for depreciation on assets which are held for disposal or otherwise idled, methodology for interperiod tax allocation, long term construction contracts accounting, how to report when economy is under hyperinflation and finally joint venture accounting. (Epstein etal 2009 p1337)

Much of technical issue that hindered implementation of IFRSs has been dealt with for example, US GAAP changes has provided for ‘ fair value accounting for non monetary exchanges of productive assets now recorded as book value swaps. ’(p1338) Work cited Epstein, B. , & Jermakowicz, E. Wiley IFRS 2008. Interpretation And Application Of International Accounting And Financial Reporting Standards 2008. John Willey and Sons. (2010). Epstein, B. , Nach, R. , & Bragg, S. Wiley GAAP 2010: Interpretation And Application Of Generally Accepted Accounting Principles. John Wiley and Sons. (2009). Stickney, C. , Weil, R. , & Schipper, K. Financial Accounting: An Introduction To Concepts, Methods And Uses. Cengage Learning. (2009).