Harmonizing of the Financial Report
-Why does countries accounting rules differ from one country to another, what is being done to get the financial report more comparable and why does the world accept IAS/IFRS?

International Financing Accounting 7,5hp
Master program
Index

Index........................................................................................................................................... 2
1 The financial report ............................................................................................................. 3
  1.1 Why do we need to harmonize the financial report .............................................. 3
  1.2 What makes the differences between countries accounting system? ............... 4
    1.2.1 Provision of finance ...................................................................................... 5
    1.2.2 The existing legal system ............................................................................. 5
    1.2.3 Link between accounting and taxation ....................................................... 6
    1.2.4 Culture ......................................................................................................... 6
  1.3 The definition of harmonization in accounting ....................................................... 7
  1.4 What has been made to harmonize the financial report: Standards- from the beginning to today .................................................................................................................. 8
    1.4.1 IFRS for Small and Medium sized companies.............................................. 9
    1.4.2 The conceptual framework ......................................................................... 10
  1.5 The IAS/IFRS as a principle based standard ........................................................ 12
2 Discussion and conclusion ............................................................................................... 14
3 Reference list..................................................................................................................... 16
1. The financial report

Why do we need a harmonization of the financial report, who uses the financial report, why does accounting rules differ around the globe and what is being made to harmonize the accounting around the world. In this theoretical reference part I will try to give the reader an understanding of the subject and try to answer the questions mentioned above.

1.1 Why do we need to harmonize the financial report

When we look and accounting and the history, we can see that accounting rules has grown up independent of one and others and this have done that they have been formed differently in the countries. Practice, regulation, the size and volume of the regulations has differed greatly. Although countries grew up independently, German has had the biggest influence on continental Europe regarding, how to do accounting. They were the leading country on accounting until world war two. This is why, for example, Sweden and the Nordic countries have an accounting system that is very much alike the German system\(^1\)

Numerous years ago, companies were mainly doing business with other companies inside the national boarders but the global economy, the financial market and the instant communication process have changed and is changing the countries accounting system towards being more like each other and this is a continues process\(^2\).

As the world got “smaller” companies started to operate in different countries and they were also starting to raise capital on different capital markets. This evolution increased a demand for a more harmonized accounting standard. With a more harmonized financial report it would lead to an increase in the comparability of financial information and it would also give the users more transparency towards the financial information (Alexander, et al 2009).

When you have two financial report which are based on different accounting policies, it makes it almost impossible to compare the two reports, it is like comparing two weights with each other and one items weight is kilo and the other is pounds (Ibid).

Entities in different countries have a range of various in their financial statements. You could say that companies who are located in countries with standard setters who allow more choices in regards to recognition and measurement issues, have more accounting flexibility in the presentation and valuation of their assets, liabilities, earnings and financial position. This could be a positive thing for the companies, but they have to face a problem when they compare companies with one another. If both of the comparing companies is in countries with flexibility in accounting it is impossible to compare them. It is easier for companies to compare performances in countries with very little accounting flexibility because this gives the company very little choices (Alexander, et al 2009).

Differences between national GAAPs (general accepted accounting principles) makes a company look different depending on the countries accounting rules. Take the German Company Daimler Benz for example. They were the first German company to list on the New York stock exchange. When the company did their financial report according to German GAAP their net income was 615 million Deuche Mark and when they did the statement

\(^1\) Arne Fagerström lecture, Accounting Diversity between Countries and Languages and Reporting from Foreign Subsidiaries, 091005.
\(^2\) Stefan Olsson, lecture, Deviation from GAAP 090915
according to US GAAP the net income became -1,893 million DM. This shows that a lot of information about a company may be lost in translation between two accounting regimes. One more example is when Vodafone UK would translate their statement from UK rules to IFRS rules. They went from a loss of -3,195 million Pound to a profit of 3,615 million Pound (Meeks, G. & Swann, P, 2009).

Financial reporting turns to the external users and they have to rely on regulation in order to obtain information about an entity. It is the persons outside the management that the financial reports reaches to, and provides information to. Users of the financial report all need different information, there could be different information about the same items. They need to have information that are mainly forward looking. (Alexander et al 2009).

A financial report should contain and consist of information that is useful to the users and the information should be:

- understandable, the report must be adapted to the abilities and knowledge of the users concerned,
- reliable, the information should have credibility,
- complete, a total picture of the entity should be shown,
- objective, the information given should be neutral,
- timeliness/relevant, the information should be up to date,
- comparable, you should be able to compare the business information one year with information another year. You should also be able to compare information with a different business the same period or a different period.

The figures that the accountant’s presents to the users of the financial report have to be provided through communication and it has to be understood by the user (Alexander et al 2009). Communication is very important in accounting, and when we involve different countries, it could be very hard to understand one and other. If we don’t understand something, the problem does not exist. The problem occurs if we think that we understand each other but we don’t and that is when misunderstandings take place. Accounting is locally oriented and in order to prohibit misunderstandings we have to communicate.

1.2 What makes the differences between countries accounting system?

Accounting grew up independent in every county and one big factor that made de different between countries was the national environment. This factor is unlike everywhere and this is the main reason to why the financial report is different in characteristics. The standard setters and accounting bodies in countries have chosen different alternatives for recognition, measurement and presentation of assets, liabilities, equity, revenue and expenses. They have chosen those solutions that best fitted their national environments. The factors, such as Economic and environmental are differences that lead to the difference in accounting systems. These accounting systems produce differential national or domestic accounting standards also known as GAAP (generally accepted accounting principles) (Alexander et al 2009).

---

3 Dominique Rachez lecture, Introduction to IFRS and employee benefit, 090915.
4 Arne Fagerström lecture, Accounting Diversity between Countries and Languages and Reporting from Foreign Subsidiaries, 091005.
An example on the differences in accounting is that in Sweden we have to accrual (balance) an income or a cost to the period it belongs to. For instance we pay rent one month in advance, and then we have to accrual the cost/income to the period it belongs to. In the US they have to book it on a profit and loss account at once. (föreläsning 091005, Arne Fagerström)\(^5\).

The most important factors which have made these differences in the countries accounting are: provision of finance, the existing legal system, the link between accounting and taxation and the cultural differences between societies. These four variables shapes the existing accounting systems, the accounting values and financial reporting practice in countries around the world. (Alexander et al 2009)

1.2.1 Provision of finance

*Provision of Finance* tells us how the countries entities are oriented. Countries are separated into two groups, they are either *shareholder* oriented or they are *creditor/family* oriented.

- Shareholder oriented is those countries where the companies are mostly financed trough equity. This means that the financial statement must provide the kind of information, which a potential shareholder is interested in. Countries that are shareholder oriented are among others United States, United Kingdom and Sweden.

- In those countries where companies rely more on debt finance, the financial statement is creditor oriented. This means that the information that is provided through the annual accounts must be useful to judge whether a company is able to pay the debt. Countries that are creditor oriented are Germany, France and Spain. (Alexander et al 2009)

1.2.2 The existing legal system

*Existing legal system* is a big factor for the differences that exist. The western world consists of two types of legal system, the common law system and the code law system.

- The common law system was developed in England and is the legal system that is the most used in the commonwealth countries. It is characterised as being developed case by case. It does not prescribe general rules that could be applied to several cases. Accounting law is not part of the law, thus it is regulated by professional organisations within the private sector. Countries that follow common law are United States, Australia and Canada.

- The code law system dates back to the Roman law and is used in continental Europe. In contrast to the common law system, the code law is characterised by a wide set of rules which tries to give guidance in all situations. Company law is very detailed and accounting standards are often embodied in the company law. The regulations are being set by the government and the financial report is often reduced to comply with a few set of detailed legal rules\(^6\). Countries that answer to code law are France, Germany and Spain (Alexander et al 2009).

\(^5\) Arne Fagerström, lecture, Accounting Diversity between Countries and Languages and Reporting from Foreign Subsidiaries, 091005.

\(^6\) Stefan Olsson lecture, Deviation from GAAP, 090915.
1.2.3 Link between accounting and taxation

The *Link between accounting and taxation* can either be strong or weak. In countries where the link is strong the fiscal authorities use the financial statement to determine taxable income. In continental European countries (Sweden, Germany) expenses are tax deductible only if they are also recognised in the profit and loss account. This is resulting in that the financial report becomes tax influenced or even tax partial. In countries like USA, UK and the Netherlands the linkage between accounting and taxation is much weaker. Here there are separate accounts filed for tax purpose. This results in that measurement and recognition rules and estimates that are used in the tax accounts can differ from the valuation rules used to prepare the financial statements which are published for all external stakeholders (Alexander et al 2009).

*Countries:*

- Norway
- Germany    Sweden Finland
- England    Denmark    USA

\[\begin{array}{llllll}
\text{Profit and loss decides} & \text{the tax (a strong link)} & \text{Profit and loss according to tax law (weak link)} \\
\end{array}\]

*Figure 1:* This figure shows how strong the link is between accounting and taxation in countries around the world (RSV 1998:6).

The relationship between accounting and taxation does not have to be the same over a long period of time. The introduction of the International Accounting Standards (IAS) has had, and will have, an impact on the relation between accounting and taxation. This will especially be seen in countries with a strong relationship and it will be even more shown when small and medium sized entities will start the use of IFRS in the future (Alexander et al 2009).

1.2.4 Culture

*Cultural differences* are one major factor that contributes to the differences that occur between national accounting systems. This is an important influence factor on reporting and disclosure behaviour with regard to the financial statement. Accounting standards are directly influenced by cultural environment in which they are developed (Alexander 2009).

Culture are defined as, “*the collective programming of the mind which distinguishes the member of one human group from another*”. This means that culture must be viewed as a social construction that enables humans to understand their surrounding world. Humans are hypnotized and also assign specific values to their own reality. This creates certain principles or laws that are considered as the norms within their group. These norms will eventually develop into social institutions and their norms vary from one group to another. They are affected by race, geographic and other factors that have made an impact on the group (Marrero & Brinker 2007).

Our reality and manner in which we take in our surrounding are custom-made by our cultural or socially constructed experience. One professor named SJ Gray further developed another professor’s work and made up a new hypothesis. He used Hofstede’s four dimensions of national culture (*individualism versus collectivism, large versus small power distance,*
femininity versus masculine and large versus small uncertainty avoidance) and applied them to the accounting values which are: professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism and secrecy versus transparency. Gray’s study came to the following conclusions and links:

- If a country rank individualism high they see this as professional. A national culture that allows individuals to take care of themselves tends to favour individual professional judgement over statutory control. Professional self-regulation ranks higher as a cultural and quasi moral value.

- A country that ranks high in terms of uncertainly avoidance and power distance is more likely to rank high in terms of uniformity. National cultures that have a tendency to avoid risk and uncertainty tend to implement consistent accounting values.

- When a country ranks high in terms of uncertainty avoidance, this implies that they rank high in terms of conservatism. These are countries where the national culture favours a conservative and cautious approach to accounting practices.

- The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity, the more likely it is to rank highly in terms of security. These are the national cultures that prefer to avoid risk and favour collectivism over individualism. They are more inclined to maintain higher security and confidentiality about their businesses.

(Marrero & Brinker 2007)

The cultural dimensions identified by Hofstede and the accounting values that Grey applied to them shows that it is very hard to understand the dimension of national culture. This is a reminder that tells us that it is even harder to try to reconcile the world’s cultural mix within an international framework for accounting standards. (ibid)

1.3 The definition of harmonization in accounting

Financial reporting is a communication process. Harmonization is the coordination where two or more objects merge together and becomes more similar. One way of harmonizing the financial report is to create standards (Van der Tas 1998).

Standards are not only a mean of achieving harmonization of financial reports, they are also an object of harmonization themselves thus the companies are often confronted with differing and sometimes conflicting national standards. When you harmonize a financial report it is called material harmonization and when you harmonize a standard it is called formal harmonization. Formal harmonization is a mean of accomplishing material harmonization by coordinating the national standards. When you harmonize the applied accounting methods it is called measurement harmonization (ibid).

Material measurement harmonization makes the degree of comparability better between companies. This can contribute to that more companies in the same situation will apply the same accounting method to an item or give further information. This could lead to that a larger sum of companies can compare the financial reports with each other (Van der Tas 1998).
There are different ways of harmonization and you should make a difference between them. At the lecture with Rimmel\(^7\) we talked about harmonization on “the de jure level” and harmonization on the “de facto level”. “The de jure level” is when you harmonize with rules and regulations and harmonization on the “de facto level” is the cooperating use of accounting in the practice\(^8\).

There are three strategies for harmonization that are in use in the world right now:
1. Standardisation with uniform rules without possibilities to choose. This model is applied by the FASB (Financial Accounting Standard Board, in USA),
2. “Equal” rules with notes. This model have dominated the EU,
3. Choice alternatives, but desired alternative has been indicated. This model has dominated the IASB\(^9\) (International Accounting Standard Board).

If we have alternative choices with equal rules, it will lead to standardisation which in this case leads to harmonization\(^10\).

### 1.4 What has been made to harmonize the financial report: Standards- from the beginning to today

When the economy went global, the instant communication and financial markets grew worldwide; a demand for a change in how the countries reported its financial reports was in need. The fourth EU directive is the one directive made to regulate the financial report. It was established 1978 its main content is that published financial statement should show a true and fair view\(^11\).

In 1990 the European commission understood that the fourth directive was too broad and to slow worked as a tool to further develop the harmonization process. The European Commission then began to support the International Accounting Standard Council (IASC) and its rules (Alexander et al 2009).

IASC are an organisation with a main purpose to coordinate the accounting in the world and they aim to harmonize standards. They also coordinate and oversee funds that go to International Accounting Standards Board (IASB). IASB created the International accounting Standards (IAS) that nowadays is called IAS/IFRS (International Financial Reporting Standards)\(^12\).

A huge step towards harmonization began in the late 1990s when numerous multinational companies made the decision to voluntary switched over to IAS. The reaction on the capital market was positive since this was perceived as a way of reducing the asymmetric information between firms and investors. This voluntary switch also lead to that companies became divided in to two sets of groups. The first group were companies that subsequently started to apply accounting rules such IAS/IFRS, US GAAP and UK GAAP, also known as high-quality” standards. The other group was consisting of small and medium sized domestic companies that were not listed on the stock market (Alexander et al 2009).

---

\(^7\) Gunnar Rimmel lecture, Current international developments, 090929
\(^8\) Gunnar Rimmel lecture, Current international developments, 090929
\(^9\) Gunnar Rimmel lecture, Current international developments, 090929
\(^10\) Gunnar Rimmel lecture, Current international developments, 090929.
\(^11\) Stefan Olsson lecture, deviation from GAAP, 090915.
\(^12\) Dominique Rachez lecture, Introduction to IFRS and employee benefit, 090915.
In year 2000 the European commission suggested that all listed companies had to use one set of accounting standards for financial reporting and it became IAS/IFRS. This mandatory accounting begun in 2005 and meant that all entities in the EU had to publish an IAS/IFRS consolidated financial statement. For companies which were not listed, a proposal was made that gave the government in each country the decision about how the unlisted companies would follow IAS/IFRS or not (ibid).

The IAS/IFRS is not only spreading in Europe but also worldwide. The worldwide use of these standards will increase in the nearest future since authorities in countries have decided to move towards compulsory use of IAS/IFRS for listed companies. We are going towards one set of standards in the world. Although we move forward towards one set of standards, this will not be achieved if the American Security and Exchange Commission (SEC) do not accept the IAS/IFRS for listening purposes without reconciliations towards US GAAP (ibid).

The world is driven towards a global harmonization of reporting practise. And in the effort of making the financial report more comparable you might think that the national influence has vanished from the reports, this is not the case. National influence still plays a big role in the quality of the financial report. Not all countries travel towards the IAS/IFRS in the same speed. The domestic accounting standards of the less developed countries often cover fewer issues than IAS/IFRS. There are two ways in which the national GAAP can differ from IAS/IFRS. The first one is divergence and happens when both the national GAAP and IAS/IFRS cover a specific accounting topic but recommends different methods. The second one is absence and occurs when the National GAAP does not cover an accounting issue regulated by the IAS/IFRS (Ding et al 2005).

1.4.1 IFRS for Small and Medium sized companies

In 1998 the IASC saw that a demand for a special version of the international accounting standard for small and medium enterprises existed. A working group was installed in 2003 and in 2004 a preliminary publication was made of the views on accounting standards for small and medium entities. With in a few years, a draft was made and the final IFRS for SMEs were published in July 2009. This is a self controlled accounting standard containing simplified measurement and recognition criteria with reduced disclosures for none publicly accounting entities.\(^\text{13}\)

The general idea of the IFRS for SMEs is to contain more simplifies rules such as:

- financial instruments meets special criteria, they are measured at cost or amortised cost with all others measured at fair value through profit or loss
- goodwill and other indefinite-life intangibles are amortised over ten years or their estimated lives where reliably determinable
- equity accounting of associates and joint ventures may be measured at cost
- joint venture entities cannot be proportionately consolidated all research and development costs and borrowing costs are expensed
- certain income tax accounting principles are consistent with the approach set out in the recent Exposure Draft issued by the IASB

\(^{13}\) Hanno Kirsch lecture, IFRS for SME’s, 090901.
• review of the residual values, useful lives, and depreciation/amortisation for property, plant and equipment and intangible assets need only be conducted upon indication that a change may have occurred since the previous period
• investment property may be carried and treated as property, plant and equipment that is measured at cost if fair value cannot be measured reliably without undue cost
• impairment of goodwill calculations simplified property, plant and equipment must be carried at cost.

(Mackay 2009)

1.4.2 The conceptual framework

A conceptual framework or a theoretical framework are a type of intermediate theory that attempts to connect all aspects of inquiry such as problem definition, purpose, literature review, methodology, data collection and analysis. Conceptual frameworks developed by accounting standard setters are mainly based on identify “good practice” from which principles have their origin from. Good practice is related to the assumed objectives of financial reports. The Conceptual framework is essentially normative, since they seek to provide a set of principles as guide to setting and interpreting accounting standards (Alexander et al 2009).

The IASB version on the Framework is called the Framework for the preparation and presentation of Financial Statements and was issued in 1989. In the United States they have their own framework. This was developed by the FASB in the 1970s (Alexander et al 2009).

A few years ago a convergence project was launched between the IASB and the FASB. The primary motivation for the joint project was to unite the two frameworks. To provide a consistent and logical foundation for the future accounting standards which are principles-based, internally consistent and internationally converged, this needed to be done. Convergence is not the only motivation, there is also improvement, and is as important as convergence14.

There are two aspects for improving the joint framework, the first one is to fill in gaps in existing standards that both of the frameworks lack. One major gap is the need of guidance to measurement. The second is to remove internal disagreement to improve consistency (Alexander et al 2009).

The project is not fully finished and is divided in different sections, some are ready and some that still haven’t started. The project has eight phases and you could see a few of them beneath (table 1)15.

14 Hanno Kirsch lecture, Conceptual framework, 090831.
15 Hanno Kirsch lecture, Conceptual framework, 090831.
### Conceptual Framework Project and its process forward

**Estimated publication date**

<table>
<thead>
<tr>
<th>Documents currently being developed</th>
<th>2009 Q3</th>
<th>2009 Q4</th>
<th>2010 Q1</th>
<th>2010 Q2</th>
<th>2010 H2</th>
<th>2011 H1</th>
<th>2011 H2+</th>
<th>MoU</th>
<th>Joint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase A: Objectives and qualitative characteristics</td>
<td>Final Chapter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase B: Elements and recognition</td>
<td></td>
<td></td>
<td>DP</td>
<td></td>
<td>ED</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Phase C: Measurement</td>
<td></td>
<td></td>
<td>DP</td>
<td></td>
<td>ED</td>
<td></td>
<td>Final Chapter</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Phase D: Reporting entity</td>
<td>ED</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Final Chapter</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

DP=discussion paper ED= Exposure draft

**Table 1**: this shows the framework and how long the project has gotten until this point in time (IASB 2009).

Even if the project is not ready a summarise of phase A can be done. This tells us how objective and qualitative characteristics of a financial statement/financial report should be.

**Objective**: The purpose of financial reporting is to provide information about the reporting entity. The information has to be useful for present and potential investors, lender and other creditors in making decisions in their capacitor provider. The relevance for achieving objective is to produce information that helps present and potential investors, creditors and others to assess the amounts, timing, and uncertainty of the entity’s future cash inflows and outflows. If the financial information is useful or not determines by the qualitative characteristics.

**Qualitative characteristics**: The information has to be relevant, and this means that the information has to be capable of making difference in the decisions and helping the users to evaluate the potential effect of past, present, or future transactions. The information also has to have faithful representation which means that the information must have a trustworthy representation of the real-world economic phenomena that the information is intended to represent. It needs to be neutral, have completeness and be free from material errors. The report also has to have comparability, verifiability, timeliness, and understandable which are the fundamental qualitative characteristics.

To develop a joint conceptual Framework which derives from separate frameworks is something that probably will influence the development of accounting standards for a long time (Carmonda & Trombeta 2008). A reminder is that the framework is not an IAS/IFRS and does not override those rules. If there is a case of conflict between the Framework and the IAS/IFRS, then the IAS prevails (Alexander et al 2009).

---

16 Hanno Kirsch lecture, Conceptual framework, 090831
17 Hanno Kirsch lecture, Conceptual framework, 090831
1.5 The IAS/IFRS as a principle based standard

The harmonization of accounting standards has made a huge progress within a relatively short period of time and a big step forward was made in November 2007. The US Securities and Exchange Commission (SEC) then allowed foreign private firms which used IAS/IFRS on the New York stock exchange without first reconciliation their financial statement to US GAAP (Carmonda & Trombetta 2008).

A number of forces have driven acceptance towards a common set of accounting standard such as political integration, the globalisation of financial markets and that firms operate in different jurisdiction. This can to some extend explained the globalisation of these standards but it can not explain everything (ibid). To create a system with common rules which is accepted to everyone means that you have to, as close as possible, make a system with, close to no rules at all (Meeks & Swann 2009).

A quote made by Tim Berners-Lee, the creator of the Word Wide Web (WWW) standards said a clever thing when making global standards:

“Making global standards is hard. The larger the number of people who are involved, the worse it is. In actuality people can work together with only a few global understandings and many local and regional ones. Operating on such partial understanding is fundamental, and we do it all the time in the non electronic world” (Berners-Lee 1999, referenced in Meeks & Swann 2009).

Looking at the IAS/IFRS you could see that the standard is principle based instead of rules based. A principle based system recommends and prefers a general accounting standards. As a different to rules based systems, accounting standards of the principles point of view do not tackle every controversial issue that occurs but keeps considerable uncertainty about such major process as record keeping and measurement (Carmonda & Trombetta 2008).

A parallel between global accounting standards and standards for the WWW could be made. At first glance, people might think that the WWW is a powerful example of what can be achieved if we have an “ever-present” global standard which is broad in range. But in fact the standards that do exist on the WWW and the standards are based on the Lowest Common Denominator (LCD) of communication (Meeks & Swann 2009).

The big achievement with the WWW is that a Lowest Common Denominator (LCD) set of rules would suffice the most function. The rules that exist are for how and when computers can talk to each other. When computers “talk”, they choose a language in which they can understand each other. If they both make a routine to use the same application software, they can choose that as the common language. If they do not, they can both translate into HTML. It may put some constraints on the extent to which they can share information and some things are lost in translation, but HTML is enough for many of the most basic exchanges (ibid).

The IAS/IFRS rely on the principle-based system to set accounting standards. This system, in turn provides flexibility to make it possible for the standards to be globally accepted. The principle based approach brings a number of fundamental changes and new skills for accountants and auditors. The IAS/IFRS standards constitute a step forward in the process of accounting harmonization but there is still a long way to go in the comparability of accounting measures across countries and region (Carmonda & Trombetta 2008).
The IAS/IFRS standards have gained global acceptance and implementation. Countries using rules based systems as well as those who use principle based systems now apply IAS/IFRS standards. At the same time common law countries and those with a civil law tradition also implement these standards. Moreover countries with diverse national cultures evenly apply the standards set by the IAS/IFRS. This global acceptance to the standard is resting on its principle based nature as well as on it striving notions of openness and flexibility (ibid).
2 Discussion and conclusion

A harmonization of the financial report is in great need and the process has come a long way towards a global understanding. Although it is as Alexander et al (2009) says, that one set of standards will not be achieved if the American SEC (Security and Exchange Commission) does not accept the IAS/IFRS for listening purposes without reconciliations towards US GAAP.

USA is a big country with great influence in the worlds economic and they have to make an effort to join the rest of the world. Because many entities in Europe and in the rest of the world, do business with the US it would be preferred for every one if they all used the same method for compliance of the financial report, it would further everyone.


This shows that USA have started to realise the big beak threw that IAS/IFRS has had in Europe and the rest of the world. This could maybe get USA to move towards the IAS/IFRS rules.

Another good thing that came out of IAS/IFRS is the IFRS for SMEs. This is a “special” version of the international accounting standard for small and medium enterprises. It filled the demand that existed for these companies and is a move towards a harmonization for entities outside of the stock markets18.

I think that this will raise the quality on the financial report for these companies and is something that is good for both the investors and the companies it self. These are the companies that are in need of some guidance and help so these rules will be a good thing.

To comply with the IAS/IFRS is not always the easiest to do and conceptual framework or a theoretical framework are a type of intermediate theory that attempts to connect to all aspects of inquiry, such as problem definition, purpose, literature review, methodology, data collection and analysis. The project of the joint Conceptual Framework seek to provide a set of principles as guide to setting and interpreting accounting standard19.

It is good that this Conceptual Framework which combines the two different frameworks (USA and Eourepe) is on the horizon because this will give a more practical approach on how to solve problems and give guidance that occures in the accounting process.

The project by the IASB and the FASB, to develop a joint conceptual Framework which derives from their own separate frameworks, is something that probably will influence the development of accounting standards for a long time (Carmonda & Trombetta 2008).

18 Hanno Kirsch lecture, IFRS for SME’s, 090901.
19 Hanno Kirsch lecture, IFRS for SME’s, 090901.
It will become a tool for guidance that the entities can use when they don’t know what to do or how to interpret the rules, but the companies have to understand that this framework do not have the status of IAS/IFRS and does not override these standards.

The IAS/IFRS standards are based on principle to set accounting standards. This system provides flexibility to make it possible for the standards to be globally accepted. The IAS/IFRS standards have gained global acceptance and implementation because of just that it is principle based (Carmonda & Trombetta 2008).

It makes it easier for the world to accept this standard because a principle based standard is very flexible when considering new and changing products and environments. These rules also require less maintenance but it also give the user less guidance how to use them which could be negative. This is why I think that the framework is important.

The principle based system has similarities with the LCD (lowest common denominator) which was used in making the WWW standards. This LCD could be an approach for the international standard setters. If they aimed towards a basic LCD level of acceptable disclosure the local standard setters in each country would be oblige to follow the core set up by IAS/IFRS but would be free, if they wish, to have individually rules for the local market (Meeks and Swann 2009).

This is an interesting point of view in seeing how a standard of as few rules as possible became reality. Of course, a principle based standard is made of lesser rules and more flexibility but there is still principle that rules. If the standards setters would have used the LCD method the entire meaning with the harmonization of the financial report would collapse. The meaning with the harmonization is to have some principles that rule the financial report and what to have in it. LCD would take us back to a place with a lot more flexibility and this could give us financial reports with a lot of fantasy and it will also make the compares between companies harder.

It seems as if this principle based system works quite well in the world. Countries that uses rules based systems as well as those who use principle based systems now apply IAS/IFRS standards. Furthermore, countries with diverse national cultures evenly apply the standards set by the IAS/IFRS.

This global acceptance to the standard is resting on its principle based nature as well as on it striving notions of openness and flexibility (Carmonda & Trombetta 2008)

There will always be a cultural influence on the financial report. That is something that I think never will go way totally. The IAS/IFRS standards seems to be a standards that works in minimizing the cultural influence the best way, but we will not know what the future of accounting standard have in it sleeves, it remains to be seen.
3 Reference list


- Rapport från Riksrevisionen, RSV 1998:6; *Sambandet mellan redovisning och inkomstbeskattning*.


Internet
