

Acceptance and Observance of International Accounting Standards: An Empirical Study of Companies Claiming to Comply with IASs

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***Abstract:** This article reports on an empirical study of the accounting policies and disclosures of a sample of major companies from around the world claiming to comply with IASs in 1996. Specifically, the research addresses the extent of compliance with the IASs revised during the Comparability Project. The findings reveal significant noncompliance with IASs including: use of LCM for inventories; violation of the all-inclusive requirement for reporting profit/loss and of the strict definition of extraordinary items; failure to capitalize certain development costs; failure to provide all required disclosures for property, plant, and equipment, particularly those associated with revaluations; failure to comply with pension disclosure requirements; for companies operating in hyper-inflationary economies, failure to restate foreign entities in accordance with IAS 29; and charging goodwill to reserves or amortizing goodwill over a period in excess of the 20 year limit. Noncompliance, as evidenced by the current research, is very problematic for the IASC as it strives to achieve an IOSCO endorsement and as IAS 1 Revised becomes effective for 1999 financial statements.*

Currently, the International Accounting Standards Committee (IASC) is completing an intensive work program to develop a core set of accounting standards for the purpose of cross-border securities market listings and capital raisings. The IASC and several of its major constituents hope these standards will be endorsed by the International Organization of Securities Commissions (IOSCO) and thus provide significant support for the acceptance and observance of International Accounting Standards (IASs). During the Comparability Project, the IASC revised ten IASs, effective 1995, to incorporate a more uniform approach. Additional standards have been and are currently being developed and introduced in accordance with the agreement with IOSCO to complete a core set of IASs by 1999.

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It would seem opportune at this critical point in the 25-year history of the IASC to assess the extent to which IASs are currently being accepted and observed by companies in practice. While compliance is an issue of substantial importance, the IASC is also concerned that companies claiming compliance may not in fact be complying with all of the requirements of IASs. In this regard, the President of the International Federation of Accountants (IFAC) has also criticized auditors for asserting that financial statements comply with IASs when the accounting policies and other notes show otherwise (Cairns, 1997). The recent revision of IAS 1 to require companies stating that they are in compliance with IASs to comply with all IASs without exception reflects these concerns.

The purpose of this research is to report on an empirical study of the accounting policies and disclosures of a sample of major companies from around the world claiming to comply with IASs in 1996. Companies that have voluntarily adopted IASs and claim to comply with them should provide a good test of IAS's relevance and feasibility in practice. The key research questions addressed are as follows:

- To what extent are companies claiming to comply with IASs doing so in practice?
- What are the most important areas of measurement and disclosure noncompliance?
- What are the implications of noncompliance for the acceptance and observance of IASs in the future?

INTERNATIONAL HARMONIZATION PRESSURES

Pressures for the international harmonization of accounting have grown rapidly since the early 1970s when the IASC was established, along with the development of stock markets internationally and the growth of international investment. The benefits of international accounting standards include the reduction of investment risks and cost of capital worldwide, the lowering of costs arising from multiple reporting, the elimination of confusion arising from different measures of financial position and performance across countries, the encouragement of international investment, and the more efficient allocation of savings worldwide (Sharpe, 1998). However, while IASs issued during the 1970s and 1980s were recognized to have made some progress towards international harmonization, by the late 1980s the performance of the IASC was increasingly criticized because of the flexibility of IASs and a continuing lack of comparability across country borders.

An important development at this time was the agreement of the IASC and IOSCO in 1988 to work together to find a way to allow a company to list its securities in any foreign stock market on the basis of one set of financial statements conforming to IASs (Cairns, 1995). The IASC responded with its 1989 Comparability Project defined in Exposure Draft (E) 32, *Comparability of Financial Statements* (IASB, 1989). The aim of the proposals in E 32 was to eliminate most of the choices of accounting methods then permitted so as to enhance the credibility and acceptability of IASs by the international investment community.

The outcome of the Comparability Project was the revision of ten IASs, effective 1995, including the elimination of twenty hitherto permitted accounting methods (IASB, 1993). However, subsequent to completion of the Comparability Project,

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