

Topic: Country Differences in Accounting Standards

Paper Type: Coursework

Word Count: 900 words

Pages: 04 pages

Referencing Style: Harvard Referencing

Educational Level: Graduation

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Ans- 1) Benefits of IAS for Investors and Business Enterprises

In the past, various accounting practices followed in nations made difficult for Investors to assess the financial reports of companies operating in different companies. The International Accounting standards are essential phase of the financial reporting and they support investors in their decision making. According to Barry (2010), the educated investors require useful and relevant information to make informed decisions over their investment. It maintains and safeguards the confidence of investors that the business they are investing is worthwhile.

By the implementation of IAS, the interests of investors are ensured as the financial statements they reviewed were genuine and accurate. In the light of investors they are concerned with the repayment over their investment and the level of return over the investment.

In business point of view the trust of investors will help corporations to easily issue the shares in Stock exchange. This also reduces the cost of capital as less risk is inherited by the investors and it also enhances the image of business in the international market. The preparations of financial costs are also reduced.

Business enterprises have to apply IAS to ensure the smooth running of cash flow and business. By adhering to the standards, the Business can assess their performance with their competitors or other companies. It will also prevent Businesses from incurring legal expenditures initiated by the government for those companies does not meet regulatory compliance. The financial statements prepared in accordance with IAS will help business to improve the operations and maintain good relationships with their users of financial statements. It will help to better negotiate with suppliers, customers and lenders.

Ans-2) Potential Risks & Challenges faced by Nations due to implementation of IAS

The International standards are more focused towards rules based and their complex structure is affecting small and medium sized entities. The IAS has become difficult to apply on audits of financial statements. Achievement of IFRS (International Financial reporting standards) depends upon the functioning of IASB (International Accounting Standards Board) that benefit from the market participants around the globe. In order to secure the assurance, the IASB needs to secure a constant funding and suitable governance procedures to assure that standards process is free from influence of various components.

A substantial number of countries have implemented IFRS in order to realise the benefits of accounting standards. It is necessary that IFRS is followed by nations in a similar manner that was issued by IASB. There should also be a system to assure that auditing standards adopted by auditors aid constant application of IFRS. In order for US to effectively transfer to IFRS, it demands significant investment and effort from all the market participants.

There are some of the challenges faced by nations due to the Transition of IAS. This would raise the education and training requirements for the accountants, auditors, investors and those people involved in the preparation and users of financial statements. This would create the need of academic studies based on IFRS at the university level and increased requirements for the accounting bodies to restructure their courses.

Many Businesses will have to upgrade their Accounting Software to reflect the reporting requirements of IFRS. The regulators will have to adjust with the new disclosure requirements. The Investors and Lenders will have to become aware with financial statements prepared in accordance with IFRS.

Ans-3)

The listed companies of UK adopted IFRS in 2005. The IFRS is affecting US companies along with the subsidiaries of UK companies in America. Currently US GAAP (Generally Accepted Accounting Principles) is followed for reporting purpose and the adoption of IFRS will brought major changes in preparation of financial reports. Currently the companies of US are facing indirect influence of IASB standards due to their adoption by foreign subsidiaries mainly in seller and customer transactions (Barth, 2008).

Before the adoption of IFRS standards in China, the accounting standards followed in china were similar to US GAAP. The IFRS requires accountants to give more time over assessing accounting practices on corporate transactions in principle based accounting standards. In the early years of IFRS adoption, a considerable rise in audit fees was found in Chinese companies (Chan, 2006). The criteria mentioned by IASB in IFRS standards are likely to extend all corporate of china in near future. The rise in audit fees indicates that accounting firms will have to incur extra efforts and costs in auditing financial statements prepared in accordance with IFRS.

It can be stated that the adoption of IFRS will impact more over financial performance of Chinese enterprises rather than US enterprises. The US FASB (Financial Accounting Standards Board) and IASB are working in collaboration to develop quality standards which will be less costly and can be easily adopted, whereas the auditors and preparers of financial statements in china do not have expertise under IFRS. The IFRS adoption raises the complication under financial reporting performance of china.

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