

National culture and international financial reporting standards

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Effective implementation of International Financial Reporting Standards (IFRSs) in different countries is not an easy task. Poor infrastructures as well as internal influences are one the causes that have lead to partial implementation of IFRSs. Differences in nationalculturein accounting have a big role to play. Religion also plays a big role. For instance, Islamic religion is against paying or receiving interest. (Deegan 2009) Various national cultures have different opinions about recognition and measurement issues which are sometimes influenced by political forces.

Accounting bodies in various countries plays a big role in ensuring implementation of accounting standards. E. g. , in USA there is General Accepted Accounting Principles (GAAP). Sarbanes-Oxley act also has a big role to play in ensuring desirable accounting reporting. Financial Accounting Standards Board (FASB) is the regulatory accounting regulatory body. Standards of IASB are based on ' principles' while those of FASB are based on ' rules'.

In other words, a principle based standards imply that an account should employ basic principles to ensure accurate and true financial statements. Rule based standards on the other hand state that, accurate and true financial reporting will be attained by following specific rules. The argument is that principle rule may not be appropriate since it may encourage accountant to rely so much on judgment. Rule based standards may encourage accountants to unearth loopholes in the rules.

In Australia the Australian Accounting Standards Board is the board concerned with developing accounting standards, and Accounting Concepts Statements. IASB has to rely on AASB to ensure implementation of IFRSs in <https://assignbuster.com/national-culture-and-international-financial-reporting-standards/>

Australia. (Deegan 2009) There is existence of conceptual inconsistency as these IFRSs are being integrated to accounting practice of different countries in the world. The national culture (law) has been dominant in many countries and sometimes is the only guide to financial reporting. Read also about sources of accounting standards

Some laws are interested at identifying profit for taxation purpose. In some nations, many businesses are owned by family and thus have little pressure to disclose financial interests. In other countries, businesses are owned by a large number of shareholders and institutional investors who have other financial institutions to meet their needs. (Deegan 2009) National characteristics encompassing morality, prudence, openness and assumptions of society order affect recognition of financial transactions, recording, measurement and communication. (Deegan 2009)

There is also an issue about what is true and fair view in accounting. Different national cultures have different interpretation of this concept. National culture has a great role in interpreting this concept. It is imperative that any financial statements should be relevant for decision makers, faithful representation of financial position of a business entity, represent true economic substance of the transactions, free from biasness, prudent, and be complete in material respect. Some culture emphasizes preparation of accounting statements for various users.

Concentration of IASB on capital market as the user of financial statements has also become an issue. Various accounting boards will focus on other groups of financial statements users eg suppliers, customers, creditors and employees. Eg in Italy financial statements are creditors and legal oriented. <https://assignbuster.com/national-culture-and-international-financial-reporting-standards/>

(Deegan 2009) It is also apparent that IASB must work through national governments, security regulators and standards setting bodies to ensure organizations complies with IFRSs in their financial reporting.

Support from various countries accounting bodies will enhance implementation of IFRSs. Adoption IFRSs lies on the good will of the standards setters in various countries. Reference: Deegan, C. , 2009, Financial Accounting Theory, (3rd Ed), McGraw-Hill Reference: Roger, H. , & Audra, O. , 2005. International Financial Reporting Standards Desk reference: Overview, Guide, and Dictionary. John Wiley and Sons