The Quiet Revolution: A Brief Introduction to Accounting Harmonization

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The practice of accounting is governed by a conceptual framework of generally accepted principles. Unlike the natural sciences, the practice of accounting is not confined by a set of absolutes. “The first appearance of the double entry system of accounting in Europe coincided with the introduction of algebra during the early 13th century … mathematicians … may well have developed the concept of double entry accounting which, after all, is based on an equation.” (Hain, 1970, p. 240 as cited in Chambers, 2004) From the 13th century forward, accounting practices have been influenced by the cultures in which the discipline is practiced.

In the Unites States, the majority of all accounting practices are based on the conceptual framework of Generally Accepted Accounting Principles (GAAP). GAAP, once the gold standard of accounting and financial management transactions throughout the world, is increasingly being applied in conjunction with newly emerging international accounting standards. The expansion of multinational corporations has created a demand for standardized international accounting practices. The International Accounting Standards Board (IASB), formerly the International Accounting Standards Committee, began developing a conceptual framework of accounting principles and financial management reporting constructs that will effectively harmonize the practice of accounting throughout the world (International Accounting Standards Board, 2006).

Initially, the United States Financial Accounting Standards Board (FASB) has established a timetable for convergence with international accounting standards by 2009 (IASB, 2007). However the recently publish SEC Roadmap to IFRS has shifted the convergence process out to 2014 (SEC, 2008). In the coming years how convergence and implementation of International Accounting Standards (IASs) with US GAAP will impact accounting and financial management
practice of smaller publicly traded corporation in the United States will be of increasing significance. Awareness is the starting point of the planning and strategic implementation process for such a global paradigm.

Expanding the Existing Body of Knowledge

The paradigm shift away from US GAAP began in 1973 with the formation of the International Accounting Standards Committee. A recent survey of the world’s six largest accounting firms indicated that 90% of the 59 countries surveyed intend to adopt the international accounting standards (“Problems dog convergence, 2003). Nearly half of the US firms surveyed did not know what international accounting standards are according to the research firm Coda (“Problems dog convergence, 2003”). If one were to make a general assumption regarding the US firms surveyed, it could be argued that the representative sample taken from the world’s six largest accounting firms represent large, multinational corporations that are domiciled in the United States. It could be inferred that is larger corporations are not aware of or prepared to adopt IASs; the smaller publicly traded firm are unaware and ill-prepared to adopt the new standards as well.

Yuri Biondi and Tomo Suzuki have begun to study the socio-economic impacts of international accounting standards (Biondi & Suzuki, 2007). Biondi and Tomo posit that convergence of accounting standards assumes that Fair Value Accounting, a core component of IASs, fair. However, the researchers assert that Fair Value Accounting is inequitable due to the inherit flaws of International Accounting Standards. Assertions such as those presented by Biondi and Tomo support additional research on the impact of adoption of IASs by smaller US. Theoretically, US convergence could become mandatory; requiring all publicly traded organization to present financial performance based on IASs. The Securities Exchange
Commissions (SEC) has set a timetable for allowing foreign corporations traded on United States stock exchanges to be reporting financial performance using International Financial Reporting Standards in 2014 (SEC, 2008).

The global economy continues to expand. Countries such as Canada, Japan, Korea and India have committed to convergence of national accounting standards with international standards. Declarations such as these mark a shift away from the accounting standards of the United States. The research of U.S. convergence will examine implementations strategies of other countries. Benchmarking best practices emerging countries that have migrated to IASs could provide a working framework for IASs implementation for smaller publicly traded organizations within the United States. The implementation of the Sarbanes-Oxley Act of 2002 is a practical example of the adverse impact that federal mandates can have on smaller public organizations.

In addition to tactical standard migration considerations, additional research is needed to evaluate potential cultural issues that could become obstacles to effective standard convergence and migration. The research of Renato Camodeca examines the transition process to IASs by smaller European nations; citing cultural differences as an obstacle to convergence.

The Practitioner/Scholar/Leader model of the University of Phoenix appears to support the development of research interests that have practical applications. The study of how convergence of existing generally accepted accounting principles with emerging international accounting standards is a timely topic.
References


