Syllabus for BU 230 Financial Accounting

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Whitworth College

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FINANCIAL ACCOUNTING

BU 230
Whitworth College
School of Global Commerce and Management
Department of Economics and Business

Syllabus/ Fall 2003 September 3, – December 12, 2003

GETTING IN TOUCH

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Monday	1:00 – 2:30 p.m.
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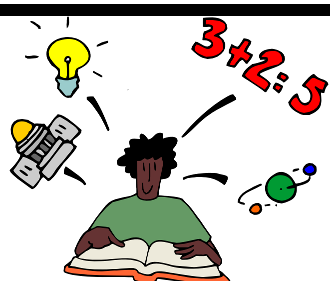
Thursday	10:30 – 11:30 a.m.
	1:00 – 2:00 p.m.
Friday	1:00 – 2:00 p.m.
	Or by appointment

TEXTBOOKS



Libby, R., Libby, P. A., Short, D. G., FINANCIAL ACCOUNTING; McGraw-Hill Higher Education, Boston, 4Th Edition; 2004.
Gernon, H., Meek, G. K., ACCOUNTING: AN INTERNATIONAL PERSPECTIVE, McGraw-Hill Higher Education, Boston, 5Th Edition, 2001.

Suggested: TI 83 Plus Graphing Calculator

WEBSITES

Course Website- This course is maintained on the Whitworth College Blackboard site. Login and passwords are required to utilize this site. Various information including solutions to problems, and test reviews are located at this site:
http://go.whitworth.edu

Textbook website- with study aids, PowerPoint outlines and **Required** on-line quizzes:
http://www.mhhe.com/libby4e

PREREQUISITES

None, although CS 170 and Math 108 are highly recommended

COURSE POLICIES

Attendance is essential to all learning of accounting. If you must miss a class, homework should be handed in prior to the class. Late homework will normally not be accepted. See assignment descriptions for details. **This is true for all absences – excused or unexcused!!** Exams may be made up for valid excuses arranged prior to the scheduled dates.

The learning of accounting is up to the individual student. Instructors, tutors and tests are there for your use and benefit. If you find yourself getting lost or behind, it is up to you to seek help. I will be glad to provide individual help during office hours or other arranged time.

As can be found in the Whitworth College catalog: "...Students are expected to adhere to the highest standards of academic honesty and to refrain from any action which is dishonest or unethical. In all academic exercises, examinations, papers, and reports, students are expected to submit their own work. The use of the words or ideas of others is always to be indicated through an acceptable form of citation." Consequences for failing to adhere to academic honesty can be found on page 16 of the college catalog, and may result in a failing grade for this course.

COURSE OBJECTIVES

A) To explore the nature and environment of accounting placing special emphasis on the users of accounting information, the roles of accountants in society, and the organizations that influence accounting practice.
B) To introduce the four basic financial statements, the concept of accounting measurement, and the effects of business transactions on financial position.
C) To focus on the problems associated with accounting measurement including recognition, valuation, and classification.
D) To discuss the accounting concept of business income and the business cycle.
E) To introduce and discuss many of the ethical issues faced by accountants and business managers operating in today's economy, with special emphasis on Christian ethics in business.
F) To enhance writing skills.
G) To explore uses of computer technology as it applies to accounting and business.
H) To apply accounting concepts to current accounting issues in the global business world.
I) To enhance analytical and problem solving skills

WHAT COLLEGE EDUCATIONAL PRINCIPLES ARE BEING MET?

WHITWORTH COLLEGE's educational principles are grouped broadly into three categories as described on pages 7 – 8 of the Whitworth College Catalog: the knowledge that students will gain, the skills we believe are needed to work effectively in the world, and the faith and values that our community seeks to reflect.

Through this course in Financial Accounting the students will contribute to all categories of educational principles. Through readings, problem solving and case analysis students will enhance and continue to develop knowledge, skills, and a greater understanding of how faith and values should impact the business communities.

HOW ARE THE GOALS AND OBJECTIVES BEING MET?

Course Goal	Means of Achieving Goals	Whitworth College	Primary Means of

		Educational Principles	Assessment
A. Nature and Environment of Accounting	Reading of the text; On-line Quizzes; Class Discussion; Annual report projects; International Accounting Cases; Exercises and Problems, both in and out of class	Knowledge	Tests, Annual Report Projects, International Accounting Cases
B. To introduce financial statements	Reading of the text; Class Discussion; Exercises and Problems, both in and out of class	Knowledge and Skills	Tests
C. Problems associated with accounting measurement	Reading of the text; Class Discussion; Annual report projects; International Accounting Cases; Exercises and Problems, both in and out of class; Research case	Skills and Faith and Values	Tests, Annual Report Projects, International Accounting Cases
D. Business Income and the Business Cycle	Reading of the text; Class Discussion; Annual report projects	Knowledge	Tests, Annual Report Projects
E. Ethical Issues	Class Discussion; International Accounting Cases	Faith and Values	International Accounting Cases
F. Writing Skills	Annual report projects; International Accounting Cases	Skills	Annual report projects; International Accounting Cases
G. Computer Technology	On-line quizzes; Exercises and Problems, both in and out of class, Comprehensive Problem	Skills	Comprehensive Problem
H. Accounting Issues in a global business environment	Class Discussion; International Accounting Cases	Knowledge and Faith and Values	International Accounting Cases
I. Analytical and Problem Solving Skills	Exercises and Problems, both in and out of class; Annual Report Projects	Skills	Tests, Annual Report Projects

COURSE REQUIREMENTS AND GRADING SYSTEM:

Grading will be based on a curve with guidance by the following percentage of total points:

94 - 100 % = A	90 - 93 % = A-
87 - 89 % = B+	83 - 86% = B
80 - 82 % = B-	77 - 79 % = C+
73 - 76 % = C	70 - 72% = C-
67 - 69% = D+	63 - 66% = D
60 - 62 % = D-	Below 60 % = F

Tests (3 @ 100 pts)	300 pts
Final Exam	130
International Accounting Cases (5 @ 15 pts each)	75
On-line Quizzes (10 of 14 @ 10 pts each)	100
From the End of Chapters Materials: Problems and Exercises (35 of 49 @ 2 pts each)	70
Annual Report Projects (10 of 14 @ 10 pts each)	100
Comprehensive Problem 4 - 9	25
TOTAL	800 pts

(I reserve the right to change the point structure of this grading system in any way. You will be notified either in writing or orally of any changes made.)

TESTS

Specific chapters covered in the test may change; however, **test dates will only change in extraordinary cases**.

The tests will cover material primarily from problems and exercises covered in class and as homework. Additionally some questions will be taken from reading the section covered in both texts.

FINAL EXAM

Students will be responsible for a comprehensive final exam to be given on the scheduled exam date.

PROBLEM AND EXERCISES

Problems and exercises will be assigned after that content of the chapter is covered in class. They will be due at the **beginning** of the class period after the content is covered. Students anticipating an absence should prepare the problems for the chapter in advance.

Assigned problems may be handwritten, or completed on software accompanying the Libby, Libby and Short textbook, including Excel, GLAS, or the Homework Manager. Students are encouraged to explore the learning potential of these software options.

NOTE: Late problem and exercises will receive NO credit – this includes excused absences! Homework may be submitted early during the previous class, by email, fax or campus mail! Credit will only be given for the best 35 of the 48 assigned problems.

Problems and Exercises are assigned from the end of the chapter materials from each chapter. Points will be awarded only for effort. Students are responsible for checking their own answers. Answers to exercises and problems will be posted on the course website on Blackboard after the assignment is due. Students are encouraged to bring questions about the problems to class. It is recommended that the student bring an extra copy of the problem to the class if they wish to take notes after asking questions. Accounting labs will be available in order for students to get advanced assistance on the homework. The intent of the problems and exercises is to gain a greater understanding of the materials, not only to enhance performance on the tests, but also to gain a greater foundation in the understanding of the accounting. The points awarded for exercises and problems do not reflect the amount of effort that will be needed to complete each problem. However, remember, a majority of test questions will be based on exercises and problems.

INTERNATIONAL ACCOUNTING CASES

These are to be submitted the class after the chapter is completed.

NOTE: Late cases may be dropped by 5 points for each class period it is late.

International Accounting Cases are located in the Gernon and Meek text. A copy of this text is on 2 hour reserve at the library. Assigned cases are listed on the assignments page! **Answers should be word processed.** Handwritten answers will receive no more than ½ credit. It is assumed most responses will be a minimum of ½ page. Assignments will be graded on content as well as style and presentation

ANNUAL REPORT PROJECTS

These are to be submitted the class after the chapter is completed

NOTE: Late cases will receive NO credit – this includes excused absences! These cases may be submitted early during the previous class, by email, fax or campus mail! Credit will only be given for the best 10 of the 14 assigned problems.

These cases are located in the "Cases and Projects" section of each chapter of the Libby, Libby and Short text. Assigned cases are listed on the assignments page! **Answers should be word processed.** Handwritten answers will receive no more than ½ credit. It is assumed most responses will be a minimum of ½ page. Assignments will be graded on content as well as style and presentation.

COMPREHENSIVE PROBLEM

The comprehensive problem (P4-9) is located on page 208 of the Libby, Libby, and Short text.

NOTE: A late problem may be dropped by 5 points for each class period it is late.

The comprehensive problem must be completed utilizing the GLAS software accompanying the text! Because this problem is comprehensive in nature additional time will be given to complete this problem. Students may anticipate it to be due 2 class periods after the completion of Chapter 4 (**tentative due date: October 6, 2003).**

On-line Quizzes

You must utilize the textbook website for this assignment.

To access the Quizzes:

- **Once online go to: http://www.mhhe.com/libby4e**
- **Select the appropriate chapter**
- **Under Quizzes select True or False**
- **Once the quiz is completed you will need to submit the results to the course TA via email. If you are unable to send the quiz results to the TA you may submit them to the instructor**

These will be due by the second day the chapter is being covered. You will be notified as to the due date orally in class. It is the student's responsibility to know quiz due dates when they are absent. Normally no credit (0 points) will be given for late submissions.

- After reading each chapter, you will need to complete the on-line True/False quiz on the textbook's website. In order to receive credit, you will need submit the results via email to the class TA. Submissions must be made **prior** to the class start on the day it is due. Should the website fail to work, students may submit definitions for all key terms from the chapter found after the chapter text and before the questions section. A total of 14 quizzes will be available, however credit will only be given for the best 10 of those quiz scores.

BU 230 Textbook Assignments

I reserve the right to change these assignments in any way. This includes adding or deleting problems, exercises or material. You will be notified either orally or in writing as to any changes. Times given are not guarantees and are only to be used to assist in planning adequate homework time. Individual students may need more or less time to complete the assigned work.

Text	**Chapter**	**Assigned Problems, Cases & Exercises**	**Approximate Time**
Gernon	1	Reading Text	48 minutes
		Case 1-1	15 minutes
Libby	1	Reading Text	110 minutes
		On-line Quiz	15 minutes
		Problem 1-1	45 minutes
		Problem 1-3	45 minutes
		(Annual Report) CP 1-2	20 minutes
Gernon	2	Reading Text	52 minutes
		Case 2-2	15 minutes
Libby	2	Reading Text	125 minutes
		On-line Quiz	15 minutes
		Problem 2-1	20 minutes
		Problem 2-2	25 minutes
		Problem 2-5	40 minutes
		Problem 2-6	20 minutes
		(Annual Report) CP 2-1	15 minutes

Text	Chapter	Assigned Problems, Cases & Exercises	Approximate Time
Libby	3	Reading Text	140 minutes
		On-line Quiz	15 minutes
		Problem 3-1	20 minutes
		Problem 3-2	20 minutes
		Problem 3-6	40 minutes
		Problem 3-7	30 minutes
		(Annual Report) CP 3-1	20 minutes
Libby	4	Reading Text	130 minutes
		On-line Quiz	15 minutes
		Problem 4-1	15 minutes
		Problem 4-2	20 minutes
		Problem 4-3	20 minutes
		Problem 4-4	20 minutes
		Problem 4-8	30 minutes
		(Annual Report) CP 4-1	25 minutes
		Comprehensive Problem 4-9	60 minutes
Gernon	3	Reading Text	40 minutes
		Case 3-2	15 minutes
Libby	5	Reading Text	155 minutes
		On-line Quiz	15 minutes
		Problem 5-1	30 minutes
		Problem 5-2	15 minutes
		Problem 5-4	15 minutes
		Problem 5-7	40 minutes
		(Annual Report) CP 5-2	30 minutes
Gernon	4	Reading Text	56 minutes
		Case 4-1	15 minutes
Libby	6	Reading Text	125 minutes
		On-line Quiz	15 minutes
		Problem 6-2	35 minutes
		Problem 6-5	50 minutes
		Problem 6-8	45 minutes
		Problem 6-9	45 minutes
		(Annual Report) CP 6-2	30 minutes
Libby	7	Reading Text	125 minutes
		On-line Quiz	15 minutes
		Problem 7-1	30 minutes
		Problem 7-3	40 minutes
		Problem 7-5	45 minutes
		Problem 7-7	50 minutes
		(Annual Report) CP 7-2	15 minutes

Text	**Chapter**	**Assigned Problems, Cases & Exercises**	**Approximate Time**
Libby	8	Reading Text	155 minutes
		On-line Quiz	15 minutes
		Problem 8-1	20 minutes
		Problem 8-4	25 minutes
		Problem 8-6	25 minutes
		Problem 8-7	20 minutes
		Problem 8-8	20 minutes
		Problem 8-11	25 minutes
		(Annual Report) CP 8-2	20 minutes
Libby	9	Reading Text	160 minutes
		On-line Quiz	15 minutes
		Problem 9-1	50 minutes
		Problem 9-3	30 minutes
		Problem 9-5	45 minutes
		Problem 9-9	40 minutes
		(Annual Report) CP 9-2	30 minutes
Libby	10	Reading Text	105 minutes
		On-line Quiz	15 minutes
		Mini Exercise 10-2	5 minutes
		Mini Exercise 10-3	5 minutes
		Problem 10-4	40 minutes
		Problem 10-6	45 minutes
		(Annual Report) CP 10-2	20 minutes
Libby	11	Reading Text	95 minutes
		On-line Quiz	15 minutes
		Problem 11-1	45 minutes
		Problem 11-4	60 minutes
		Problem 11-6	30 minutes
		(Annual Report) CP 11-2	30 minutes
Libby	12	Reading Text	155 minutes
		On-line Quiz	15 minutes
		Problem 12-2	30 minutes
		(Annual Report) CP 12-2	15 minutes
Gernon	5	Reading Text	124 minutes
		Case 5-2	15 minutes
Libby	13	Reading Text	150 minutes
		On-line Quiz	15 minutes
		Problem 13-2	45 minutes
		Problem 13-3	25 minutes
		(Annual Report) CP 13-2	15 minutes
Libby	14	Reading Text	120 minutes
		On-line Quiz	15 minutes
		Problem 14-1	60 minutes
		Problem 14-9	60 minutes
		(Annual Report) CP 14-2	50 minutes

CALENDAR

Date		Chapter	Topic
Sept.	3		Introduction
	5	*Gernon 1*	*An International Perspective on Financial Accounting*
		1	Financial Statements and Business Decisions
	8	1	" "
		Gernon 2	*Diversity in Financial Accounting Practices*
	10	2	Investing and Financing Decisions and the Balance Sheet
	12	2	" "
	15	2	" "
	17	3	Operating Decisions and the Income Statement
	19	3	" "
	22	3	" "
	24	**TEST**	**Chapters 1 – 3, Gernon Chapters 1 - 2**
	26	4	Adjustments, Financial Statements, and the Quality of Earnings
	29	4	" "
Oct.	1	4	" "
	3	*Gernon 3*	*Harmonization of Financial Accounting Diversity*
		5	Communicating and Interpreting Accounting Information
	6	5	" "
	8	5	" "
		Gernon 4	*Financial Reporting in the International Environment*
	10	6	Reporting and Interpreting Sales Revenue, Receivables, and Cash
	13	6	" "
	15	6	" "
	17	**TEST**	**Chapters 4 – 6, Gernon Chapters 3 - 4**
	20	7	Reporting and Interpreting Cost of Goods Sold and Inventory
	22	7	" "
	24	7	" "
	27	8	Reporting and Interpreting Property, Plant Equipment; Natural Resources; and Intangibles
	29	8	" "
	31	**FALL BREAK!!**	
Nov	3	**FALL BREAK!!**	
	5	8	Reporting and Interpreting Property, Plant Equipment; Natural Resources; and Intangibles
	7	9	Reporting and Interpreting Liabilities
	10	9	" "
	12	9	" "
	14	10	Reporting and Interpreting Bonds
	17	11	Reporting and Interpreting Owners' Equity
	19	11	" "
	21	**TEST 3**	**CHAPTERS 7 – 11**
	24	12	Reporting and Interpreting Investments in Other Corporations
	26	**THANKSGIVING BREAK**	
	28	**THANKSGIVING BREAK**	
Dec.	1	*Gernon 5*	*Disclosure Practices around the World*
		13	Statement of Cash Flows
	3	13	" "
	5	13	" "
	8	14	Analyzing Financial Statements
	10	**FINAL – 1:00-3:00 pm (Section 1)**	
	12	**FINAL – 8:00-10:00 pm (Section 2) Section 1)**	

I reserve the right to change and/or add to this schedule in any way. This includes adding material, due dates or changes in coverage. You will be notified either orally or in writing as to any changes.

The Convergence of Generally Accepted Accounting Principles and International Financial Reporting Standards

Margie Ness LaShaw

Anderson University

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The Convergence of Generally Accepted Accounting Principles and International Financial Reporting Standards

With the increase in technology, our world is becoming more global on a daily basis. Friedman (2000) defined globalization as,

> The inexorable integration of markets, nation-states and technologies to a degree never witnessed before—in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before, and in a way that is enabling the world to reach into individuals, corporations and nation-states farther, faster, deeper, cheaper than ever before….The driving idea behind globalization is free-market capitalism….Therefore, globalization also has its own set of economic rules—rules that revolve around opening, deregulating and privatizing your economy, in order to make it more competitive and attractive to foreign investment. (p. 9)

With the move to a more global free market economy, one of the important elements is the comparability of financial statements. However, one of the continuing barriers to globalization is the differences in accounting standards across the world. These differences make it difficult to compare financial statements from companies operating in different countries. With the increase in investing being done across national borders, there has been increasing attention to the financial comparability of companies, often in two or more different countries.

While differences still exist, in May 2000, a milestone was set. The International Organisation of Securities Commissions (IOSCO), of which the U. S. Securities and Exchange Commission (SEC) is a member, accepted 30 core international standards for filing on the world's securities exchange (Dzinkowski, 2001). These endorsements of the international standards are a move to greater ease in global capital markets, even though differences still exist in financial reporting requirements, especially between the United States and the rest of the world.

This paper will look at influences on accounting standards around the world, the need for global standards, key differences between the U.S. and other parts of the world, the history of the International Accounting Standards Board (IASB), the response of countries other than the United States to global standards, the historical and continued differences between U.S. Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS), and the future of the convergence between U.S. GAAP and IFRS.

Influences on Accounting Standards

While the purpose of financial accounting is to provide economic information useful for decision making, over the years, just as each country has developed its own values and political systems, they have also developed their own accounting systems. As to Gernon & Meek (2001) pointed out, "Accounting is shaped by the environment in which it operates" (p. 2).

Gernon & Meek (2001) categorized influences on accounting systems into six categories: the method of external finance, the legal system, political and economic ties with other countries, the levels of inflation, the size and complexity of business enterprises, including the sophistication of management and the financial community and the general levels of education, and culture.

External Financing

Ali and Hwang (2000) divided external financing into two major categories: bank-oriented and market-oriented. They also recognized that in some countries accounting rules are set by the government primarily to satisfy government needs and they are neither bank nor market-oriented. Under the bank or credit oriented financial systems, countries have a few very large banks that supply most of the capital needs of businesses. The financial reporting is oriented towards creditor protection with limited information as much of the necessary information is communicated through personal contacts and direct visits. Even though financial reporting is more limited, it is still required by the government for public disclosure (Gernon and Meek, 2001).

In the market-oriented countries, financial reporting is an important source of information on how well a company is doing. Because stockholders are a main source of capital, but lack the ability to communicate directly with management, the financial reports serve as a source of communication to the owners. Emphasis in the financial reports is on more disclosure, determining profitability and cash flow (Gernon and Meek, 2001).

The governmental influenced financial reporting is oriented toward decision making by government planners, as the national government plays a strong role in managing the country’s resources. Businesses are expected to carry out the government’s policies and macroeconomic plans and therefore the financial reports reflect how these government policies and plans are being accomplished (Gernon and Meek, 2001).

The Legal System

The legal system used by each country also influences accounting systems. Countries either primarily use code law or common law. Countries, which utilize code law typically, stipulate a minimum standard of behavior. According to Gernon & Meek (2001), “In most code law countries, accounting principles are national laws” (p. 4). In countries that follow primarily common law, the accounting systems are largely determined by accountants and gradually evolve by becoming accepted into practice. These accounting rules tend to specify what is not acceptable, but allow for choices between what is acceptable (Gernon & Meek, 2003)

Political and Economic Ties

Just as products and ideas are imported and exported, so are accounting systems. According to Riahi-Belkaoui (2002), “Since early history….accounting has been transmitted from one country to another … generating specific national accounting systems that have exhibited both similarities and differences” (p. 1). Countries that have heavy trade between them tend to have similar accounting systems. For example Mexico’s major trading partner is the United States. Therefore, the accounting systems in Mexico are very similar to those in the United States. Besides the United States, another significant force in worldwide accounting has been the United Kingdom. Almost all former colonies of Great Britain have an accounting system patterned after the UK. France and Germany have had similar influences although not to the extent of the UK (Gernon & Meek, 2001).

Levels of Inflation

A further complicating factor is the level of inflation. Many countries use an historical cost perspective based on an assumption that currency is relatively stable. Countries in inflationary economies routinely have to write up their assets, rather than relying on historical cost. Essentially countries that have experienced inflation over time have adjusted historical cost basis to handle it. Those countries with less experience with inflation do not consider abandoning historical cost (Gernon & Meek, 2001).

The Size and Complexity of Business Enterprises

An additional area of difference is the size and complexity of business enterprises, sophistication of management and the financial community, as well as, the general levels of education. The more complex the business enterprises, the higher-level accounting skills are needed to understand and record the business transactions. The users also need to be educated in understanding the financial statements. The majority of multinational corporations are headquartered in the wealthy, industrialized nations, including Japan, Germany, Great Britain, and the United States. In emerging market economies, developing accounting expertise has a high priority (Gernon & Meek, 2001).

Culture

The final major area that causes differences in accounting systems is the culture. According to Moran, Harris & Stripp (1993), "Accounting systems are ethnocentric…based on cultural assumptions about human behavior" (p. 131). Therefore it is useful to understand cultures and values in order to understand the accounting system used in the country. For example, in the United States the accounting system is based on the idea that people will strive for increased amounts of discretion and responsibility. In a highly paternalistic environment, such as the Middle East, competition is undesirable and therefore the accounting system is adjusted to reflect the difference. Other differences include difficulty of training in some countries, as well as language and currency translations (Moran, Harris & Stripp, 1993). Zaraeski (1996) conducted a study looking at cultural influence upon accounting and found that the secretive nature of a culture relates to the level of accounting disclosure practices across some countries.

The Results and Future Implications

The result of the influences on accounting standards is different accounting procedures have been established around the globe. While this works as long as companies stay domestic, according to Sutton (1997), since the breakup of the Soviet Union and the reunification of Germany, there has been a new demand for capital and new investment opportunities outside national borders. This coupled with more privatization in economies such as Argentina and the U. K., is giving rise to more global companies. There is also a desire to reach outside home country capital markets. At the same time technology has reduced time and distance in order to conduct business around the globe. This has seen an increase in companies that are participating in international business.

However, without global accounting standards, comparing financial statements of different companies in different countries may not be possible. Even with an understanding of the standards of the countries’ accounting procedures, data may not be available to make the information comparable. The result is the values and measurements for the same economic event may be presented quite differently. This could have a large impact on many decisions a company or investor makes, including the decision to acquire an overseas operation, an analyst's rating of creditworthiness of a company, global investment opportunities or use of overseas suppliers (Stanko, 2000).

Key Differences Among Countries

With the various influences on accounting, many accounting systems have been developed over the years. However, the differences between countries typically lie in a few key areas including: capitalization of research and development, revaluing fixed assets in an amount in excess of its cost, utilizing LIFO (Last-In, First-Out) inventory methods, capitalization of finance leases, the expensing of pension costs, an allowance for deferred taxes due to differences between book amounts and tax amounts, utilization of the current rate in currency translation, the use of pooling methods for business combinations and the use of the equity method for 20 – 50% ownership (Czinkota, Ronkainen, & Moffett, 2003).

While there are also similarities, there is clear evidence to conclude that accounting principles differ, sometimes substantially from country to country. For small domestic companies this is not an issue, but for multinationals and companies desiring to do business abroad, the differences in accounting do make a barrier to trade (Gernon & Meek, 2001). For example, Daimler Benz, a German company, applied for a listing on Wall Street. One of the requirements of the SEC is that statements must either be prepared using U.S. GAAP or have a reconciliation statement which presents equity and profits according to U.S. GAAP. When Daimler Benz restated its 1993 profit from the utilization of German accounting standards to U.S. GAAP, the company's profit dropped from a positive profit of DM 602 to a loss of DM 1,839. This revealed remarkable differences between the two countries accounting methods, indicating that the same economic event may be treated much differently in different countries. The result was the confusion of investors as to which figures were correct, and may have caused investors to come to the conclusion that neither figure should be trusted (Flower, 1997).

The International Accounting Standards Board

Even though global investing is occurring, with all the differences between financial reporting in various countries, it remains difficult. According to Stanko (2000), "In order for investment growth to continue, however, there is an increasing demand for financial statement comparability between U.S. and foreign business enterprises" (p. 21) One of the organizations that many are turning to is the International Accounting Standards Board (IASB), which was a result of restructuring the International Accounting Standards Committee (IASC) in March 2001 (IASB, Restructuring, n.d.).

History

The IASC was formed as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, The United Kingdom and Ireland, and the United States in 1973 (IASB, History, n.d.). It was originally set up "to formulate and promote accounting standards for harmonization of accounting worldwide." (Sempier, Chandler & Dalessio, 1991, p.14-5) In order to accomplish this, the original IASC compiled accounting standards that were common practices in many countries and labeled them International Accounting Standards. This allowed for multiple alternative treatments for one transaction, limiting comparability of statements even if they were in compliance with IASs (Securities and Exchange Commission, 1997).

By 1977, the IASC had expanded to eleven countries. That same year the International Federation of Accountants (IFAC) was formed. While the IASC remained autonomous, the organization worked in conjunction with the IFAC. Four years later, "in 1981, the IASC and IFAC agreed that IASC would have full and complete autonomy in the setting of international accounting standards" (IASB, History, n.d., para. 3).

In 1987, the International Organization of Securities Commissions (IOSCO) joined the Consultative Group and the IASC started the Comparability Project. According to Street & Gray (1999), as taken from FASB Viewpoints by Beresford in 1992 "The Comparability Project represented a new stage in the IASC's work, as it moved from 'consensus' standards to 'normative' standards" (p. 135). In 1993 when the project was released, while the core of standard failed to receive the IOSCO's endorsement (Street & Gray, 1999), the IOSCO did agree to the list of core standards and endorsed the Cash Flows Statement (IASB, History, n.d.).

During 1994 the IASC continued to work on core standards and by 1995 had a new agreement with IOSCO to complete the core standards by 1999. Upon successful completion the IOSCO would consider endorsing IASs for cross-border offerings (IASB, History, n.d.). By 1998 the core standards were completed. In the same year, Belgium, France, Germany and Italy began allowing large companies to use International Accounting Standards (IASs) domestically. Even though the IOSCO began to review the core standards in 1999, it wasn't until 2000 the IOSCO recommended that its members allow issuers to use the 30 IASC standards in their cross-border offerings and listings (IASB, History, n.d.).

As the core standards were being developed, the IASC recognized deficiencies in their organizational structure. The Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA) and the SEC felt that the IASC needed to be a truly independent standards setting body (Oliverio, 2000). At this point according to Bloom (2000), both the FASB and IASC envisioned high quality international standards that would make statements transparent and comparable, but the two bodies had different methods for achieving the standards. The FASB was clear that they wanted to retain a leadership role in the development of international standards. After urging from the FASB and others, in 1999, the IASC began restructuring to a 14-member board under independent trustees, of which 12 members would be full-time. While this was a major change in structure, it was the IOSCO, who made the first substantial move by their sanction of the International Standards. This endorsement gave the IASC an increased prominence in the setting of international accounting standards (Oliverio, 2000). With the new restructuring, on April 1, 2001, the IASB assumed the new responsibilities of setting accounting standards that are designated as International Financial Reporting Standards (IFRS). Also during 2001, the European Commission presented legislation to require the use of IASC Standards for all listed companies no later than 2005. (IASB, History, n.d.).

The New IASB

Along with the IOSCO and European Union giving support to the IASC, the SEC is also giving serious consideration to allowing more extensive use of International Accounting Standards (Larson & Larson, 2001). By October of 2002, the FASB and the IASB issued a memorandum of understand also know as “The Norwalk Agreement.”

This marked a significant step toward formalizing the commitment to the convergence of U. S. and international accounting standards (Financial Accounting Standards Board, News Release, 2002). Under the agreement (Financial Accounting Standards Board, Memorandum, 2002), the FASB and IASB agree to:

a) undertake a short-term project aimed at removing a variety of individual differences between U.S. GAAP and the International Financial Reporting Standards (IFRSs, which include International Accounting Standards, IASs);
b) remove other differences between IFRSs and U.S. GAAP that will remain at January 1, 2005, through coordination of their future work programs; that is, through the mutual undertaking of discrete, substantial projects which both Boards would address concurrently;
c) continue progress on the joint projects that they are currently undertaking; and,
d) encourage their respective interpretative bodies to coordinate their activities.

The Impact on the SEC

While the SEC still requires reconciliation to U.S. GAAP or GAAP based statements for non-national companies, there is some pressure to allow international companies to report using only IFRS. If the SEC does accept IFRS, there is a question whether this would put American firms at a disadvantage or whether the SEC would level the playing field and allow even U.S. companies to report utilizing international standards (Reiner, 2001). While the U.S. is still holding companies to report under GAAP, the European Commission has experienced some resistance in their move to the IFRS. According to Dzinkowski (2001), the main argument is that the IFRS closely resemble

GAAP and do not necessarily accommodate or reflect business cultures in the rest of the world. Therefore, while the IFRS have received considerable attention globally, few in the U.S. are even debating these issues. There is some optimism in the U.S. that with the involvement of the SEC, IFRS will deliver promised harmonization and it will be done according to the spirit of U.S. GAAP, providing U.S. investors the security they desire in order to trade in foreign equities. While the U.S. ignored the issues, relying on the fact that the New York Stock Exchange turnover exceeds the combined turnover of the next three largest stock exchanges in Tokyo, London and Frankfurt, Flower (1997) predicted the partnership between the IASC and the European Commission may become the most significant force in accounting. While the Europeans would be able to display greater flexibility and willingness to compromise than will the Americans in adopting IASs, the Americans would continue to apply U.S. GAAP in isolation. But as Sutton (1997) noted "because investors have confidence in U.S. capital markets, they are willing, to an extent unmatched in any other country, to invest their savings" (p.102).

The Response of Other Countries

As there is a call to move more to international standards, it is helpful to look at how countries other than the United States have responded to the move to international standards. According to Practer, in 1998 France, Germany, Italy and Belgium were developing legislation to allow both domestic and international companies to utilize IASs. The Swiss were already allowing multinationals to use IAS for domestic reporting purposes. The Arab Society of Certified Accountants, made up of 22 Arab nations, signed a declaration supporting IAS as the national standards in 1997. Australia, Canada, and Malaysia planned on adopting harmonization approaches by 1998. A number of

African and former Soviet Union countries were already using IASs directly as the basis for national standards. The World Trade Organization has also announced its support for use of IASC. Most major stock exchanges around the world, except the ones in the U.S., were accepting statements that were in compliance with IASs.

Even in 1998, there were only a few major holdouts, which included Japan, United Kingdom and the United States. The Japanese government, which also has the responsibility for tax collection and macroeconomic planning, sets Japanese accounting standards, so the lack of early adoption of IASs was not a surprise. The U.K. planned on retaining their own standards until the IASs had been tested in practice. The London Stock Exchange, however, allowed companies to list utilizing IAS without reconciliation to U.K. accounting standards. Finally, even the United States, while still holding to their own standards, had reduced the differences between U.S. GAAP and IASs as early as 1998 (Practer, 1998).

Earlier Studies

Even before 1998, with the call to move to a single set of accounting standards, Larson & Kenny (1999) questioned whether there had been any move in different countries toward IASs. The results of the study which looked at 24 countries that were in both the 1991 and 1993 studies, indicated that there was a discernable trend towards IASs through 1993. (Another nine countries were surveyed only in 1993 and not included in this part of the study.) The study showed that between 1991 and 1993 only three countries, Ireland, Spain and Brazil, adopted accounting standards that moved away for IAS. Six countries, Belgium, France, Australia, New Zealand, Singapore, and the United States, made national changes that did not move them either further from or closer to

IASs. There were, however, eleven countries, Channel Islands, Denmark, Netherlands, Sweden, Switzerland, United Kingdom, Canada, Japan, Korea, Mexico, and South Africa, that adopted new standards that brought them closer to IASs. Another four countries did not report making any changes in their accounting standards. Larson & Kenny (1999) did note that IASs in 1993 were easier to comply with as the international standards allowed more alternatives. Even in 1995, the IASs were limiting alternatives and therefore compliance with IASs was easier to accomplish in the earlier years.

Recent Studies

A later study by Garrido, Leon & Zorio (2002), also looked at harmonization, but rather than looking at comparing national standards as compared to international standards looked at IASs that have been modified during the IASC's existence. The authors felt this was a more important measure as the goal of IASs is to be fully accepted without reconciliation to any national accounting standards. The authors concluded that IASC achieved important accomplishments in comparability of financial information. Based on the accounting concepts included in the sample, they concluded there was success of formal harmonization being achieved by IASC.

The Differences Between GAAP and IFRS

With the rest of the world pushing toward the international standards, and the U.S. giving support, but not accepting IASs, it is valuable to look at the differences between the standards of FASB and IASB.

Studies Focusing on the Standards

In 1999, a study by Street and Gray looked at the gap between IASC and U. S. GAAP. According to the study, differences lied in nine areas, including: inventories, net profit and loss including errors and changes in accounting policies, research and development costs, property, plant, and equipment, revenue recognition, retirement benefits, the effects of changes in foreign exchange rates, business combinations and borrowing costs. Of these, the major problem areas most were concentrated in the net profit and loss calculations for the period, the effects of foreign exchange rates, business combinations and areas where disclosure requirements of IASC exceed U. S. GAAP (Street & Gray, 1999).

Street, Nichols and Gray (2000) also conducted a study assessing acceptability of international accounting standards. Their study indicated that the differences between IASs and U. S. GAAP are narrowing. By 1997, their study indicated that the differences between the two methods were not statistically significant on income. They argued that because the income calculated by IASs was sufficiently close to U. S. GAAP, it should be acceptable to the SEC, as well as IOSCO. Alternatively, they recommended that the SEC endorsement could include a short list of IASs that require additional disclosure in order to be accepted. These four areas include:

1. Property, plant and equipment – the IASs allow options to measure property, plant and equipment following initial recognition. U.S. GAAP standards require the use of historical cost. IASs also allow for options in accounting for investment properties and for asset impairment that is not allowed under U. S. GAAP.
2. Accounting for deferred taxes – IASs currently allow both partial and comprehensive allocations along with the deferral or liability methods. U.S. GAAP allows only the comprehensive allocation and the liability method.

IASs also treat net operating losses differently than what is required under U. S. GAAP.

3. Accounting for goodwill- IASs allowed for charging goodwill to reserves prior to 1995 yielding no charge against IAS net income. Since 1995 goodwill was to be capitalized and amortized similar to U. S. GAAP.[1]
4. Capitalization of borrowing costs – the differences primarily occurred where the IASs allow for the immediate expensing of all costs of borrowing. Under U. S. GAAP some borrowing costs may be required to be capitalized.

However, according to Schwartz (2001) in 2000, after the IASC issued the completed list of core standards that were agreed to by IOSCO, the SEC asked professionals whether IASC standards were sufficient as to comprehensiveness and high quality to be used without reconciliation to U. S. GAAP. The respondents opposed accepting IASs without reconciliation to U. S. GAAP for one or more of the following reasons:

1. IASC standards were not considered sufficiently comprehensive as U. S. GAAP addresses issues not addressed by IASC.
2. IASC standards are not considered to be of sufficiently high quality. The respondents felt many of them lacked sufficient interpretive guidance or allowed alternatives that would not allow for comparability. Although the

[1] Under FASB No. 142, Goodwill and Other Intangible Assets, U. S. GAAP has since changed its method for accounting for goodwill. Goodwill is still to be capitalized, but rather than amortized over 40 years or less, is to be tested for impairment and only written down to the extent of the impairment.

SEC does make an exception for IAS 7 on cash flow, allowing application without reconciliation to U.S. GAAP.

3. IASC standards do not have an infrastructure sufficient to ensure enforcement of rigorous and consistent applications of IASC standards.

Schwartz (2001) looked at all the International Accounting Standards and evaluated disclosure requirements. While six of the 30 core standards require less disclosure than U. S. GAAP, 14 actually require more disclosure than what is required under U. S. GAAP. While there were still differences, all the studies clearly showed the gap was narrowing.

Study Focusing on Frameworks

While the previous studies focused on the differences of standards between the two organizations, Campbell, Hermanson and McAllister (2002) focused on three areas of the conceptual frameworks of both organizations that could either hinder or foster convergence. The first area focused on was the general organization in terms of form and topical content of the frameworks.

A second area of difference brought out by Campbell, et al (2002) is the level of detail in the framework. The IASC framework was found to have less detail than the FASB conceptual framework. The lack of detail in the IASC framework may not be specific enough to guide development of future standards allowing inconsistencies in future standards.

The final area of difference according to Campbell, et al (2002) is the specific differences within the major topical areas of the framework. The areas of difference included qualitative characteristics in both form and content; in the elements of financial statements; in the capital maintenance concepts; in recognition and measurement; and in cash flow and present value information. Overall, the authors contend that the key divergent areas of the conceptual frameworks may have a significant impact on whether the SEC accepts the IASs reporting standards for international companies to list on Wall Street.

The Future of Convergence

With these seemingly incompatible differences, the question remains whether there will be a convergence of FASB and IASB standards. With the impact of the European Union adopting IFRS, Barker (2003), predicts that "by 2005, there will only be two accounting bodies with a dominating influence on global reporting: FASB and IASB. And under a landmark agreement reached late last year, the two bodies will increasingly work to align their standards" (p. 24). Some of the key areas that will need to be reconciled include:

- Changes in the ability to use pro forma statements
- Changes in the comprehensive income statement as the IASB will most likely require a more elaborate statement that abolishes extraordinary items
- Changes in reporting of stock compensation and pension obligations

According to Barker (2003), "The result, FASB and IASB expect, will be simpler, more transparent, principles-based accounting by companies globally." According to MaClanahen (2002), after the financial collapse of Enron Corp. and WorldCom, Inc., many have felt there needs to be reform. The CEO of PricewaterhouseCoopers, Samuel A. DiPiazza, proposed to simply adopt the broader global guidelines of IAS. His argument was that IASs allow management to select the most appropriate method to reflect the economic transaction rather than being dictated by a narrow rule as under U. S. GAAP. While U. S. GAAP begins with a principle it moves to dozens of rules and exceptions. While this has been argued to be the best accounting system, with the recent financial scandals, this claim has been brought into question. DiPiazza argues that now is the time to make the move to IASB accounting standards.

According to Gornik-Tamaszewski and McCarthy (2003), the FASB does realize that in light of the financial scandals, it does not have all the answers and with "The Norwalk Agreement" has made a commitment to work with the IASB to make the standards between the two organizations fully compatible as soon as possible. In order to achieve this goal both the IASB and FASB have identified both short-term convergence projects and major projects that needed to be completed in order to facilitate the convergence of the two systems.

Short Term Convergence Projects

According to the Financial Accounting Standards Board (n.d.), the short-term convergence project is limited to those areas where a high quality solution to the difference appears achievable in the short-term. It is believed that the convergence will be achieved by selecting from existing U. S. GAAP and IFRS. Gornik-Tamaszewski and McCarthy (2003) identified these projects as: classification of liabilities on refinancing, classification of liabilities in breach of borrowing agreement, asset exchanges, voluntary change in accounting policies, definition of discontinued activities, accounting for costs associated with exit or disposal activities and government grants.

Major Projects

In addition to the short-term projects, Gornik-Tamaszewski and McCarthy (2003) also identified the major projects that will need to be taken into consideration by both boards in order to move toward a convergence. These include: Business Combinations (Phase II), Financial Performance Reporting and Revenue Recognition.

Business combinations. While Business Combinations (Phase I) has already resulted in the issue similar accounting standards, which for U. S. GAAP essentially eliminated pooling of interests method in business combinations. The Phase II of the project will cover three additional groups of issues including:

1. issues related to the application of the purchase method;
2. new basis/fresh start accounting which also cover business combinations involving entities under common control;
3. issues that were excluded from Phase I:
    - business combinations involving two or more mutual entities
    - business combinations where separate entities are brought together only as a reporting entity, without claiming an ownership interest (Gornik-Tamaszewski and McCarthy, 2003).

Financial Reporting. The second major project involves financial performance reporting which will be looking at making two primary classifications of income to be displayed in comprehensive income. The distinctions are tentatively referred to as “financing and operating” and “income flows and valuation adjustments” (Gornik-Tamaszewski and McCarthy, 2003).

Revenue Recognition. The last major project identified by IASB and FASB involves the accounting for stock-based compensation. While the FASB has not been able to converge on the two methods allowed in the United States, the IASB has taken a lead role to put share-based compensation on their agenda. Much of this drive has come from the Europeans, who feel the U. S. standard setters have not properly thought through all the stock option accounting issues. While the current IASB proposal is consistent with FASB No. 123, measuring the fair value of stock options at the date of grant, this may be an area that the IASB will be considered to be superior to the FASB statements (Gornik-Tamaszewski and McCarthy, 2003).

Other Key Initiatives

In addition to these substantive projects according to the Financial Accounting Standards Board (n.d.) also identified four other key initiatives that would further the goal of convergence between IASB and FASB. These initiatives include: having a liaison IASB member on site at the FASB offices, FASB monitoring of IASB projects, the convergence research project, and explicit consideration of convergence potential in all Board agenda decisions.

While the first two of these are currently being accomplished, the second two, along with the major projects, will involve substantial work in order to be accomplished. The convergence project seeks to identify all substantive difference between U. S. GAAP and IFRS and catalog them as to the Board's strategy for resolving them. With the last initiative, for all topics formally considered for addition to the FASB's agenda they also need to be assessed for possible cooperation with the IASB. The Board will specifically be addressing whether the resolution would increase convergence of standards, whether the topic presents cooperation with other standard setters and whether resources are available for joint or cooperative efforts (Financial Accounting Standards Board, n. d.).

With the cross-border investing and capital flows, it seems as the time is coming for convergence of IASB and FASB, although according to the Financial Accounting Standards Board (n.d.), many differences will persist well beyond 2005. According to Gornik-Tamaszewski and McCarthy (2003), with

> the current financial reporting crisis in the U.S., the need to develop better accounting standards that will be internationally acceptable, and the new EC Regulation requiring listed companies to comply with the IFRS by 2005, create a unique opportunity to converge on a single set of high-quality global accounting standards. These standards would dramatically improve the efficiency of global capital markets by lowering cost of capital, improving comparability, and enhancing corporate governance. (p. 58).

Conclusion

With globalization and technology, the world has entered a new paradigm. This paper has looked at some of the major reasons why accounting standards differ from country to country and how those standards are gradually converging. Accounting standards are an important element in the expansion of global business and the ease of trading across borders. With all the past differences of individual countries' accounting systems, much progress has been made toward a global accounting system. While additional research and negotiation needs to still happen, it seems the systems are in place to see a convergence in U.S. GAAP and IFRS. The U.S. accounting world is on the horizon for many changes in the near future. The result may be a more global business environment for not only U.S. companies, but also for companies around the world.

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