

Research paper on relationship between the iasb and fasb

[Technology](#), [Development](#)



ABSTRACT.

FASB and IASB have been known to have conflicting interests in accounting systems and standards. The frameworks adopted by the two boards differ fundamentally in the application and use. The two boards apply different conceptual frameworks that create differences in accounting measures and uses of financial information. The boards apply similar characteristics in deriving conclusions. However, the ranking of these characteristics is different in the two boards. Recently, the boards have come up with a project that aims at revisiting their frameworks. This intends to provide a common framework that can be used for local and international financial accounting. This paper aims to define the differences and commonalities that exist between the two boards. The paper aims at defining the need for compatibility between the framework of the two boards in the realization of a stronger accounting and financial reporting standard. The paper also attributes the benefit of background qualifications in MSA that support accounting and the need of this program in promoting accounting professionalism.

History of the relationship between IASB and FASB.

The Financial Accounting Standards Board (FASB) is a concealed institution developed in Norwalk since 1973. The board developed Generally Accepted Accounting Principle (GAAP) that is employed in US. The International Accounting Standards Board (IASB) is a counterpart of FASB, developed in London. The IASB develops International Financial Reporting Standards (IFRS). The two boards are mutually committed to a principle of convergence

of IFRS and GAAP, but this has been limited by a variety of issues.

The emergence of the relationship between these two boards can be traced in the late 1950's as a response to the effects of post World War II. This was a result of increased economic integration and increases in border capital flows. Initially the idea was focused on harmonizing the existing accounting standards in reducing the differences that arose in the capital markets in the globe. By early 1900, the idea of harmonization changed to convergence which entailed a development of a unit high quality, international standard that would be applied in the leading capital markets.

In 1973, the International Accounting Standards Committee was formed. This board was reorganized in 2001 to an independent IASB. Since then, international accounting standards use has grown rapidly. FASB and IASB started working together in 2002 after signing an MOU known as Norwalk Agreement. The MOU committed the two boards in making their standard mutually compatible for both domestic and international financial reporting. The MOU intends to coordinate any future programs in the two boards to ensure compatibility maintenance. The aim of the MOU was to improve and in convergence of GAAP and IFRS in United States.

IASB equivalents of the FASB original pronouncements.

FASB is the accounting standards board of US whereas IASB is the International Accounting Standards Board. The key purpose of FASB is to develop and maintain Generally Accepted Accounting Principles (GAAP) while the key aim of IASB is to develop acceptable International Financing reporting standards. The two boards work with a common aim; to develop

global acceptable accounting standards.

There are numerous similarities and differences between the accounting principles and standards that the two boards apply in achieving this aim. FASB uses a rule base approach while IASB adopts a principle based approach in terms of techniques, processes and organizations. The approach used by IASB is limited on the fact that it fails to adequately pay attention to some application guidance (Alexander and Archer, 2008). On the other hand, FASB focuses on guidance to maintain GAAP. The two boards, however, address to issues pertaining to the financial aspect that are considered to be critical for global economic decisions. The boards emphasize on income statements, financial reports, cash flow statements and equity statements, which are critical in making sufficient economic decisions. Both sets address notes to financial statements, qualitative characteristics, supplementary schedules as well as assumptions of financial statements.

On some aspects, the frameworks adopted by the two boards differ fundamentally. IASB focuses on the needs of information of a variety of users. This includes employees, lenders, investors, suppliers and creditors, customers and government agencies. On the other hand, FASB identifies present creditors and investors as the primary users of the financial information. To make this information useful, and to influence its qualities in making accounting decisions, the two boards apply qualitative characteristics (Chalmers and Godfrey, 2007).

IASB uses four key qualitative characteristics; relevance, reliability, understandability and comparability. These features are equally ranked in making accounting choices. FASB on its part includes the same qualitative

principles but structures them in a hierarchical manner defining reliability and relevance as the key characteristics (Graham, 2011). The definitions used in these characteristics instill the difference in ranking. For instance, reliability is considered a primary quality by both boards. However, the tradeoffs that exist between the characteristics are dependent on the interested parties.

Against the background of technological developments and globalization, that stress the need for harmonization in financial reporting, a common goal for the two boards is to set principal based standards. This implies that the standards, which may apply to various issues, should not be treated as a mere collection of conventions and agreements rather should be rooted in fundamental concepts. It is for this reason that IASB and FASB begun a project aim at reviewing their conceptual frameworks for financial reporting and accounting. The goals of this project were to build the frameworks by updating, refining, converging and complementing these frameworks into an improved and synthesized framework (Alexander and Archer, 2008).

This conceptual framework is meant to form a basis for developing and revising the existing accounting standards to be globally accepted. The framework provides basic tools for the standards setters. The boards apply these tools in resolving any issue pertaining to accounting and reporting. Secondly, the boards apply the same terminologies for internal and external communication. Finally, the framework helps in reduction of political pressure in order to reduce any influences on decisions (Chalmers and Godfrey, 2007).

Although the primary objective of the common framework aims at greater

efficiency in the standard-setting process, other interested parties may also apply it in a variety of ways. It may assist users of financial information to better understand the information and its possible weaknesses. The framework also assists in preparing financial statements by applying the accounting standards and also in dealing with topics that the standards have not yet developed. The information is also useful in auditing processes in examining financial statements and in forming opinions about them. This implies that the effects of a common accounting framework directly or indirectly affects accounting practice and pressures on the importance of having a common framework (Graham, 2011).

How MSA programs prepare students for the accounting profession.

MSA is a focused program that allows students to specialize in accounting. The program provides emphasizes on accounting with specializations in, financial accounting, auditing, managerial accounting, accounting information systems and taxation. The program is flexible based on the individual needs. It is appropriate for students without past experience or knowledge in accounting. The program may be taken in full or part time classes (Association of Government Accountants, 1976).

The MSA program is structured for motivated and academically successful learners who desire to specialize in accounts. The primary objective of this program is to develop technical abilities, oral and written communication skills and analytical research skills in accounting. The program takes a maximum of two years depending on the student's credit hours before enrollment. The programs are intended to prepare students for private fields,

public practice, NGO's, Government service and non-profit making organizations. The program involves an internship where the students are made to spend at least two months working with a CPA industry, firm or a government unit.

In the modern business world, professional accountants do not only prepare financial statements and tax returns. With the growth in the profession and demand for experience from the market, the accountants are expected to develop information systems, calculate benefit and costs and formulate advisory strategies. The accountants are expected to develop strategies that adopt new technological systems and offer advice to corporate that ranges from operational control methods, mergers and acquisitions and tax minimization.

The MSA program prepares students to meet this criterion by developing accounting skills that enable students to perform diverse duties and other relevant business functions. In addition, the MSA curriculum cultivates the analytical abilities of students and promotes a broad and in-depth understanding of the accounting roles (Association of Government Accountants, 1976). The courses covered by the program assist students in developing practical knowledge and skills that are critical in accounting. This includes communication, team work and decision making, problem solving skills and research methodology. In addition, students are exposed to leadership styles and skills through participating in the student's organizations, service learning assignments and team competitions.

Conclusion.

The theory and practical segments of the program are applicable for an accountant profession for both IASB and FASB. By the time students' graduate in this program, they can easily identify which specialization in accounting that they are better situated. The program ensures that students go through various accounting procedures and standards that are applied by the boards. It provides a practical experience in the accounting field that moulds the learners into professionals. It also provides references for better understanding of the material and information required in making informed decisions. These are the same concepts that IASB and FASB apply in provision of financial information. The board requires professionals in the accounting field with MSA qualifications. With such professionals, the objective of the MOU may be realized since the decision makers in both boards have similar qualifications meaning better understanding of financial aspects and the markets.

Reference.

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