Use of international reporting systems in global trade accounting essay

Business, Accounting

Accounting is defined as " the language of finance" (Lasher, 2008). The basis of accounting is financial accountability attained through financial reporting and can be explained as the communication of " financial information useful for making investment, credit, and other business decisions" (Wild, Shaw, & Chiappetta, 2009). Financial reporting includes income statements, cash flow summary, tax and equity reports and balance sheets. Companies across the globe use reporting systems for the general purpose of financial communiqué and annual statements. They by and large stick to the reporting system accepted and practiced by the countries they operate in. This has resulted in a non standardization of accounting statements in international finance, trade and banking scenario, and as a result made the true and fair analysis of various types of accounting statements a laborious task. Countries like U. S. A, U. K, France, China and India were following individual versions of GAAP (Generally Accepted Accounting Procedures), a universal set of accounting principles and reporting system. Since a very long time, globalization has been putting pressure on finance and accounting lines of work, seeking to communicate through a single accounting system which can be easily deciphered by the global business community alike. This was easier said than done, since globalization is by and large, a political process. Any sudden change would invite strong resentment and rejection from the current main accounting systems and political pressure to include policies that suits the major players in the global business scenario (Belkaoui, 1994). Anderson. A maintains that " a set of global accounting principles will allow an innovative perspective of progression owing to the fact that relative scrutiny of the rates of returns established, based on the balance sheets and profit and loss account between the rival companies become relevant" 2. The global accounting community discussed a solution to this for years and the American solution was in the form of GAAP and European suggestion as IFRS. In order to get a single international accounting system these two systems were converged with more weightage given to IFRS principles as they solved many fair value policy issues based on principles. Today U. S Securities exchange commission is considering the idea of allowing U. S businesses also to report their financial statements in line with the IFRS method. IMPORTANCE OF A COMMON SET OF REPORTING STANDARDSAccounting is " the language of business" and financial information is a " form of language". To make sure its efficacy at all times across the globe, any financial communiqué, should not only be clear and decipherable but also be comparable. This is of utmost importance to businesses, investors and countries because investment and credit decisions can be made more enthusiastically and judiciously. While analyzing and comparing IFRS with other current accounting standards, it stands to win hands down on various fronts. The most important and easily understood advantage is the reduction in investment costs, as a result of the same standard being implemented across the globe. By using an unswerving and dependable reporting process, a great amount of time and expense can be saved, unlike while using a diverse and non comparable accounting process. It is just like doing away with the cost of translation by using the same language. Another important aspect is that information for judgment is greatly improved by a common set of reporting standards that facilitates a common base for comparison. In other words you can compare ‘ Lemons to

Lemons' and arrive at a business decision as against ' Lemons to Limes' as the basis of comparison. However small these differences may be, the second comparison will bring in vagueness in financial decision-making and lead to diverse and possibly erroneous interpretations. These problems can be overridden only by introducing an internationally accepted common accounting system which has been positively attained to a great extent through IFRS. IFRS OR GAAP – WHICH IS MORE EFFICACIOUS AS A GLOBAL SYSTEMIFRS is developed and approved by International Accounting Standard Board (IASB), which in turn after its commencement adopted the body of International Accounting Standards (IAS). Theoretically IFRS includes IAS until they are replaced in due course of time. The Foundation has its prime intention as the development of a unique and universal set of accounting standards that are high-class, transparent, comprehensible, and globally implemental. These international standards should also be carefully and consistently applied in the financial transactions. Based on these criteria the current IFRS principles are formulated and suggested. Many countries are hesitant to shift to IFRS, mainly because in most of its features IFRS resembles U. S GAAP. Though in various other features, they are distinctly diverse. The influence U. S GAAP has on IFRS is understandable as many on board of IASB (the foundation in charge of developing and approving the IFRSs) are infact U. S finance experts with many years of working experience with U. S GAAP or are trained in the U. S legal system. Both IFRS and U. S GAAP work on a fair value asset and liability theory. But the main difference begins in the core principle on which they both work; while U. S GAAP is totally rule based, IFRS is principle based. Analysis also shows that IFRS has a common law based reporting while U. S GAAP follows civil law method.