

# Harmonisation of accounting standards



Accounting Standards are the reliable statements of best accounting practices issued by recognized expert accountancy bodies relating to various aspects of measurements, treatments and disclosures of accounting transactions and events, as related to the codification of Generally Accepted Accounting Principles (GAAP). This report presents harmonization of accounting standards, a brief history, and the achievements so far and some challenges faced by the organizations such as the International Accounting Standard Committee (IASB) that are pursuing harmonization of accounting standards.

## **1.0 ACCOUNTING HARMONIZATION:**

Many authors have put together different definitions for accounting harmonization in various ways. It would seem not an easy word to define, as neither the European Commission nor other organs of the commission have explicitly defined the concept of accounting harmonization (Christopher Nobes, 1992). Some have even complicated the whole concept, by attempting to substitute harmonization with standardization, as if to mean that the process is the same, rather than making it more compatible. In practice, harmonization of accounting tends to mean the process of increasing the compatibility of accounting practices by setting bounds for the degree of variations (Nobes, 1992). This can be accepted to be the most suitable definition of the concept.

Harmonization of accounting standards has become a highly demanded issue of discussion and debate among accounting professionals around the globe. Accounting Standards are the authoritative statements of best accounting practices issued by recognized expert accountancy bodies

relating to various aspects of measurements, treatments and disclosures of accounting transactions and events, as related to the codification of Generally Accepted Accounting Principles (GAAP). These are stated to be the norms of accounting policies and practices by way of codes or guidelines to direct as to how the items, which make up the financial statements, should be dealt with in accounts and presented in the annual accounts. In fact, such statements are designed and prescribed to improve and benchmark the quality of financial reporting. They bring about uniformity in financial reporting and ensure consistency and comparability in the data published by enterprises. These are aimed at furnishing useful information to different users of the financial statements, such as shareholders, creditors, lenders, management, investors, suppliers, competitors, researchers, regulatory bodies and society at large(Shil et al. 2009).

The process of harmonization gives the global community a single entity. The diversity of stockholding doesn't matter today if the accounting system can generate general purpose financial statements in real sense. Thus, along with the process of globalization, the awareness of investors in capital markets has increased manifold and the size of investors is multiplying. Foreign institution investors (FIIs) are investing in significant volumes globally, as also are several Indian companies through GDRs (Global Depository Receipts) and ADRs (American Depository Receipts). Hence, the need for harmonization of accounting standards has been strongly advocated globally in order to faster the economic decision-making process(Shil et al. 2009).

Wallace, et al (1997) argue that the mission for international harmonization of reporting practices cannot be as easy as looking at a cash flow statement, where you identify different ways of categorizing cash flows, alternative formats of presenting cash flows from operating activities and just many other differences. In addition, several issues such as: the bad debts provision; valuing marketable securities; and the treatment of long-term contracts, can be considered specific and given particular treatment.

The role of the Accounting Standards Board (ASB) for example is to issue accounting standards in the United Kingdom. It is recognised as a standard setting body in the UK for the purposes of Section 256(1) of the UK Companies Act 1985 and in Northern Ireland for the purposes of Article 264(1) of the Companies (Northern Ireland) Order 1986.(Mccallig et al. 2010).

### **1. 1 The Need for Harmonization**

The increased globalisation of capital markets has resulted in a need for international accounting standards. In an increasingly globalised world, it is clear that financial statements of companies operating under different accounting management systems are not easily comparable. This has led to the need and development of the International Accounting Standards Board (IASB) whose stated objective is the development of ' a single set of high quality, understandable, enforceable and globally-acceptable International Financial Reporting Standards (Mccallig et al. 2010)

This harmonization is needed due to the globalization of businesses and services and an increase in cross-border investments and borrowings (Zeff 2011).

Some of the benefits of harmonization are:

- It ensures reliable and high quality financial reporting and disclosures in certain cases; it can prove to be crucial to the economic and financial development of a country.
- It enables a systematic review and evaluation of the performance of say multinational companies having subsidiaries and associates in various countries wherein each country has its own set of GAAP.
- It makes the comparison of the performance of a company against its domestic and international peers easier and more meaningful.
- It adds to the international credibility of a company.
- It is a precursor for accessing international capital markets which can, in turn, reduce the capital cost and consequently, improve the performance of a company.
- It provides a level playing field where no country is advantaged or disadvantaged by its GAAP. (Mogul 2003)

Additional benefits of a global financial reporting framework that can be achieved through harmonization are numerous and can include greater comparability of financial information for investors, greater willingness on the part of investors to invest across borders, lower cost of capital, more efficient allocation of resources; and even higher economic growth not only for companies and organizations but for governments also.

## **2.0 IMPLEMENTATION CHALLENGES**

The most fundamental of obstacles to achieving uniform practice is the size of the present differences between the accounting practices of different countries. Using the different types of classifications of accounting systems used in different countries, there are several significant differences even within the equity class, let alone between that class and the other. These differences go to the root of the reasons for the preparation of accounting information (Nobes 2001).

Still, there are a couple of strong variants of accounting practices (say, for example, US GAAP, UK GAAP, IAS etc.) over the world existed and practiced simultaneously. These variants are working as threats towards harmonization of accounting practices. However, the profession has also witnessed some improvements in recent years in the process of global convergence putting some ray of hope. International and even local standard setting bodies have come up with projects of harmonization and in most of the cases became successful. The day is not far away when we will observe that accounting world is controlled and guided by a single set of standards giving it a status of legal discipline in true sense (Shil et al. 2009)

Implementation challenges at the international and national levels of the objectives of an improved and harmonized reporting system being achieved are still evident. For example the question of how the IASB should cope with the Securities and exchange commission's (SEC) eventual decision to adopt, converge to, or continue to study International Financial Reporting Standards (IFRS) as the financial reporting framework to be used by U. S. issuers? The process of mutual convergence between IFRS and U. S. GAAP, which has

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been an avowed policy of both the IASB and the FASB since 2002, will surely not extend beyond the terminal dates of the major projects currently heading toward completion. 37 Countries that have signed on to IFRS, as well as the leadership of the IASB, believe that the time is nigh for the SEC finally to decide whether to commit to IFRS, or not. If it does not, the IASB must consider the consequences of an IFRS world without the United States. Considering that the U. S. capital market is still the largest and most important in the world, and the SEC is the world's most respected securities market regulator (Zeff 2011).

### **3. 0 CONCLUSIONS**

A significant number of entities and countries around the world have adopted International Financial reporting Standards (IFRS) as their basis for financial reporting, often initially regarding these as a means of improving their quality of information on corporate performance. The benefits of adopting IFRS have been extended to include winning the trust investors, greater willingness on the part of investors and companies themselves to invest across borders, lowering of capital costs to companies, more efficient allocation of resources; and even higher economic growth not only for companies and organizations but for governments also. On the overall one can argue that this approach to financial management can greatly impact the global economy as a whole.