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Convergence of Accounting Standards: The Continuing Debate

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Abstract: This study examines the continuing debate of convergence of accounting standards. Accounting standards are policy documents issued by recognized accountancy bodies relating to the measurements, treatments and disclosures of accounting transactions. Therefore, converging these standards reduces the differences in financial reporting practices between nations for comparability and interpretation in international financial statements. To achieve the objective of this study, relevant secondary data were obtained from accounting journals, text books and internet materials and the analysis was mainly descriptive. The findings show that converging accounting standards is very important because of the current globalised nature of businesses worldwide and the benefits of nations stand to achieve from convergence of standards. However, it is necessary to note that convergence of accounting standards does not make financial reports more reliable but rather standard setters should concentrate more on ethical issues of integrity, objectivity, accountability, independence that promotes reliability, comparability, consistency and quality financial reports than issues of converging standards without taking into consideration the dynamics of culture and business practices across nations.

Key words: Accounting, accounting standards, convergence

INTRODUCTION

Accounting standards are authoritative statements aimed at narrowing the areas of differences and varieties in accounting practice (Okaro, 2002). Sunder (2002) stated that accounting standards are important regulatory devices of accounting. They serve as a contract template among parties who participate in a firm, such as management, creditors and investors. Das *et al*. (2009) in their study of "Convergence of accounting standards: Internationalization of Accounting" made these submission that: accounting standards are the policy documents issued by recognized expert accountancy bodies relating to various aspects of measurements, treatments and disclosures of accounting transactions and events, as related to the codification of Generally Accepted Accounting Principles (GAAP). Khanagha *et al*. (2011) argue that accounting standards furnish counseling on how accounting information should be recorded, reported and interpreted. Thus a need arose for standardization to enable users of accounting reports understand them properly and be in position to compare the accounting statements of one company with those of another. However, these standards are only possible for easy comparison within a given country. According to Ezejelue (2001), the intricacies and absurdities of national accounting practices are still so enormous as to be almost unbelievable. A need for common and generally accepted accounting and reporting standards is painfully obvious. For it is extremely difficult and in many cases impossible, for fair comparisons to be made between companies from different countries. He further argue that the problems created by the divergence in accounting standards, particularly in furthering global integration of world economies, are so enormous that the pressure for global convergence of accounting standard is mounting.

The issue of convergence of accounting standards has been a subject of increasing academic debate (Weetman, 2006; Lewis and Salter, 2006; Chand and White, 2007; Perera and Baydoun, 2007; Chua and Taylor, 2008; Irvine, 2008; Chan *et al*., 2010). The question of whether all countries should adopt single global accounting standards seems to be a foregone conclusion. However, the issue that is increasingly debated is the process of convergence. IFAC (2004) explored the challenges and success in implementing IFRS and observed that achieving international convergence, however, requires more than theoretical support. It requires reaching consensus as to the international standards that will serve as the foundation for financial reporting and auditing globally, determining how to facilitate the adoption of those standards and ultimately, taking the actions necessary to encourage implementation. The problem that convergence is expected to solve is the current inefficient reconciliation barrier that prevents foreign firms from accessing local markets.

The impediments to convergence identified by the comprehensive IFAC (2004) study include the following:

The adoption and implementation of the international standards in a country takes place in an environment that is affected by factors unique to that country, for example, the economy, politics, laws and regulations and culture. A reason cited in IFAC (2004) by countries for not fully converging to IFRS is that countries find it necessary to amend the international standards to provide for national specificities (IFAC, 2004). Therefore, the objective of this paper is to examine the convergence of accounting standards. To achieve this objective, the paper is divided into five sections. The next section examines the literature review. The third section presents the materials and methods. The fourth section presents discussion and the final section the concluding remarks.

LITERATURE REVIEW

The nature of convergence: Convergence of accounting standard describes the efforts to reduce the major differences between International Financial Reporting Standards and national accounting standards for the production of quality financial reports. The convergence of accounting standards refers to both a goal and the path taken to reach it (FASB, 2011). The FASB believes that the ultimate goal of convergence is a single set of high-quality, international accounting standards that companies worldwide would use for both domestic and cross-border financial reporting. The path toward that goal is the collaborative efforts of the FASB and the International Accounting Standards Board (IASB) to both improve U.S. generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRS) and eliminate the differences between them.

Worldwide convergence of accounting standards has received much attention in academic and professional accounting literature. Some argue that the differences in culture and business environment between developed and developing countries are so vast that one set of standards can be useful to both kinds of countries. Others contend that, if international standards are flexible enough to allow for differences in culture and business practices across nations, then one set of accounting regulations may be useful to develop and developing countries (Kinsey, 2006).

Benefits of convergence of accounting standards: The benefits of convergence of accounting standards would be lower transactions costs for preparers of financial reports, since they would be able to comply with a single set of accounting standards, instead of multiple sets. In addition, the following major benefits are anticipated to arise as a result of convergence of accounting standard:

- The general network externalities that flow from widespread usage of common standards
- Improved comparability among different entities' financial statements

Network externalities: Network externalities describes the phenomenon whereby each person's benefit from using a particular set of standards increases in accordance with the number of each individuals who also use the same set of standards. Consequently, if multiple users adhere to the same accounting regime, the aggregate benefits to all users will exceed the sum of each individual's private benefit (Economides and White, 1994). This direct positive externality arises because the widespread usage of one set of standards saves users of financial information the time and energy of having to learn to apply and interpret multiple sets of standards. If the externality did not exist, each firm would follow its own rules and the need for standards would be redundant. It is commonly agreed that network externalities apply to accounting standards. Indeed, the very existence of uniform national accounting standards would appear to be evidence of that fact.

Comparability: The second major benefit which is regularly offered as the most compelling justification for convergence of accounting standards, is that it will enhance comparability between entities'' financial statements for managers and investors. This benefit is essentially a subset of the "network externality". It is said that investors' ability to evaluate entities by comparison is impaired when these entities subscribe to different accounting standards. Therefore, common standards would assist investors and managers when making decisions in the capital markets. This implies that a company's financial statements are valuable not only as a source of information about that particular company, but also as a point of reference against which other companies in the same industry may be evaluated.

According to Obazee (2008), there are many potential benefits to be gained from convergence of accounting standards. Convergence cut the costs of doing business across boundaries by reducing the need for supplementary information. They make information more comparable, thereby enhancing evaluation and analysis by users of financial statements and reducing user costs. Internationally converged standards also help maintain credibility of financial reporting to the public and increase the efficiency of auditing that information.

Hati and Rakshit (2002) argue that a financial reporting system of global standard is a prerequisite for attracting foreign as well as present and prospective investors at home alike that should be achieved through convergence of accounting standards.

Costs of convergence of accounting standards: A quantitative assessment of the expected costs of

convergence between IFRS and local standards ought to be conducted before convergence. Unfortunately, no such comprehensive costs estimates are presently available, which likely reflects the fact that such data is difficult to obtain. Convergence would generate both one-off transitional costs and the on-going costs of maintaining a standard-setting for global accounting principles. In the short-term, successful convergence would involve protracted negotiations among IFRSB and local standards boards, as well as the various national standard-setters and regulators, government officials and interested professionals with vested interest in participating in the convergence process. This would require the expenditure of a significant amount of time and money. Direct compliance costs would also arise as a result of the need to retrain preparers, users, auditors and regulators to apply and interpret the converged global standards. The national accounting standard setters would incur further direct costs as a result of the reduced demand for their publications and services.

Convergence would also impose a cost on issuers by depriving them of the ability to choose to operate in jurisdictions where the accounting rules best reflect the nature of their business. A large body of empirical evidence supports the theory that firms choose to follow a portfolio of accounting policies that maximize their contractual positions, particularly in relation to debt and management remuneration, and that firms could thus sustain substantial costs if forced to adhere to new accounting rules.

Furthermore, convergence would have the effect of replacing two separate monopoly standard-setting with a super-monopoly, which would be likely to amplify the usual monopoly inefficiencies that result in a lack of innovation and flexibility in the standards ultimately produced. The global monopoly standard-setters might also be prone to inefficient over-regulation, since it would lack the competitive incentive to restrain its regulatory impulses and might therefore be expected to promulgate more and more standards, even though more optimal alternatives might exists.

Another related concern would be that the eventual standards produced by a global standard-setter would be product of political compromise, rather than the most optimal accounting outcome. The setting of accounting standards is a matter of political interest because a new standard will potentially transfer wealth from one sector of society to another. This wealth transfer effect creates incentives for private interest groups to lobby the standard setters, or the government or body that ultimately controls it, in order to influence the standard-setting process.

In the context of accounting standards convergence, it is inevitable that the most politically and economically powerful nations would come to dominate or capture the standard-setting process to ensure standards are formulated in their national interests, rather than in the common interests of the global capital markets. Thus, true internationalization of standards may not be possible in reality, and further costs may arise as a result of potential capture of the global standard-setter.

In a similar vein, Obazee (2008) stated that convergence of accounting standards have some inherent problems. This is due to the competing perspective of different nations, along with the universal tendency to resist change. In the words of Obazee (2008):

> a fundamental problem with accounting standards convergence is that the compromise in the negotiation of the standards often leads to a "lowest-common-denominator" approach. On the regulatory side, some actions that are designed to promote international comparability may actually detract from comparability within a particular market.

Empirical studies: A number of studies have yielded empirical evidence which tends to support the convergence of accounting standards. Barth *et al*. (2007) compare characteristics of accounting amounts for companies that adopted IFRS with a matched sample of companies that did not, and find that the former evidence less earnings management, more timely loss recognition, and greater value relevance in accounting amounts than the latter. Daske and Gebhardt (2006) document that the quality of financial statement disclosures was materially improved by the application of IFRS. The quality of disclosure, key elements of transparency, is evaluated by experimental financial statement users (accounting scholars) in various business journals in several countries, and the study covers Austrian, German, and Swiss reporting entities' result. The results show that disclosure quality, as perceived by the experts in their annual report ratings, increased significantly under IFRS, both statistically and economically, in all three countries. Young and Guenther (2003) put forward a similar argument: "greater disclosure of value-relevant accounting information will reduce information costs more for foreign investors and therefore reduce their information disadvantages". Peng *et al*. (2008) document that in China the convergence of accounting standards has been a conduit to the convergence of accounting practices.

Brief history of convergence of accounting standards: The convergence of accounting standards is not a new idea. The concept of convergence first arose in the late 1950s in response to post World War 11 economic integration and related increases in cross-border capital flows. Initial efforts focused on harmonization-reducing differences among the accounting principles used in major capital markets around the world. By the 1990s, the notion of harmonization was replaced by the concept of

Table 1: Chronology of the evolution of converge of accounting standard

Year	Event
1960	Calls for international standards and some early steps
1962	8th international congress of accountants is held-many see a need for international accounting and auditing standards
1962	The American institute of certified public accountants reactivates its committee on international relations
1966	The accountants international study group is formed
1967	The first textbook on international accounting is published
1973	The international accounting standards committee (IASC) is established
1979	Financial accounting standard board forms first task force that includes representatives from international standard setters
1987	The IASC embarks on its comparability and improvements project
1988	The FASB becomes a member of the IASC consultative group and a non-voting observer at IASB meetings.
1988	The FASB expresses support for internationalization of standards
1991	The FASB issues its first strategic plan for international activities
1993	The FASB and the accounting standards board of Canada undertake joint project on segment reporting
1993	The FASB and other standard setters form the G4
1994	The FASB and IASC undertake their first collaborative standard setting
1995	The FASB updates its strategic plan and undertakes a project to compare U.S. GAAP and IASC standards
1995	The IASC undertakes a core standard program; the international organisation of securities commission agree to review those standards
1996	The U.S. congress expresses support for high-quality international standards
1996	The SEC announces its intent to consider the acceptability of use of IASC standards by foreign private issues
1998	The Asian financial crisis prompts more calls for international standards
1999	The FASB publishes its vision for the future of international accounting standard setting
2000	The SEC issues a concept release on international accounting
2001	The IASC is reconstituted into IASB
2002	The European Union decides to use international financial reporting standards
2002	The norwalk agreements: The FASB and IASB agree to collaborate
2003	The SEC reaffirms the FASB as the U.S. private sector standard setter
2005	SEC staff speech provides a proposed roadmap to the elimination of the reconciliation requirement
2006	The FASB and IASB issues a memorandum of understanding
2007	The SEC proposes and subsequently eliminates the reconciliation
2007	The SEC issues a concept release on possible optimal use of IFRS by U.S. issuers
2007	The FASB responds to the SECs concept release on possible optional use of IFRS by U.S. issues
2007	The FASB and IASB issue converged standards on business combinations
2008	The FASB and IASB update their memorandum of understanding
2008	The SEC issues a proposed roadmap to adoption of IFRS in the U.S. and a proposed rule on optional early use of IFRS
2009	FAF and FASB issue their comment letter on the SECs proposed roadmap
2010	SEC issues a statement in support of convergence and global accounting standards
2010	FASB reports periodically on the status of their project to improve and converge U.S. GAAP and IFRS
2011 February	The FAF and FASB provide feedback to the IFRS foundation on its strategy review
2011 March	Report of the meeting of national standard-setters
2011 April	Progress report on IASB-FASB converge work

FASB (2011)

convergence-the development of a single set of high-quality, international accounting standards that would be used in at least all major capital markets.

The International Accounting Standards Committee, formed in 1973, was the first international standards-setting body. It was reorganized in 2001 and became an independent international standard setter, the International Accounting Standards Board (IASB). Since then, the use of international standards has progressed rapidly. As of 2009, the European Union and over 100 other countries either require or permit the use of international financial reporting standards (IFRSs) issued by the IASB or a local variant of them. The FASB and the IASB have been working together since 2002 to improve and converge U.S. generally accepted accounting principles (GAAP) and IFRS. As of 2009, Japan and China were also working to converge their standards with IFRSs. However, the following is a chronology of some of the key events in the evolution of the international convergence of accounting standards:

Table 1 shows the chronological development of the current debate of converging accounting standards. The table content shows the development of convergence of standards from 1960 when calls for international accounting standards was introduced to regulate international financial reporting to April 2011 that shows the progress report on International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) work to converge accounting standards internationally for different nations to apply in the preparation of quality and reliable financial reports.

Nigerian accounting standards board-statement of accounting standards: The Nigerian Accounting Standards Board (NASB) was incorporated under the Companies Act 1968 and was formally inaugurated on September 9, 1982. The NASB now Financial Reporting Council is responsible for the formulating and publishing public interest, accounting standards and to promote their general acceptance and adoption by preparers and users;

Table 2: Comparison of IAS and SAS

IFRS/IAS	Title of standard	SAS	Title of standard
IAS 1	Presentation of financial statement	SAS 2	Information to be disclosed in financial statement
IAS 7	Cash flow statements	SAS 18	Statement of cash flow
IAS 8	Accounting policies, changes	SAS 1	Statement of accounting standards disclosure and accounting policies
IAS 2	Inventories	SAS 4	On stocks
IAS12	Income taxes	SAS 12	Accounting for deferred tax
IAS18	Revenue	SAS 19	Accounting for Taxes
IAS 37	Provision, contingent liabilities and contingent assets	SAS 23	Provisions, contingent liabilities and contingent assets
IAS 11	Construction contracts	SAS 5	Construction contract
IAS 16	Property, plant and equipment	SAS 3	Property, plant and equipment
IAS17	Leases	SAS 11	Leases
IAS 20	Accounting for government grants and disclosure of government assistance	None	
IAS 23	Borrowing costs	None	
IAS 36	Impairment of assets	None	
IAS 38	Intangible assets	None	
IAS 40	Investment property	SAS 13	Accounting for investment
IAS 21	The effect of changes in foreign exchange rates	SAS27	Foreign currency conversion and translation
IAS 29	Financial reporting in hyperinflationary economies	None	
IFRS 1	First-Time adoption of international financial reporting standards (IFRS)	None	
IFRS 5	Non-current assets held for sale and discontinued operations	None	
IAS 19	Employment benefits	SAS 8	On employment retirement benefits
IAS 26	Accounting and reporting by retirement benefit plan	None	
IFRS 2	Share based payments	None	
IAS 33	Earnings per share	SAS 21	Earnings per share
IAS 34	Interim reporting	SAS 30	Interim reporting
IFRS 8	Segmental reporting	SAS 24	Segment reporting
IAS 10	Events after reporting date	None	
IAS 24	Related party disclosure	None	
IAS 41	Agriculture	None	
IFRS 4	Insurance contract	SAS 16	Insurance contract
IFRS 6	Explorations for and evaluation of mineral resources	SAS 14	Accounting for petroleum industry: upstream activities
		SAS 17	Accounting for petroleum industry: downstream
IAS 32	Financial instruments: presentation	SAS 10	Accounting for banks and non-bank institutions (Part 1)
IAS 39	Financial instruments: recognition and measurement	SAS 15	Accounting for bank and non-bank institutions part 11
IAS 27	Consolidation and separate financial statements	SAS 27	Consolidation and separate financial statements
IAS 28	Investment in associate	SAS 28	Investment in associate
IAS 31	Interest in joint venture	SAS 29	Interests in joint ventures
IFRS 3	Business combinations	SAS 26	Business combinations

Ogbonnaya (2010)

promote legislation where necessary and reviewing and improving from time to time, the standards in the light of changes in the socio-economic environment. The Table 2 shows comparative details of the number of standards issued by the International Accounting Standards and that issued by the Nigerian Accounting Standard Board (NASB).

Table 2 shows the comparative details of the number of standards issued by the International Financial Reporting Standards (IFRS) and Statement of Accounting Standards (SAS). The table contents are arranged in the order of standards of equal importance in the reporting framework between IFRS and SAS. For example IAS 1 Presentation of Financial Statements standard has Nigerian equivalent SAS 2-Information to be disclosed in Financial Statements issued by the NASB; IAS 7 Cash Flow Statements standard has Nigerian equivalent SAS 18 Statement of Cash Flow issued by NASB and IFRS 3 Business Combination standard has Nigerian equivalent SAS 26 Business Combination issued by NASB. This table clearly shows that the most of the standards issued by IFRSB are also issued by the NASB for the purpose of reliable financial reporting. However, NASB has six standards in issue that do not have equivalent in the IASB's suite of issued standards and those issued by IASB without Nigerian equivalent. That is the reason why some scholars are more interested with harmonization of IFRS with local standards than the issue of converging of accounting standards (IFRS). Therefore, it is better for practitioners to critically examine this issue of converging accounting standards before full implementation in their respective countries.

MATERIALS AND METHODS

The materials for this study were collected from secondary sources. The secondary data are those obtained from works of other scholars for different purposes, which

includes textbooks, journals, business magazines, professional publications, and past research studies. The secondary data collected were analysed using descriptive analysis. According to Ndiyo (2005), descriptive research studies are designed to obtain information concerning the current status of phenomena. They are directed toward determining the nature of a situation, as it exists at the time of the study. Baridam (2001) and Osuala (2005) also stated that descriptive analysis largely describes and explains the various activities of human actions in the society.

DISCUSSION

Accounting standards are the policy documents (authoritative statements of best practice) issued by recognized expert accountancy bodies relating to various aspects of measurements, treatments and disclosures of accounting transactions and events, as related to the codification of Generally Accepted Accounting Principles (GAAP). However, different nation with different accounting standards makes comparison difficult, it means additional cost of financial reporting but also causes difficulties to multinational groups in the manner in which they undertake transactions. According to Das *et al*. (2009), it is quite possible for a transaction to give rise to a profit under one accounting standard, whereas it may require a deferral under another standard. The adoption of different accounting standards causes difficulties in making relative evaluation of performance of companies. Therefore, these difficulties of divergence in accounting standards provided the platform for academics and professionals to debate on the need for convergence of accounting standards. As McCreevy (2005) puts it, convergence should lead to more efficient capital allocation and greater cross-border investment, thereby promoting growth and employment in Europe". It is important to note that the much talked about convergence of accounting standards from the developed countries to the developing countries need proper analysis and diagnosis for the full adaption to IFRS. However, Kinsey (2006) says that if international accounting standards are flexible enough to allow for differences in culture and business practices across nations, then one set of accounting regulations may be useful to developed and developing countries alike. Therefore, convergence of accounting standards promotes comparability, credibility of financial reporting, cuts the costs of doing business across borders by reducing the need for supplementary information (Obazee, 2008). The proponents of convergence of accounting standards need to understand that the compromise in the negotiation of the standards often leads to a "lowest-common-denominator" approach. The belief often is that any agreement is better than no agreement. This often may lead to suboptimal standards. The International Financial Reporting Standard Board has faced, and continues to face, these issues in attempting to converge accounting standards (Obazee, 2008; Das *et al*., 2009).

CONCLUDING REMARKS

This study examines the issues of convergence of accounting standards. Accounting standards are important regulatory devices of accounting. They serve as a contract template among parties who participate in a firm, such as management, creditors and investors (Khanagha *et al*., 2011). Convergence describes efforts to reduce the major differences between International Financial Reporting Standards (IFRS) and other national standards issued by different countries. These differences in financial reporting practices between nations make it difficult to compare and interpret financial statements of firms listed in different countries. Similarly, the costs of providing financial reports prepared in accordance with the host country's reporting standards are nontrivial and can influence a MNCs choice of foreign listing location. These costs and the pressure of stock exchanges in competition for foreign listings, have led to demands for convergence of accounting standards. It is important to note that converging accounting standards does not make financial reports more reliable but rather standards setters should concentrate more on ethical issues that promotes reliability, comparability, consistency and quality financial reports than issues of converging accounting standards without noting the dynamics of culture and business practices across nations. In addition, accounting bodies worldwide should emphasize more on minimizing the level of creative accounting applications in the financial reporting process rather than concentrating on convergence of standards.

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