

# [Towards the international accounting standards](https://assignbuster.com/towards-the-international-accounting-standards/)

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With increased global and cross boarder economic activities, Most companies are going international and most auditing firms are having clients in countries which are far away from home. Theglobalizationhas led to the convergences towards of international accounting standards, which will improve transparency and secure sounds financial reporting; this will be at the interests of investors and government.

Convergence towards global accounting standards is gathering pace all over the world and most countries are taking steps to adopt international financial reporting standards. Most companies that have gone abroad in terms of opening branches have streamlined their activities through adopting international accounting standards. This reduces the cost of reporting and converting the information reported in one country to the home country adopted accounting standards.

North America countries have stood by their own Generally accepted accounting principles. In America we use Generally accepted principles, which are set by financial accounting standards board although we are moving towards convergence international accounting standards. We in United States use generally accepted accounting principle to govern the presentation, preparation and reporting financial information for companies that are public and private.

European countries have adopted international financial reporting standards published by international accounting standards board based in U. K. The generally accepted Accounting principles have basic objectives, qualities concepts, assumptions and principles. The basic objectives of generally accepted accounting are; - when reporting financial information, it should be useful to potential and present investors in making investments decisions, it should also be useful and helpful to creditors in assessing time and amount ofmoneythey will receive including the certainty of receiving their money back. It also assists in reporting the economic resources and the changes that have been in the period of reporting.

Generally accepted accounting principles are useful and helpful tofinancial statementusers if they will have the following qualities: -

1. Consistence: - The accounting standards must be consistent and the accounting methods applied must be consistent from one year to another. If there are changes they should be communicated and justified to the financial users through notes to the accounts. Auditing financial statement must ensure that consistent is followed.
2. Relevance: - Accounting information must be relevance to a decision maker that is it must be able to assist in predicted the past, present and the future events with certainty. The relevance of financial information to users is to give them correct information at the right time before decisions are made.
3. Reliable: - Financial information provided should be verifiable by independent auditors to ensure the information demonstrate the utmost faithful representation of the entity’s affairs.
4. Comparable: - Financial information reported in one entity should be able to be comparable with another entity’s financial statements that are it should be reported in a manner that is similar to the reporting to other enterprises’ in the same industry.

A part from the qualities of the financial information, there is other basic concepts that are applied in generally accepted accounting principles and makes them successful.  These concepts include basic assumptions, constrains and principles will include the following among others: -

1. Conservatism: - This is the concept of prudence, which requires accountants to choose an option that under estimates revenues and assets, and over estimates reliabilities. There should be option in the principle of prudence to applicable.
2. The concept of industrial practice: - The practice followed by the company or entity should be consistent with the competitors in the same industry. If a company is operating in telecommunication should adopt accounting procedures, which are acceptable within the industries and used by other key players in the industry.
3. Cost- benefit relationship: - Accounting information should be cost effective to the users and producers. An organization should not prepare financial information that is very expensive as compared with the benefits that are accrued.
4. Materiality: - Items that are reported in the financials statements should material. If an item is omitted from financial reporting, auditors should consider the impact of that item to decision makers, if it will influence decision making should be included.
5. Economic entity: - Assumptions are always made that business are separate from the shareholders or entrepreneurs. Revenues and expenses of enterprises should not be included with personal expenses and incomes of owners.
6. Going concern: - Always when preparing financial statements assumptions are made that the owners of the business are not willing to stop trading, therefore, there is amortization, depreciation and asset capitalization should be validated using know methods.
7. Monetary Units: - All information in accounting statements should be expressed in a form of currencies which is known whether the business was barter trade or other forms
8. Period of reporting: - Business should have a period in which the report is prepare and the period should be expressed in month, quarters and years.
9. Revenue recognition: - Companies are required to recognize revenue that can be actually realized or earned and not the cash received. This method of revenue recognition is called accrued accounting basis.
10. The Matching principles: - Accounting expenses and revenues should be matched and recognized the period there are incurred or earned not the period the work has be done or cash is received.
11. Historical cost principles: - Accounting should be reports based on historical cost not the market fair value. The historical cost accounting method requires transactions to be reported in acquisition value not market value. However the international financial reporting standards recognize the fair value.

Convergence towards accounting standards accepted globally has been reported in many countries like the European Union, Japan and many other countries in Africa. The Japanese accounting standards are considered the best in the world. Japan started developing their accounting standards in the late 1990s and there have evolved into the best in the world. Their accounting standards have developed in short period to have the best practices in consolidation accounting, financial instruments, post retirements and business combinations.

In development of convergence towards international financial reporting capital markets regulators have also past that required their companies to report in the international financial reporting standards.   The rapid growth of global capital markets like Hong Kong London stock exchange New York stock exchange, however, has resulted in increased the need in the global convergence of accounting standards, as national accounting standards are being converged with one another while others are being phased out.

In recent years, the use of International Financial Reporting Standards has been expanding in Africa, Europe Asia and other parts of the world. Some countries in Africa are consistently applying them. Industrialized countries are seeing, their national accounting standards are converging with International Financial Reporting Standards.

In the United States the Financial Accounting Standard Board have entered negations with International Accounting Standards Board on converging strategy. They have been pursuing the renewed commitment towards the convergence, in the form of the Memorandum of Understandings, which has set a time framework for the convergence and progress will measurable by 2008.

The Accounting standards Board of Japan also started in late 1990’s in implementing and entered discussion with the International Accounting Standards Board towards the convergence of the two standards.

Market regulators have also required their companies to adopt globally accepted accounting principles so that reporting in one country will be similarly in reporting in another country.

In convergence of international financial reporting standards and United States generally accepted accounting standards the future of capital markets is looking healthy globally.  This is because most companies operating in the world have their motherland in the United States of America.   The current reporting practices in the United States have many differences with the International Financial Reporting Standards among the differences that exist currently include: -

1. Financial Reporting on income taxes. Income Taxes are in statement No. 109 of generally accepted accounting principles and international accounting standards No. 12.  The both standards are based on the same principles in recognizing differed assets and liabilities; however they have a difference in the conclusions because international standards board allows some exceptions, which are not allowed by financial accounting standard board.  The two boards have agreed to work together to eliminate the differences. This is a great effort towards convergence in accounting for income taxes.  This will benefit the users in America and American companies operating in Europe Africa, Asia, South America and Australia.   The information provided by the two standards after convergence will be useful to users whether in US or in Britain, any other part of the world Valuation of assets is another place where there is a huge difference that needs to be sorted out. International Accounting No. 16 No. 40, and No. 17 that is valuation of property and equipments, investment property and leases have difference with American general accepted accounting principles.   When dealing with companies that are trading in more than one country the accounting principles adopted regards property valuation is very important.  There needs to be harmonization between international financial reporting standards and generally accepted accounting principles.  Without the harmonization assets may be over valued in one country while in another country they are under valued.
2. Revenue recognition. International accounting standards and generally accepted principles has adopted various methods of recognizing revenue.  This creates problems in using information provided by financial statements in decision-making.  The International accounting standards recognize the fair value in recognizing assets and revenue while the generally accepted accounting principle uses the historical cost methods.

Business combinations.  The generally accepted accounting principles and international accounting standards have differences in measurements of assets of businesses if there is a business combination from a country that is adopting international accounting standards and a country operating in the US it becomes a problem in trying to account for the assets of that company.

As mentioned earlier the international accounting standard board in July 2006 appointed a committee to work towards international convergence of international accounting standards and a committee gave a way forward for adoption of International Accounting standards.  They proposed that a more proactive approach should be adopted in converging towards international accounting standards.  In order to make the world more dynamic and more competitive the countries needs to adopt fair and transparent standards that will give a fair and transparent market for it is stock.  The adoption of international financial reporting standards will have many impacts among them include:

Fostering developments in undeveloped world.  Adoption of international accounting standards will allow free flow of economic resources to countries where there is under development but with potential of growth.  The free flow of investments towards an African country will develop Africa and the American Company will grow and increase their revenue pace.

Clients.  Most accounting firms are having clients which are far away from their home countries, therefore the converging towards the International Accounting Standards will assist most accounting firms to expand and operate in many countries.   Most trained accountants will be also being able to work in various parts of the world without any legal obstacles since the untrained in uniform settings.

There will be un influx of human resources across orders that is people will be moving from one country to another to invest and work since the financial markets and the training of accountants has been conformed.

There will be also an outcry from most countries if proper method is not applied while setting the standards.  Among the outcry will include biasness and un inclusion.  For example take an example of the outcry about United Nations decisions from Robert Mugabe of Zimbabwe is always loggerheads with the G8.

The balances between the principles and rules applied by general accepted accounting principles of United States and International Financial Reporting Standards of International accounting standard report for those years that the conversion will be met will also create some errors in the financial reporting.

It is not easier for all shareholders management of companies and auditors to accept the adoption of international accounting standards.

The electronic accounting system has brought many innovations that are intended to improve the predictability of financial performances of companies.  This will also have a problem in the conversion since in US they have introduced SOX act that seek to protect companies that are listed in the stock exchange.

We expect undue influence in standard setting like the case of United Nations this will make the standards look like they are made for some companies and condemn other countries topoverty.

The world will be a safe place t o live in and International Criminals like the Taliban of Afghanistan and Osama and his jihad will not be in existence since there will be free flow of investment to various parts of the world and people will not feel cheated as currently most countries are feeling under the United Nations.

A Europe adopted international accounting standards as published by international accounting standards board in the Year 2005 since then they have seen tremendous growth in their capital markets.  All the companies listed in any stock exchange in the Europe is using international financial reporting principles, therefore the United States of America and International Financial Standards board have considered 5 points to be used in implementing a globally accepted accounting standards.  The points therefore considered include: -

Global convergence of accounting standards as a way forward for International free flow of investment resources.   They have agreed that the process of converging of in financial reporting is a valuable process that will contribute to sustainable growth of capital markets from a Europe, Asia Africa United States and other American countries.  This convergence will give investors information with little errors reducing the risk of judgment.  The cost of converting financial information reported in one area using different accounting standards will be minimized.

Transparency andaccountabilitywill be improved since market regulators accountants and government will have the same information in any part of the world using similar standards.  Convergence towards international accounting standards will take a long time but the benefits will be very great.   There has been period to work on how convergence international accounting standard will take effect.

Convergence towards international accounting standards will depend on the simplification and finding a market relevancy document for implementation. Focusing on the true economic presentation addressed by international accounting standards is fundamental issue to be considered before going global.  The standards used must be simple and understandable to the American people and easier to convert complex transactions into a simple and cost effective way.

The standard setters should also adopt acceptable standards by American investors. The American people will be happy to remain with their own accounting standards if the standard set by International accounting standards board is not acceptable.

Cultural political legal issues need to be addressed. The reporting of financial informationcultureof some countries will need to be addressed before converting to international accounting standards.  Issues like political interferences will also need to be addressed to avoid embarrassment from characters like Robert Mugabe of Zimbabwe, former dictator of Iraq Saddam Hussein and government of like Palestine and the Hisbora Government.

Converging towards international accounting standards as already started in United States and many sectors are reporting on international accounting standards.  It is a matter of time before the whole country implements the international accounting standards published by international accounting standards board.  Financial Institutions companies operating with branches abroad insurances and many other companies have already made their assets at market value, which is a requirement in the international accounting standards.

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