

The need of accounting standards accounting essay



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In the course of this essay, the topic that will be discussed is the importance of having international accounting standards. If we merely look at accountings' basic purpose of accounting standards, it is to facilitate the provision of financial information as well as, to give a clear picture to corporations' investors of their cash inflow, assets, equity and liability , revenues and expenditures etc. Accounting has existed for a number of years, since the time of the Islamic era, however Islamic accounting is strictly based on religion (Sharia system) and it is not based on geography. (Napier, C, 2009)

A religious base accounting system is not commonly practiced today; it is because in time accounting was allowed to grow and evolve with the help of accountants who have managed to create various kinds of accounting methods that are used in different continents round the globe. (Napier, C, 2009)

In view of the fact that several conferences and debates have been held as to whether the international accounting standards should be implemented world wide. This essay will elaborate as well how certain industries reject the idea of having International Accounting Standards. Although accountants have been able to come up with innovative accounting standards over the years, and yet we are still not successful in having a single method that satisfies all.

The question, therefore, arises as to how to ensure that accounting standards are meeting global needs?

Accounting Standards

Having standards is essential; however currently there are different standards that are being practiced. The International Accounting Standard Committee (IASC) was established in 1973 to create accounting standards. There are 41 standards that have been issued by the (IASC) which has been accepted as an international standard apart from Japan, Canada and the United States. (M. V. Kali Prasad, 2006)

In the summer of May 25, 2000, the US Securities and Exchange Commission suggested the acceptance of IAS for use in cross border. The following year the international fraternity of accounts took stock of the situation and constituted the International Accounting Standard (IASB) to evolve and prescribe norms for treatment of several items in the preparation and presentation of financial statements. (M. V. Kali Prasad, 2006)

The US Financial Accounting Standard Board (FASB) has the intention and undergoing series of procedures that would eliminate the differences in some of the standards. (Beresford, Dennis R. 1998)

Although such action and decision are taking place, the banking industry stands firm with their belief and disputes. Bankers express how the FASB would limit the banks' ability to manage risks as well as only certain financial assets and liabilities would be marked in the balance sheet. (Beresford, Dennis R. 1998)

The Need for Accounting Standards

Over time it has been proven that International Accounting Standards needs to be implemented particularly after, the famous corporate scandals, involving Enron and WorldCom etc. It resulted in widespread of fears of losing public confidence and the need to strengthen internal controls.

According to a number of analysts they believe in order to regain confidence following the scandals, where accounting fraud was discovered. Accounting profession should create a transparent as well as explicit rule that applies world wide. (Vass, P. 1990) With having such an International Standard enforced it allows information to be evaluated within the same industries, without being concerned where the company is located. It is critical to have a standardized accounting; firstly the strategic decision making would be a lot more accurate and secondly increase in confidence. (Vass, P. 1990)

Accounting Standards could differ, even within the same country if the International Standards are not enforced. For instance public and private sectors were seen to be different. The public sectors were concerned about services which met from taxes, as opposed to private sectors where they concentrated more in profit, sales and turnovers. (Vass, P. 1990) On the other hand if the accounting system were standardized that would bring authority simultaneously and everything would be a lot more transparent as well as consistent regardless if it was private or public sector. (Vass, P. 1990) If such measures are not taken then, the accounting system credibility could be damaged particularly if one refers to previous scandals. One school of thought believe that International Accounting Standards is committed in developing, the public interest, by setting a sole set of high quality, <https://assignbuster.com/the-need-of-accounting-standards-accounting-essay/>

understandable and enforceable global accounting standards that require transparent and comparable information in general financial statements.

Indirect advantages to investors arise from improving the usefulness of financial statement information in contracting between firms and a variety of parties, notably lenders and managers (Watts, 1977; Watts and Zimmerman, 1986).

Conclusion

The need for International Accounting Standards is essential; however there are a lot of obstacles that needs to be addressed and put into consideration. As mentioned earlier, the banking industry opposes in having such a standard, however if we look at Dubai, United Arab Emirates, with the excessive borrowing and lending with International banks in construction projects, caused “ Dubai World” to collapse, as a result it put Dubai in great debt, this is a classical example for the need of International Accounting Standards, where Investors are protected, with transparency that would allow investors to make an accurate decision. There have been numerous incidents that have occurred in the past decade that indicates the need of a universal standard.

Despite the obstacles that may be encountered in developing a concrete framework of International Accounting Standards and trying to create one global accounting system however it is a gradual process for countries to migrate and adopt this system. Some believe that with the adoption of such a standard, this would assist in global economic stability.