International Research Journal of Marketing & Economics
ISSN (2348-9766) Impact Factor: 5.779
Vol. 7, Issue 2, February 2020

Website-www.aarf.asia, Email id : editoraarf@gmail.com

A STUDY OF THE EXISTING SCENARIO OF GLOBAL ACCOUNTING STANDARDS

PROF. MANE Y. S.
Assistant Professor, Department of Commerce.
Hon.B.J.ACS College, Ale.

Abstract:

Although Luca Pacioli, the The Father of accounting and book-keeping introduced double-entry book-keeping in 1494 in Italy and the same principles are followed all over the world, there are huge differences in Accounting practices followed in different countries. But with the passage of time, the world has become a global village so far as trade and commerce are concerned. This necessitates the one single set of Accounting Standards all over the world. The importance of harmonization of Accounting Standards is a globally accepted phenomenon at present. The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) are the two most significant Accounting bodies of the world. Although the convergence of IASB and FASB seems to be inevitable, there are mixed opinions on the issue. Questions have been raised about the possible obstacles as well as the costs and benefits involved in the process. This plans to study the recent developments in the process of convergence of IASB and FASB.

KEYWORDS: IASB, FASB, IFRS, GAAP, Convergence, Harmonization, Accounting Standards.

INTRODUCTION:

Financial reporting system requires the corporations to reveal the details of their financial position every year. The various parties like investors, regulators, employees, government, tax authorities and the general public as a whole rely on such reporting system for taking various financial decisions. Hence, the information provided in the financial statements must be presented in a uniform manner so as to enable the reviewers to compare the information to industry standards. Due to the globalization of the world economy, world leaders think that accounting standards across industrialized countries should be the same. The initiatives taken by International Organization of Securities Commission (IOSCO) towards propagating International Accounting Standards (IASs) as well as International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as the uniform language of business to protect the interest of the international investors more and more reflect the need of international harmonization of the Accounting Standards. IFRSs are accounting guidelines for preparing financial statements. Such standards are designed to replace each country's national Generally Accepted Accounting Principles so that financial statements from any corporate organization around the world can be evaluated and compared on a uniform basis. Implementing IFRS should lead to greater international harmonization with respect to the consolidated accounts of listed companies, because there are far fewer options in the IASB's standards compared with the EU's directives (JERMAKOWICZ, 2004).

"For different countries, the accounting standards are formulated by duly recognized and constituted authority keeping in mind: the objective of harmonizing the national accounting standards, and the legal provisions of accounting practices and other factors relating to that particular country.**"** (**Bajpayee and Srivastava, 2009**).

The U.S. accounting profession is undergoing a drastic change since International Financial Reporting Standards are becoming increasingly accepted. There is hardly any escape route from the orbit of IFRS. After years of negotiation, the Securities and Exchange Commission has decided that FASB and IASB should be converged. Convergence is, "to design and maintain national accounting standards in a way and those financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs." (ICAI, 2007, p.12).

In 2001, the IASC was reorganized into IASB (International Accounting Standard Board) with an objective to develop global standards and related interpretations that are now collectively known as International Financial Reporting Standard (IFRS). The need for the reorganization is that, if accounting is the language of business, then, business enterprises all over the world cannot continue to be speaking in different languages to each other while exchanging financial numbers from their international business facilitate the implementation (NYOR, Terzungwe, 2012).

OBJECTIVES OF THE STUDY:

1. To study the existing scenario of global accounting standards in connection with their harmonization.
2. To study the recent developments in the process of convergence of IASB and FASB.

METHODOLOGY:

The study is based on secondary data collected from internet, websites, books, articles, research papers, electronic media etc.

GLOBAL HARMONIZATION IN ACCOUNTING STANDARDS:

In their book “Comparative International Accounting” Christopher Nobes and Robert Parker have defined the term Harmonisation as ‘a process of increasing the compatibility of accounting practices by setting bounds to their degree of variation while standardization appears to imply the imposition of a more rigid and narrow set of rules.” The organizations that promote the harmonization of IFRS globally include the European Union, International Organization of Securities Commissions, International Federation of Accountants, World Trade Organization, International Monetary Fund, World Bank etc,

IASB AND FASB:

IASB is an independent accounting standard-setting body, based in London. It consists of 15 members from multiple countries, including the United States. The IASB began operations in 2001 when it succeeded the International Accounting Standards Committee. It is funded by contributions from major accounting firms, private financial institutions and industrial companies, central and development banks, national funding regimes, and other international and professional organizations throughout the world. While the AICPA was a founding member of the International Accounting Standards Committee, the IASB's predecessor organization, it is not affiliated with the IASB. The IASB neither sponsors nor endorses the AICPA's IFRS resources website (www.IFRS.com).

On the other hand, FASB (Financial Accounting Standard Board) was established in 1973. It is an independent, private-sector, not-for-profit organization based in Norwalk, Connecticut. FASB establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP). FASB is recognised by the Securities and Exchange Commission as the designated accounting standard setter for public companies. These standards are recognised as authoritative by many other organizations including State Boards of Accountancy and the AICPA. The FASB issues and develops Financial Accounting Standards through a transparent and inclusive process intended to promote financial reporting that provides useful information to the investors and other users. FASB is supported by Financial Accounting Foundation (FAF) which was established in 1972.

CONVERGENCE AND ADOPTION OF IFRS:

As per information updated on Oct 5, 2017, approximately **120** nations and reporting jurisdictions permit or require IFRS for domestic listed companies, although approximately 90 countries have fully conformed with IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports.

MAJOR DISTINCTIONS BETWEEN IFRS AND US GAAP:

At the conceptual level, IFRS is considered more of a principles-based accounting standard in contrast to U.S. GAAP which is considered more rules-based (Joseph, 2017). The following are the top ten distinctions between IFRS and US GAAP:

1. Locally vs. Globally: IFRS is a globally accepted standard for accounting, and is used in more than 120 countries as per latest updates whereas, GAAP is exclusively used within the United States and has a different set of rules for accounting than most of the world.

2. Rules vs. Principles: GAAP focuses on research and is rule-based, whereas IFRS looks at the overall patterns and is based on principle. With GAAP accounting, there's little room for exceptions or interpretation, as all transactions must abide by a specific set of rules. With a principle-based accounting method, such as the IFRS, there's potential for different interpretations of the same tax-related situations.

3. Inventory Methods: Last-In-First-Out (LIFO) method for inventory estimates is allowed under GAAP. But under IFRS, the LIFO method for inventory is not allowed. LIFO method of valuation for inventory does not reflect an accurate flow of inventory in most cases, and thus results in reports of unusually low income levels.

4. Inventory Reversal: IFRS and GAAP accounting also differ when it comes to inventory write-down reversals. GAAP specifies that if the market value of the asset increases, the amount of the write-down cannot be reversed, whereas under IFRS, in this same situation, the amount of the write-down can be reversed. Thus, GAAP is overly cautious of inventory reversal and does not reflect any positive changes in the market place.

5. Development Costs: Under IFRS, a company's development costs can be capitalized as long as certain criteria are met. Thus, a business is allowed to leverage depreciation on fixed assets. But under GAAP, development costs are not allowed to be capitalized.

Resistance faced in implementing IFRS:

Apart from the resistance faced by the implementing authorities in various countries, IFRSs present some disadvantages, particularly for countries that have well-established GAAP. For one thing, the first time cost of implementing a new accounting system and training of employees will be quite significant. Accountants and managers who have been using the old system for 20 or 30 years do not want to change because they feel comfortable with the system they learned in school or on the job when they were young. Those individuals also happen to be the people who are now in charge of enterprises and accounting departments, so their approval must be had before any new system can be adopted and implemented. (Robert W. McGee, Preobragenskaya, 2004).

The causes of resistance include:

1. **Lack of proper training facilities:** Corporations in various countries have experienced significant training costs in the process of adoption of IFRS. The cost of changing over to IFRS have been found to outweigh the benefits.
2. **Lack of proper details**: In an effort to achieve global standards that are acceptable to all, the IASB had to sacrifice a reasonable level of details that national standards currently enjoy as a result of the process of honing the standards over time. The arguments over the disadvantages of IFRS in the USA point to the fact that the IFRS is less detailed than US GAAP.
3. **Implementation costs**: The accounting profession in each country that adopts the new standards would have to bear the cost of implementation and training. The cost is a significant hurdle in the way of adoption of IFRS.
4. **The perception that the IFRS are a lesser standard than what is already in place in some countries:** For some countries, some of the disadvantages of IFRS outweigh the current benefits.
5. The International Accounting Standards Board (IASB) has promoted the adoption of IFRS that would apply worldwide and enable consistency in financial reporting, regardless of where the corporation is located.

IASB-FASB initiatives in the process of convergence:

The FASB and the IASB have been working together since 2002 to improve and converge U.S. generally accepted accounting principles (GAAP) and IFRS. The Securities and Exchange Commission (SEC) consistently has supported convergence of global accounting standards. Leaders of the Financial Accounting Standards Board and the International Accounting Standards Board pledged to continue their work together, even after completing their major convergence projects for harmonizing standards (Michael, 2017). International Financial Reporting Standards (IFRS) are becoming the global standard for preparation of public company financial statements (Christakos,2017). Approximately 90 countries have fully conformed to IFRS as promulgated by the IASB. In the U.S., full IFRS implementation is only allowed for private companies. In 2002, the IASB and FASB signed the "Norwalk Agreement." This memorandum of understanding committed their organizations to (a) make their existing financial reporting standards "fully compatible as soon as is practicable" and (b) "coordinate their future work programs to ensure that once achieved, compatibility is maintained."

CONCLUSION:

IFRSs assist preparers of financial statements to produce and present high quality, transparent and, comparable financial information. Besides, using one set of standards globally would have the potential to improve financial-statement comparability regardless of their domicile. In the European Union, member states whose securities are listed on EU regulated stock exchanges prepare, Consolidated Financial Statements as per IFRS. In Israel, Australia and New Zealand, IFRS has been adopted as national accounting standards. China has formulated local GAAP which are IFRS based, although some differences still exist. On 2 January 2015, the Press Information Bureau, Government of **India**, Ministry of Corporate Affairs (MCA) issued a note outlining the various phases in which **Indian** Accounting Standards converged with **IFRS** (Ind AS) is proposed to be implemented in **India**, for Companies other than Banking Companies, Insurance Companies. There seems to be worldwide consensus surrounding the need for one global set of high-quality accounting standards and that IFRS is currently the best positioned to fulfill that need. Hence, FASB must fully converge with IASB at the earliest so as to help the smooth running of international trade and commerce.

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