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SUPPORT OF INTERNATIONAL ACCOUNTING STANDARD IN BUSINESS MANAGEMENT

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The paper traces the benefits of international accounting standards and their contribution to harmonization in business practice. In this review, the goal is to describe and summarize how the accounting standards promote management decisions and influence the business environment in a global scale. It is expected that the unified, standardized accounting information system will lead to new types of analysis and data, with the possible integration of new indicators from the business management practice of certain countries. The author analyzed and valued the effects of international standards on the business economic environments. It was shown that uniform management accounting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital, and facilitate international capital formation and flow. Reduced costs will also result in more cross-listings and cross-border investments. The global accounting standards would enable the world's stock markets to become more closely integrated. The more closely world's stock markets approach a single market, therefore, the lower should be the transaction costs for investors and the cost of capital for firms in that market. The differences in international reporting practice prior to IFRS constituted a palpable barrier to efficient international investment, monitoring and contracting.

Keywords: Management Information System, International Accounting Standards, Economics of Standards, Business Effects, Value Based Management.

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INTRODUCTION

In today's business environment, companies need to take every advantage they can to remain competitive. Global competition, rapid innovation, entrepreneurial competitors, and increasingly demanding customers have altered the nature of competition in the marketplace.This new competitive environment requires companies' ability to create value for their customers and to differentiate themselves from their competitors through the formulation of a clear business strategy. Business strategy must be supported by appropriate organizational factors such as effective manufacturing process, organizational design and accounting information systems too. Modern business environments are increasingly competitive and dynamic. International competition through e-commerce and demand-based supply chain management dominate business. It is important for companies to develop coherent and consistent business strategies and to utilize management accounting tools to support strategic planning, decision-making and control. To integrate business strategies with various management accounting tools, companies first need to identify which business they are in. It is essential to identify products and services, customer types, geographical markets, and delivery channels. It is useful to match the strategic business unit (SBU) with the related business unit strategy. An SBU is a company's department or sub-section which has a distinct external market for goods or services that differ from another SBU.

A business unit strategy is about how to compete successfully in particular market. It is important to focus on a certain segment, such as environmentally friendly cars, in the automobile industry or internet and phone banking in the retail banking industry. To be successful in this cut-throat competition, business world is very tough, particularly, if you are not too familiar with the diverse strategies, which are needed to make a business successful. If you cannot make a success story out of your business, there is no use of operating a business. You must have to undertake some strategies to run your business successful. These strategies are accounting, bookkeeping, marketing, promotion, production and manufacturing. Now, what a business owner needs to do is prioritize work - what need to be done on priority basis. And, this will vary greatly from business to business. Accounting help is something that any business requires to embark on, in particular, if you are operating a large scale business. If you are running a small or midsize business, than you can easily handle the accounting work without obtaining professional assistance.

International Financial Reporting Standards (IFRS) are accounting principles, methods (standards) issued by the International Accounting Standards Board (IASB), an independent organization based in London. They purport to be a set of standards that ideally would apply equally to financial reporting by public companies worldwide. Between 1973 and 2000, international standards were issued by IASB's predecessor organization, the International Accounting Committee (IASC), a body established in 1973 by the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland, and the United States. During that period, the IASC's principles were described as 'International Accounting Standards' (IAS). Since April 2001, this rule-making function has been taken over by a newly-reconstituted IASB. From this time on, the IASB describes its rules under the new label 'IFRS', though it continue to recognize (accept as legitimate) the prior rules (IAS) issued by the old standard-setter (IASC).The IASB is better-funded, better-staffed and more independent than its predecessor, the IASC. Nevertheless, there has been substantial continuity across time in its viewpoint and in its accounting standards. Widespread international adoption of IFRS offers equity investors the next potential advantages (Ball et al., 2006).

IFRS promise more accurate, comprehensive and timely financial statement information, relative to the national standards they replace for public financial reporting in most of the countries adopting them, including continental Europe. Small investors are less likely than investment professionals to be able to anticipate financial statement information from other sources, improving financial reporting quality allows them to compete better with professionals, and hence reduces the risk they are trading with a better-informed professional. IFRS eliminate many of the adjustments analysts have made in order to make companies' financials more comparable internationally. Reducing the cost of processing financial information most likely increases the efficiency which the stock market incorporates it in prices. IFRS offer increased comparability and hence reduced information costs and information risk to investors.

Accounting regulation in the European Union introduced from 2005 obligated economic entities listed and traded on stock markets to apply IFRS on consolidated financial statements exerted a decisive influence on the accounting globalization. The draft – accepted by the US Securities and Exchange Commission (SEC) enables the acceptance of financial statements created on the basis of IFRS without converting it according to US General. Accounting Principles (GAAP) was a significant leap toward the convergence of IFRS and US GAAP. SEC is to examine the possibility for US economic entities to choose between US GAAP and IFRS for avoiding the necessity of revealing differences between the two systems and to conduct its comparison. Moreover on March 2007, SEC announced its intention to accept financial statements created in accordance with IFRS from January 1, 2009 beside the ones created according to US GAAP. Multinational companies like Daimler Chrysler owning more than 900 subsidiaries, operating on 5 continents in more than 60 counties, published financial results according to international standards which was 1.5 times of the one according to German accounting standards. If earning after taxation (EAT) – deducted actual tax burdens - according to US GAAP is taken as 100 percent, due to differences between national accounting standards, EAT would be 25% more in UK, 3% less in France, 23% less in Germany and 34% less in Japan (Barth et al. 2007). The European Commission's (EC) directives were aimed at making financial statements increasingly comparable in terms of format and general recording and measurement rules. The Fourth Directive, enacted in 1978, specifies "True and Fair View"(TFV) as an overriding principle of financial reporting. It defines the format and measurement of balance sheets and profit and loss accounts. The Seventh Directive, issued in 1983, addresses association with consolidations. The most important effects of both directives are the adoption of TFV and relaxation of book-tax conformity for consolidated accounts.

LITERATURE REVIEW

International accounting literature provides evidence that accounting quality has economic consequences, such as costs of capital (Leuz and Verrecchia, 2000), efficiency of capital allocation (Bushman and Piotroski, 2006) and international capital mobility (Guenther and Young, 2008). The accounting system is a complementary component of the country's overall institutional system (Ormrod et al., 2006) and is also determined by businesses' incentives for financial reporting. Li and Meeks (2006) provide the first investigation of the legal system's effect on a country's financial system. The financial reporting quality include the tax system (Schleifer and Vishny, 2003) ownership structure (Easton, 2006; Ball and Lakshmann, 2005), the political system (Radebaugh and Gray, 2007), capital structure (Daske et al., 2006) and capital market development (Botsari and Meeks, 2008). Therefore, controlling for these institutional and firm-level factors becomes an important task in the empirical research design too.

A study by Meeks and Swamm (2009) characterises of accounting amounts for businesses that adopted international standards to a matched sample of companies that did not, and found that the former evidenced less earnings management, more timely loss recognition, and more value relevance of accounting amount than did the latter. They found, that international standards adopters had a higher frequency of large negative net income and generally exhibited higher accounting quality in the post-adoption period than they did in the pre-adoption period. The results suggested an improvement in accounting quality associated with using international standards.

Another study by Jermakowicz et al. (2007) found that first time mandatory adopters experience statistically significant increases in market liquidity and value after international standards reporting become mandatory. The effects were found to range in magnitude from 3 % to 6 % for market liquidity and from 2 % to 4 % for businesses by market capitalization to the value of its assets by their replacement value.

The role of International Accounting Standards in Business Planning

The first priority of the Financial Accounting Standards Board (FASB) is to improve financial reporting for the benefit of investors and other users of financial information in U.S. capital markets. We do that by striving to set the highest-quality standards, which collectively are known as Generally Accepted Accounting Principles (GAAP). The FASB believes that seeking more comparable global accounting standards—improving the quality of accounting standards used around the world while reducing differences among those standards—is consistent with its core mission. Investors,companies, auditors, and other participants in the U.S. financial reporting system benefit from the increased comparability that can result from the closer alignment of standards used internationally. More comparable standards have the potential to reduce costs for both users and preparers of financial statements and make worldwide capital markets more efficient. The Securities and Exchange Commission (SEC) expects the FASB to consider, in developing standards, the extent to which international comparability is necessary or appropriate in the public interest and for the protection of investors.

The bilateral convergence program begun in 2002 by the FASB and the International Accounting Standards Board (IASB), the FASB has implemented a three-part strategy for seeking greater comparability in accounting standards internationally:

- Developing high quality GAAP standards
- Actively participating in the development of International Financial Reporting Standards (IFRS)
- Enhancing relationships and communications with other national standards setters.

Developing High Quality GAAP Standards

The FASB continually strives to meet the needs of investors and other users of GAAP-based financial reports, both within and outside the United States, by improving the quality of GAAP. The FASB believes that the high-quality standards it develops will continue to influence the shape and future direction of international standards, as they have for more than 40 years. As it undertakes standard-setting projects, the FASB carefully evaluates whether U.S. financial reporting would be improved by implementing approaches consistent with particular IFRS standards. This also would enhance international comparability for the benefit of investors and other capital market participants. This evaluation happens on a standard basis.

Actively Participating in the Development of IFRS

The FASB participates actively in the development of IFRS, providing input on IASB projects through the IASB's Accounting Standards Advisory Forum (ASAF) and through other means. The FASB contributes to the development of IFRS by sharing views based on its past experience or developed through the FASB's due process, stakeholder outreach, analysis, and deliberations. We believe our efforts to improve GAAP benefit from the international perspectives gained through our interactions with the IASB.

Enhancing Relationships and Communications with Other National Standard Setters

The FASB works to maintain and strengthen its existing cooperative relationships with other national standard setters. The broader flow of information and ideas resulting from these relationships mutually informs each organization's thinking and contributes to the shared understanding of perspectives and circumstances that can reduce or avoid unnecessary differences among standards used internationally. In some cases, however, the FASB (or other national standard setters) may conclude that the best interests of its own capital markets outweigh the goal of completely converged accounting standards. Since 2000, significant progress has been made toward achieving greater comparability in accounting standards on an international level. The increasing number of countries around the world has decided to require the use of IFRS, which increased the comparability of reporting internationally.

But increasing the comparability of standards is not easy. It cannot be accomplished by the FASB alone; it requires cooperation and agreement among standard setters around the world. Different starting points, different business cultures, different regulatory environments, different financial reporting objectives, and different legal systems can make it difficult for standard setters around the world to agree on the same accounting alternative. Moreover, an alternative that is perceived as an improvement in one country may not be perceived as an improvement by another country.

The FASB is developing the current expected credit loss (CECL) approach to accounting for impairment of financial instruments in response to feedback that the complex "three-bucket approach" developed with the IASB would be difficult to apply and would likely have decreased loan loss reserves of U.S. financial institutions. That result is counterintuitive to the lessons learned during the recent financial crisis. The FASB has made an initial decision to retain the straight-line approach of expense recognition for certain leases owing to a different conclusion about the benefits and costs of the IASB's proposed front-loaded approach. Dramatically different starting points affected the approach to the insurance contracts project. GAAP long has had standards while IFRS has not. In response to feedback from investors and others that GAAP was largely meeting their needs, the FASB abandoned the fundamental revisions necessary for full convergence to focus on more targeted improvements. Early in their bi-lateral convergence program, the FASB and IASB concluded that international comparability would be enhanced if

GAAP and IFRS used the same words and phrases. Recent experiences raise questions about that conclusion. The FASB is considering whether international comparability may sometimes require the use of different words or additional guidance tailored to the U.S. reporting environment. For example, the FASB has been told that the definition of a business in the jointly developed business combination standard is being interpreted differently in the U.S. than elsewhere, notwithstanding the use of identical descriptions.

CONCLUSION

International accounting standards create more transparency on the financial market. This provides investors more accurate information on company profiles. This way, even small investors (and not only professionals) will be able to get the information needed for their investment choices, thus they will be able to better compete on the market. More transparency will result in more international transactions that will have reduced costs because of the clear information provided by companies' reports. In case of consolidated accounts, (when the company has foreign subsidiaries) book-keeping will be facilitated and will also result in reduced transaction costs. No more adjustments will be needed in order to make financial reports of companies internationally comparable. Reduced costs will also result in more cross-listings and cross-border investments. International accounting standards also have a good effect on the division of labour. Thus, these standards and the less transaction costs will enable companies to be able to trade easier between each other. This will let them specialize in the field of their strengths and rather rely on suppliers that are also specialists in another field of their own than trying to produce the same product in-house, which will create a division of labour on the market. Accounting standards also provide information on company's disclosure. Better transparency, by providing more information, and providing the accurate and understandable information will reduce the risk perceived by investors. The risk in question is the accounting risk that comes from the difficulties in understanding the accounting principles and standards applied by the firm, and also the inability of investors to process the information provided.

International accounting standards are also becoming more popular and tend towards integration as the global economy. The global standards have many benefits that are supported by many factors. However, there exist some restraining factors. Due to the globalization of the markets, international investors need access to financial information of companies that is easier by harmonized accounting standards. Many economic choices are done when investors realize their activities. These economic factors mostly favour international harmonization. Clear information is needed in order to facilitate investments in all the sectors. It seems to be apparent that the appropriate international accounting standards contribute to the division of labour, to financial innovation and to the reduction of the transactional costs, the cost of capital and even to the increase of the enterprises' earnings. The first argument for the harmonization of accounting standards is the existence of the multinational companies, who invest enormous efforts into the preparation of their financial statements in order to comply with the national standards. For these companies life would be much easier if the same rules would apply to their subsidiaries all round the world. On the other hand, this would be profitable for the investors as well, as they could compare the enterprises' results without difficulties, which would spare both money and other resources for them. This would also lead to the reduction of the information asymmetry between managers and investors. The information asymmetry is a costly thing which can be blamed for the increase of the equity's cost and the inaccuracy of the economical and the financial forecasts. So the aim of the international accounting standards is that similar transactions are treated the same way all around the globe, which enables the creation of unified financial statements.

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