

Financial accounting
standards board
(fasb) and
international financial
reporting...



**ASSIGN
BUSTER**

This research paper is about two particular accounting standards, and how they will emerge to give better guidance for all public and private entities. This paper will address some of changes and issues faced during the process of convergence for both of these accounting standards. There are two separate convergence processes that took place. One is between The Financial Accounting Standards Board (FASB) and International Financial Reporting Standards (IFRS) and they are converging the reporting standard for revenue recognition. This is because different countries and different industries tend to report information much differently than each other. Its making it difficult for regulation when everything is reported differently. These changes will help all entities involved to have more guidance and report information more uniformly.

SOX

The Sarbanes-Oxley Act of 2002 was created to discontinue corporate fraud. (thebalance. com) The Public Company Accounting Oversight Board was thus formed and had the initial responsibilities of overseeing the accounting industry. What this law did was “ ban company loans to executives and gave job protection to whistleblowers.” (thebalance. com) This act was intended to hold CEO’s responsible for the errors in accounting audits. (thebalance. com) This was an intentional purpose to make sure that all publicly traded companies had independence and financial literacy of corporate boards. (thebalance. com) In this act it gave specific duties and responsibilities to management that had to be upheld in the strictest form of compliance. Management is required to safeguard the organization’s compliance with the requirements of the Act, section 302 and 404. (theiia. org) This act states <https://assignbuster.com/financial-accounting-standards-board-fasb-and-international-financial-reporting-standards-ifrs/>

that support for management is allowed from internal auditors. (theiia. org)

“ The internal auditors role in their organization s Sarbanes-Oxley project can be significant, but also must be compatible with the overall mission and charter of the internal audit function.” (theiia. org)

Requirements of the internal auditor include “ internal audit activity to evaluate and contribute to the improvement of the organization s risk management, control, and governance processes through consulting and assurance activities.” (theiia. org) The reason this process is completed in such a manner is to provide reasonable assurance with regards to the organization’s “ reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, regulations, and contracts.” (theiia. org) Therefore, the internal auditor’s capacity of allowed help is via “ consulting and assurance activities as outlined in the Standards as well as the Practice Advisories.” (theiia. org)

Role of US GAAP and IFRS

In short the US GAAP is supposed to provide a common frame work that managers and accountants can use to report financial information consistently in the U. S. (sec. org) “ IFRS are issued by IASB and they specify exactly how accountants must maintain and report their accounts. This method was established so that business and accounts can be understood from company to company and country to country.(fasb. og)

Convergence of U. S. GAAP and IFRS

<https://assignbuster.com/financial-accounting-standards-board-fasb-and-international-financial-reporting-standards-ifrs/>

It has come to the attentions of the FASB that there are different and even conflicting accounting principles that are utilized globally. With many businesses and corporations expanding internationally, it has become more and more difficult for accountants to constantly decipher between all the laws for each respected country. In 2005 the FASB decided to initiate six key initiatives to further the goal of convergence of U. S. GAAP with International Financial Reporting Standards. (fasb. org) These six initiatives are as follows:

- Joint projects which consist of the FASB and IASB sharing staff and resources to address Revenue Recognition and Business Combinations (fasb. org)
- The actual short term convergence project. This consists of GAAP and IFRS working together to come up with a uniform standards to achieve convergence (fasb. org)
- A liaison IASB member physically at the FASB offices. This person is designated to assist information exchange and increase cooperation between FASB and IASB. (fasb. org)
- FASB monitoring of IASB projects. (fasb. org)
- The convergence research project. “ The FASB staff is currently working on a research project related to convergence. This specific project seeks to identify all of the substantive differences between U. S. GAAP and IFRS and to catalog those differences. The project scope includes differences in standards addressing recognition, measurement, presentation or disclosure.” (fasb. org)
- Explicit consideration of convergence criteria and materials. The board has to consider 3 major factors

- (a) the possibility that resolution would increase convergence of standards worldwide,
- (b) the opportunities the topic presents for cooperation with other standard setters
- (c) Whether appropriate and sufficient resources are available for a joint or other cooperative effort. (fasb. org)

Ultimately the goal is to have all standards across the board to agree on a single, high-quality accounting answer. All of the organizations aim for long term convergence. “ However, there is an immeasurable need for the FASB and the International Accounting Standards Board, or IASB, to converge the high-level principles in their standards in the short-term, rather than the long-term, and so, much more needs to be done. We recognize there is a joint IASB/FASB project on accounting for business combinations. In order to achieve convergence in the short-term, however, the FASB and the IASB have to work together more closely than they have to date. To this end, the SEC has encouraged both the IASB and the FASB to re-examine their agendas in order to speed up their short-term convergence efforts.” (SEC. org)

Revenue Recognition

In any industry rather its transportation or sales revenue is an one of the most important factors a business. Therefore, it its also one of the most important “ measures used by investors in assessing a company’s performance and prospects.” (SEC. org) As mentioned earlier before businesses are expanding and its imperative that the standards keep up with

the changes. Business matters get complicated when countries and different industries use different standards and even verbiage. The standards were in need of improvement and thus the convergence idea was born. (SEC. org)

What the new Revenue Recognition hopes to achieve is that this new guidance will establish principles to report valuable information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. (SEC. org) The historical basis for the change is that the FASB wanted to improve inconsistencies and weaknesses, provide a more robust framework, improve comparability of revenue recognition practices across public and private companies and industries. (SEC. org) The standards have complicated the matter because these two separate entities have to come together and figure out how to make everything as uniform as possible. It's been difficult deciding what information is necessary to report. The goal is to keep the formats simple so that it's easier for all parties involved to comprehend the material. Other difficulties faced with the changes are industry specific transactions.

With all the changes the FASB also simplified this new guidance with a core principle. FASB states that "recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." (SEC. org) In order to do so properly and uniformly FASB has also illustrated the steps to help companies stay in compliance.

Those steps are:

1. Identify the contract with the customer

2. Identify the performance obligations (promises) in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognize Revenue when (or as) the reporting organization satisfies a performance obligation ((SEC. org)

The implementation date of for ASU 2014-09 was May 2014.

Topic 840-842

The Historical lease classifications were capital lease and operating lease. Under topic 840 the historical lease classification criteria has a few parts ownership transfer, bargain purchase option, lease term and minimal lease payment. (fasb. org) Under ownership transfer, ownership is transferred by the end of lease term. Under Bargain purchase Lessee has the option to purchase at a lower price than the fair value. Lease Term must be greater than 75% of the economic life of the leased property. Minimal lease payment, must be less than 90% of fair value of the leased property. (fasb. org)

The changes that result from this new guidance was made under repeated deliberations. What the board decided was “ that lessees should be required to recognize the assets and liabilities arising from leases on the balance sheet.” (fasb. org) Additionally, because the economics of leases can change drastically, those economic changes should be explained in the financial statements. (fasb. org) The Board wanted to include many simple changes because the requirements did not change between topic 840 and Topic 842.

<https://assignbuster.com/financial-accounting-standards-board-fasb-and-international-financial-reporting-standards-ifrs/>

(fasb. org) The board also kept the new guidance simple “ in order to reduce the cost and complexity of transition to the new guidance.” (fasb. org)

“ In addition to simplifications from the previous leases proposals, certain aspects of lease accounting have been simplified in Topic 842 as compared with the previous leases guidance in Topic 840.” Again all these simple changes were made to provide guidance, so that uniformity can be across all industries and other countries. The implementation date for ASU 2016-02 was February 2016. (fasb. org)

Bibliography

1. Amadeo, K. (n. d.). 4 Ways Sarbanes-Oxley Stops Corporate Fraud. Retrieved August 16, 2018, from <https://www.thebalance.com/sarbanes-oxley-act-of-2002-3306254>
2. I A R S 302 U. S. S -OXLEY ACT OF. (n. d.). Retrieved September 02, 2018, from https://na.theiia.org/standards-guidance/Public Documents/Act Internal_Auditings_Role_in_Sections_302__404__FINAL.pdf
3. FASB, Financial Accounting Standards Board. (n. d.). Retrieved September 22, 2018, from https://www.fasb.org/intl/convergence_iasb.shtml
4. Testimony Concerning The Roles of the SEC and the FASB in Establishing GAAP. (n. d.). Retrieved October 14, 2018, from <https://www.sec.gov/news/testimony/051402tsrkh.htm>

5. (n. d.). Retrieved October 16, 2018, from https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167901010&acceptedDisclaimer=true