

Uniform accounting
standards produce
uniform financial



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As of today about 120 countries require FIRS for domestically listed companies, although only about 90 countries have fully conformed to FIRS . While some argue that it is necessary to have a system of accounting that is clear and transparent to global Investors and companies, some others are skeptic about it being efficient. Furthermore, some feel that the costs of Implementing FIRS can be too high and hence uniform accounting will not be worth the cost. Hence, critically analyzing FIRS and understanding its impact on accounting principles will help us to agonize the costs and benefits of this system.

One of the main objectives of FIRS is to increase the efficiency and transparency in accounting. However, the main tension in the model rests due to the non- uniform nature of firms as well as nations. For Instance, countries differ on myriad ways such as capital and labor markets, nature of government. Involvement of government In the company and so forth. Similarly, firms differ from each other in various ways including size, growth, types of products, geographical location and technological advancement . Therefore, coming up with a detailed accounting system or a set of principles to fit all of these can be challenging.

Thus, FIRS uses a principle based system, rather than a rule based system which will allow the companies to apply FIRS according to their situation and prepare their statements. However, this flexibility can Itself be seen as a big down- side of this system. This will provide a way for companies to manipulate the statements which In turn can encourage fraud. Trance Cone comparing the fraud under the system of GAP and FIRS says that, As FIRS is

largely based on judgment in applying principles, it only stands to reason that the risk of fraud in the financial statements will increase with the change .

For example, Fair Value Judgment is one of the corner stones of FIRS system of accounting. However, It is unclear as to who gets to value things and how can these figures be checked for reliability. Thus, FIRS, which is created to form a uniform and transparent system of accounting can itself lead to non-multiform accounting practices with very little information about who makes the judgment behind numbers presented in the financial statements.

Furthermore, another crucial concern that rises with the implementation of FIRS is the balance between the capital allocation benefit of a uniform accounting standard against the social cost of forcing Economics from George Washington University . Hence, for a small company the cost of shifting from its current accounting practice to FIRS might be too high whereas for a big company it might be small. Furthermore, the time in which all the companies will have to shift from their old system to FIRS can decrease the quality of the financial statements.

Lack of experience in this new system of accounting can also increase mistakes making the system less accurate . Nevertheless, it is undeniable that in an increasingly more globalized world, a cross-border accounting system will immensely benefit firms and investors. This system will lead to investment comparisons between various countries, making investors better off. In fact, Marc Bogart, a Certified Public Accountant says that the single set of standards will cut down the costs to which foreign companies investing in the U.

S. Markets will have to adhere. He also believes that, the U. S. GAP standards along with other strict accounting regulations have long been deterrent to foreign companies trying to raise money in the U. S. Capital markets . Small investors will be benefited from this change, as they will have an access to more financial information which can be easily understood. In short, implementing FIRS will lead to easy to understand, clear and efficient financial data which will be made available to the general public.

Just the implementation of FIRS does not mean investors are protected against fraud or serialization of a company's financial statement. In addition, FIRS also has numerous short term problems that can have a huge impact on its initial adoption and implementation. However, company's and investors can protect themselves against risks by learning FIRS which will increase their understanding of the financial statement. This will not only help them to critically analyze the numbers represented on the statement but also help them to better compare and contrast one statement from the other nationally or internationally.