

The Use of International Accounting Standards Terminology, a Survey of IAS Compliance Disclosure

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Abstract: This study examined where and how companies that purport to be using International Accounting Standards (IAS) are referring to IAS in their financial statements. Virtually all firms surveyed referred to IAS in the footnotes but referred to IAS in the audit report just under 50% of the time. The largest group of companies uses a combination of home-country and IAS standards. A significant number of firms report the use of IAS standards with exceptions. The majority of these firms do not discuss the dollar impact of those exceptions. Referencing IAS with home country standards or exceptions reduces comparability and transparency of financial statements. The International Accounting Standards Committee (IASC) is referenced as the source of IAS in about half of the cases. Failure to reference the IASC as the source of IAS may result in ambiguity concerning what IAS means.

Globalization of the world economy has resulted in companies striving to raise capital in the global market place. This in turn has led to a call for worldwide comparable financial statements to facilitate the free flow of capital across national borders.

A recent study by the Financial Accounting Standards Board (FASB) had the following to say on the subject of the importance of *internationally comparable* accounting standards:

Global competition has led many firms to look increasingly to new investors markets to finance the expansion and modernization needed to keep pace and advance in world markets. Likewise, investors look increasingly to other countries to broaden their investment opportunities and diversify risks. As a result, the need for *internationally comparable* financial statements and, therefore, *internationally comparable* accounting standards, has never been greater. (FASB, 1996, p. 3) [Emphasis added]

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PURPOSE OF STUDY

The purpose of this study is to examine the financial statements of a number of international companies to determine where and how they refer to International Accounting Standards (IAS) in their financial statements, and to advocate consistency in such references. Consistency is important because if companies use IAS selectively, comparability becomes more difficult, if not impossible.

In the US and many other countries, the accounting standards used in the financial statements are referenced in the audit report. The reader of these financial statements can have confidence that they are prepared in accordance with the basis of accounting stated in the audit report, and can compare them to the financial statements of another company that makes a like reference. Similarly, if a company refers in the audit report to the use of IAS promulgated by the International Accounting Standards Committee (IASC), the investor can compare these financial statements to other companies that make the same reference. However, if a company refers to the use of IAS in the footnotes, but not in the audit report, are the financial statements comparable? If the auditor has chosen not to mention IAS in the audit report does this indicate the financial statements are *not* prepared in accordance with IAS even though the footnotes indicate otherwise? Can we compare financial statements of firms using IAS selectively along with local accounting standards? In addition, can we be assured that a company is actually using IAS if the IASC is not referenced? For the above reasons the financial statements were examined to investigate if there is consistency in the way companies refer to the use of IAS. If there is no consistent pattern then the financial statements may not be comparable.¹

The remainder of this paper is organized as follows:

- A discussion of the primary methods that have been advanced to ease the cross-border listing of securities
- The classification of companies into categories, classes and cases dependent upon where and how they reference IAS in the audit report and footnotes to the financial statements
- A discussion of the results of the study, and
- Summary, conclusion, and recommendations.

METHODS TO FACILITATE CROSS-BORDER LISTINGS OF SECURITIES

Three primary methods have been advanced to ease the problem of cross-border listing of securities: mutual recognition, reconciliation to home-country generally accepted accounting standards, and the use of IAS.

Mutual Recognition

Under mutual recognition, the financial statements of country A, prepared under its accounting standards, would be acceptable for listing in country B, and vice versa. Under such circumstances, a German firm listed on the Frankfurt stock exchange would be able to list on a US stock exchange using German GAAP. US companies would be able to list

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