

AUTHOR

Alok Kumar Pramanik

Head,

Dept. of Commerce,

Bhatter College,

Dantan, Paschim

Medinipur, West Bengal.

International Accounting Standards

True Esperanto of Accounting Through Countries.

ABSTRACT

Globalisation has created an increasing need for communications which are internationally comprehensive and comprehensible, and financial information is no exception. It is for this reason that international standards in accounting are so important. The concept of establishing International Standards for accounting was germinated around the turn of 19th century in the first International Congress of Accounts held at St. Louis in 1904. Further, the drastic changes in the science and technology and changes in political reorganizations of the nations and their alliances have brought importance to the International Accounting Standards. The present paper is a broad essay comprising multinational facts about the IASs. It is concluded in this paper that enormous benefits will flow from convergence of accounting standards worldwide.

1. INTRODUCTION

In 21st Century, we have entered the world which will operate on a global basis rather than a national basis. Globalization has created an increasing need for communications which are internationally comprehensive and comprehensible, and financial information is no exception.

Some businesses are listed on the international markets, other only on domestic markets; but the investors in many of these enterprises can come from variety of countries, particularly if these investors are institutions. Investors need to be able to base their decision on information that is consistent, transparent and comparable across national boundaries. It is for this reason that international standards in accounting are so important. The International Accounting Standards Committee (IASC) is trying to formulate the accounting standards, as “International Accounting

Standards”, which can be followed globally.

2. INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE : ORIGIN AND HISTORY

The concept of establishing “International Standards” for accounting was germinated around the turn of the 19th Century in the first International Congress of Accountants held at St. Louis in 1904. Again in 1957, when 7th International Congress of Accountants held in Amsterdam, Mr. Jacobkraayenhof, spokes on the need and urgency of international accounting cooperation and standardization. Later in 1966, discussions were held among the various professional bodies like Institute of Chartered Accountants of England and Wales, Canadian Institute of Chartered Accountants and Association of the Institute of Certified Public Accountants of

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America. The discussion were led by Sir Henry Benson, the then President of the Institute of Chartered Accountants of England and Wales. And ultimately, a Study Group was formed, named as Accountants International Study Group. This study group was to conduct comparative studies of the accounting thought and practice among the participating countries.

It issued about twenty studies on accounting and auditing topics during its life of eleven years. Ultimately, the Senior Officers of the member bodies of Accountants International Study Group met and decided to establish international standards. This meeting was held in 1972 at the 10th International Congress of Accountants at Sydney, Australia. And the International Coordination Committee for Accounting Profession (ICCAP) was formed to lay the ground work for the establishment of a formal organization for the international standards. In 1973, 29th June, International Accounting Standards Committee came into existence with its headquarter at London, as a result of an agreement by sixteen accounting bodies from nine nations i.e., Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom & Ireland and the United States of America.

In 1973, the International Accounting Standards Committee was formed with two objectives, which are :

- i) to formulate and publish, in the public interest, accounting standards to be observed in the preparation of financial statements and to promote their world wide acceptance and observance ; and
- ii) to work generally for the improvement and harmonization of

regulation, accounting standards and procedures relating to the presentation of financial statements.

International Accounting Standards Committee is currently has 153 accounting bodies representing 112 countries.

3. RELEVANCE OF INTERNATIONAL ACCOUNTING STANDARDS

The drastic change in the science and technology and changes in political reorganizations of the nations and their alliances have brought importance to the International Accounting Standards. Signing up of the WTO Agreement by 175 member nations on January, 1995, formation of European Union on January, 01,1992, Unification of two Germany in October, 1995, Latin America Free Trade Agreement, South Asian Association of Regional Council (SAARC), formation of Association of South East Asian Nations (ASEAN) etc., are most important.

These changes resulted in increase of multinational corporations, global corporations and worldwide spread joint venture, collaborative economic activities, direct investment in foreign equities, issue of Global Depository Receipts (GDRs) . And ultimately, the capital became greatly mobile and the investment in land production decisions are made on a global basis. The result is that the size of the user groups of financial statement increased tremendously which necessitated standardization. International Accounting Standards are necessary for the following purpose :

- i) to attract global entrepreneurs and investors and thus to increase the rate of investment and to win their confidence by the country ; and

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- ii) to integrate the individual (national) economy to the international economy.

4. INTERNATIONAL ACCOUNTING STANDARDS : PRESENT SCENARIO THROUGHOUT THE GLOBE

The International Accounting Standards Committee has made remarkable progress towards its goal of achieving worldwide convergence of accounting standards since its formation in 1973. From its inception until the date of its transformation to the new International Accounting Standards Board (IASB), it has passed three historical phases. In the earlier years (i.e. in the first phase), the International Accounting Standards Committee attempted to establish a common body of standards on major accounting topics, such as for inventory, leases, and for long-lived assets. The highlights of the second phase in the IASC's evolution was "comparability/ Improvement Project" that culminated with promulgation often revised standards that took effect in 1995. The standards are : IAS 2, IAS 8, IAS 9, IAS 11, IAS 16, IAS 18, IAS 19, IAS 21, IAS 22 & IAS 23.

The International Accounting Standards Committee entered its third and final phase in 1995, when it embarked on a mission to complete, what had been defined as the "comprehensive core set of standards". The 1995 agreement between the International Accounting Standards Committee (IASC) and International Organization on Securities Commission (IOSCO) followed growing recognition of the need for global accounting standards that could

be used for cross-boarder listing and national listing alike. International Organization on Securities Commission had previously approved only IAS - 7 , "Cash Flow Statements", as being acceptable for use by companies registering securities in IOSCO's member nations and, was in 1995, agreeing to accept most (but not all) of the other IASs if certain changes were made. International Accounting Standards Committee completed these changes and promulgation of required new standards at year-end 1998.

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In December, 1999, the Board of International Accounting Standards Committee has approved proposal to make change in the structure of the Committee with a view to achieve global convergence. The constitution of newly structured International Accounting Standards Committee has set out three objectives, which are :

- * to develop, in the public interest, a single set of high quality understandable and enforceable global standards ;
- * to promote the use and rigorous application of these objectives; and
- * to bring about convergence of national and international accounting standards to reach high quality solutions.

The third objective is much more focused and definite than the objective in the former constitution which was simply "to work generally for the improvement and harmonization of regulations".

The International Accounting Standards Committee has been reconstituted as International Accounting Standards Board (IASB). The accounting standards are issued by the International Accounting Standards Board with a view to facilitate global harmonization by consolidating respective National Accounting Standards through the Accounting Standards Boards (ASBs) constituted in respective countries. The accounting standards issued by the International Accounting Standards Board are also known as International Financial Reporting Standards (IFRS).

Most importantly, the Board composition of the new IASC includes seven members that also serve as liaison to the national standard setting bodies. The idea is that these members will work to harmonize their national standards with international accounting standards thereby making it more possible for more companies to accurately state their financial statements are in compliance with international accounting standards and national GAAP. The extent to which the International Accounting Standards Committee is successful in working with these seven national standard setters via their liaison board members to achieve convergence of standards is a paramount importance in achieving global acceptance of one set of high quality accounting standards.

In spite of the restructuring of International Accounting Standards Committee, it continues to face major obstacles to achieving its goal of world-wide recognition and acceptance of International Accounting Standards and their effective application in practice. The completion of this core set of standards was a major achievement in this regard.

The accounting world waited for over four years for a favourable nod from IOSCO, signifying an endorsement of the IASC standards that would make a major milestone in the globalization of financial reporting. The much waited report from the world's securities regulators was accepted and published in May,2000.

In September, 2002, in a joint meeting Financial Accounting Standards Board (FASB – Authority who issues US-GAAP) and International Accounting Standards Board, both have acknowledged their commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-boarder financial reporting. Both the organization pledge to use their best efforts to :

- i) make their existing financial reporting standards fully compatible as soon as it is practicable ; and
- ii) coordinate their future programmes to ensure that once achieved, compatibility is maintained.

In October, 2002, the FASB and IASB announced the issuance of a “memorandum of understanding” (Norwalk Agreement), making a significant step towards formalizing their commitment to the convergence of US GAAP and International Accounting Standards. The FASB has undertaken the following six key initiatives to further the goal of convergence of US GAAP with International Financial Reporting Standards (IFRS) :

- 1. Joint Projects being considered with the IASB in the areas of Revenue Recognition, Business Combinations and Financial Reporting by Business Enterprises.

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It can be said that the IOSCO endorsement of the IASC standards will lead unification of accounting standards globally and emergence of the true artificial language designed for global use in the field of accounting.

2. The short-term convergence project.
3. Liaison IASB members on site at the FASB office.
4. FASB monitoring of IASB Projects.
5. The convergence research project.
6. Explicit consideration of convergence potential in all Board agenda decisions.

The Basel Committee on banking supervision, an international organization of bank regulators, undertook a review of IAS at the request of the G7 Finance Ministers and Central Bank Governors. The review focused of fifteen IASC standards that have a significant effect on bank and paid special attention to two standards, which are IAS 30 and IAS 39. The Basel Committee on Banking Supervision completed its comprehensive review of the IAS in April, 2000 and on the basis of their review the Committee announced its support for the IASC standards. Greek Government passed a legislation and made it mandatory for all companies listed on the Athens Stock Exchange to adopt International Accounting Standards for preparing financial statement from the period beginning after 31st December, 2002. Both individual and consolidated financial statements are to be required to follow IAS under this statute, but it is optional for the other entities that are audited by the Institute of Certified Accountants and Auditors of Greece to use IAS.

At present, most of the leading Stock Exchanges around the world accept listing based on financial statements prepared in accordance with international accounting standards. IAS-friendly stock exchanges included in the list are in London, Zurich, Luxemburg,

Rome, Australia, Amsterdam, Cyprus, Hong Kong, Stockholm, Copenhagen, Thailand etc. A new Pan-European Securities Market, known as EASDAQ, now permits the use of IAS by its registrants. The Federation of Euro-Asian Stock Exchange (FEAS), with twenty members in eighteen nations in Europe (outside EU) , Central and South Asia, and the Middle East, has recommended that its member should require the use of international accounting standards. It can be said that the IOSCO endorsement of the IASC standards will lead unification of accounting standards globally and emergence of the true artificial language designed for global use in the field of accounting. Today, the accounting world feels that International Accounting Standards should be that common language, as it is only set of standards that has been prepared through wide international consultation.

5. CONVERGENCE OF ACCOUNTING STANDARDS

Significant diversity in accounting standards of different nations not only posses the problem of additional costs to be incurred for financial reporting but could cause other difficulties for multinational companies. They have to report under the standards of different countries. It exhibit extremely odd financial results that could sometimes also be embarrassing.

From the standpoint of the users of financial statement (i.e., bankers and investors), it is rather difficult to make relative evaluations of companies that use diverse accounting standards. Thus, convergence of accounting standards worldwide will greatly help the users of accounting and financial information in

making economic decisions about these companies. From the standpoint of preparers of financial statements, the burden of financial reporting would be minimized with increased harmonization. It is well known fact that multinational groups that have subsidiaries in different countries suffer from added costs of

- preparation of financial statements. This
- means that huge additional financial costs
- have to be incurred not only for preparing
- such financial statements but also in getting
- them audited. So it is obvious that
- enormous benefit will flow from
- convergence of accounting standards
- worldwide.
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