The Establishment of Global Accounting Standards and the Development Trend of IASB/FASB

Zixuan ZHANG
Hubei University for Nationalities

Abstract: In modern transportation, communication, information, network and other high-tech means, economic globalization has become the most obvious feature of the current international economic development. Economic globalization urgently requires accounting standards to be uniform and comparable worldwide. Accordingly, the International Accounting Standards Board (IASB) and financial accounting standards board (FASB) set out the strategic objective of developing and implementing a set of high quality, understandable and enforceable Global Accounting Standards. The international financial reporting standards (IFRS) can not only improve the transparency and comparability of exchanges, but also play a better role as the international common business language for financial information. Moreover, it can greatly reduce transaction costs and improve the credibility of financial information.

Keywords: Global Accounting Standards; Objective of Financial Reporting; FVA; Accounting Standards

DOI: 10.47297/wspciWSP2516-252703.20200406

Recently, consolidation of global accounting standards has been widely accepted by many major regimes for its potential improvement on financial reporting quality. Nevertheless, this progress also induces controversy, especially when related to the Global Financial Crisis, raising suspicions regarding the quality of international financial reporting rules. Accounting experts and researchers list some problematic points relevant to FASB/IASB, such as neglecting the role of steward-

About the author: Zixuan ZHANG (1987-05), Female, Han Nationality, Born in Enshi, Hubei Province, Associate Professor, Hubei University for Nationalities, Bachelor’s Degree, Master’s Degree, research Interest: Research on Financial English Teaching.
ship, over-dependent to Fair Value method and providing a consistent accounting standard for various capitalisms. For all this, standardising global financial reporting rules is still the optimal choice over diversifying standards in different systems, although the FASB/IASB conceptual framework still needs to be improved. This essay first looks at the objectives of financial reporting, then it examines issues regarding Fair Value application, and finally it discusses the accounting standards in various capitalisms.

1. Objectives of Financial Reporting

Although much effort was put by FASB/IASB, aiming to achieve a consolidated framework of global financial statements, there are many disagreements on consolidated framework. One major concern involves the recognition of the stewardship role of financial reporting. American Accounting Association regarded that the Preliminary Conceptual framework places much emphasis on the investment role of accounting and nevertheless neglecting the stewardship role. The UK Shareholders Association (UKSA) also blamed FASB/IASB, reasoning that their joint proposal could affect the shareholders’ interests severely if approved. It is supported by a number of researchers that stewardship should to be recognised as a separate objective of financial reporting as well as decision-usefulness. Stewardship gives an important dimension to financial reporting. It should not be recognised simply as the information to help ‘stewards’, such as management and directors to evaluate the competence and integrity, but also the information which provides a platform for management to have a constructive dialogue with shareholders. It seems that stewardship could not help management to make right economic decisions but also benefit to shareholders. Therefore, FASB/IASB should regard stewardship as an independent role as well as decision-usefulness in joint conceptual framework. However, parallel objectives may results some confusions and conflicts in real situation. FASB/IASB should be careful about the relationship between these two roles.

2. Fair Value Accounting

Relating to the recent financial crisis, the debate of reliability of FV measure has been arising among many experts. The main debate is relating to the assumption of complete and perfect market on which FV accounting is based. FV as a measurement is conducted based on the assumption of complete and efficient mar-
kets, whereas the assumption itself may be unreasonable due to the reality. Besides, there are other issues contributing to the minuses of FV measure. The main issue is that limited information to different information users in the real world may cause variable prices, which leads to unfair competition among various market participants. In other words, it violates the perfectly competitive market principle, which is an underlying assumption of the FV method. Secondly, the potential “price bubbles” in accounting statements generate under such FV view. Specifically, once the market is inefficient, unrealistic price appreciation showed on the final accounting statement may produce unreliable numbers, which absolutely hurts the benefit of shareholders by allowing greater managerial manipulation. Finally, it was unwise to ignore the historical cost accounting information on investment activities. A reason for historical costs being the original value of assets is based on stable measurement, and thus it should be taken into thorough consideration. FV perspective is not logically right because it is unrelated to the real world condition and even cannot be calculated properly. All above arguments seem to suggest that FV may not be perfectly reasonable when applied to the real world. Although the questionable complete and perfect assumption, the possible merits of the FV method should not be neglected. Opponents of fair value accounting (FVA) mainly claim that FV adds to the severity of the crisis, especially in the period of global financial crisis (Cayirli, 2020). However, there is lack of evidence to prove that FV measurement could increase financial crisis. Besides, FVA seems relatively reliable when applied to corporate valuations and it benefits security markets given the markets are of good liquidity and efficiency. FV as a measurement based on current market prices disclosed in financial statements can satisfy investors’ demands, and it may benefit passive investors and creditors. According to this, the value of FV should be more fairly viewed when setting an accounting standard, although it questionable to assume that market is complete and perfect. Furthermore, history costs disclosed in a financial report which recognises FV can be seen as a solution to make FVA more reliable to users. Undoubtedly, the debates between opponents and proponents regarding the application of FV have been growing dramatically, which cannot be ignored by setters. Perhaps there are further researches required to explore the reasonable and reliable practice of FV method in financial reporting.

3. Variety of Capitalism Versus Variety of Accounting Standards

The variety of economic and political bodies around the world was defined based on the social scientific study and a single set of financial standard does not
fully express the hierarchy view of the economy in different countries. The variety of financial standards could create positive circumstances for unexpected issues in complicated social phenomenon by providing a wide range of selections. Nevertheless, it is yet questionable that the variety of capitalism requests diversified financial standards to fit in. If different capitalism economies use different accounting standards, then unlisted firms would not need to adapt to a foreign accounting system, and listed companies in different markets could be allowed to choose between respective standards or, alternatively, choose the IASB/FASB standards. Then, these solutions conflict with some basic functions that accounting standards were meant to achieve when invented, such as comparability and ease of interpretation. If companies adopt their preferred accounting standards for financial reporting, the comparability of financial reports could be considerably low due to differentiated guidelines (Tarca A, 2020). Similarly, the ease of interpretation of different financial reports under respective standards can be lowered, because these solutions may raise the financial and time cost in processing accounting information. Low comparability and high costs yielded in financial reporting systems may obstruct key components of world economy, such as international investments, international acquisitions and accessibility of foreign markets. Moreover, an obstacle that limits the accessibility of foreign capital markets for companies is produced by allowing various accounting standards. Since the majority of multinational companies strive to maximise capital, sometimes foreign capital markets are likely to satisfy the companies’ demand. Finally, variety of accounting standards is conductive to problems in the consolidated financial statement preparing. If each subsidiary of a multinational company only prepares financial statements under local regulations, the emphasis on local accounting rules, laws and currency tend to be troublesome during the consolidating process of reports. A barrier for multinational companies is to translate the financial statements of overseas subsidiaries effectively without losing important items. Hence, it appears that the varieties of accounting standards may also cause internal problems such as difficulties in consolidating statements, especially to multinational companies.

To be effectively implemented in various countries, global accounting standards should have a certain degree of enforcement or potential enforcement (Enforceable). The current IFRS is not compulsory, because IASB/FASB has no right to require a country to implement its standards. The influence of IFRS mainly comes from its own high quality and authority. This essay argues that standardised accounting rules bring more benefits to global economy and accounting quality
than diversified rules do, although further research and improvements are still needed. It comes to find that the actual performance of single standard is not as negative as some authors speculates. However, it admits that FASB/IASB have certain flaws in their conceptual framework that requires amendment, such as imbalanced emphasis in roles of financial reporting. There is also an urgent need for further research in some key sections, such as the FVA. Merits of standardised reporting rules like comparability and ease of interpretation can be extended if the above fundamental disadvantages are solved.

**Works Cited**
