

Advancing The Harmonisation of International Accounting Standards: Exploring an Alternative Path

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Abstract: The IASC has been actively pursuing the goal of international accounting harmonisation for two decades. Whilst there has been much productive output, little progress has been made in achieving global uniformity in accounting. In attempting to explain the lack of progress, this paper adopts the view that the cause of stagnation is the process used to mobilise harmonisation. The IASC has only recently acted upon the fact that there has not been enough examination of the processes and structure of the IASC. Yet analysis of the mobilisation process reveals a number of flaws, among these, concerns about the institutional legitimacy of the IASC. The consequence of these flaws is that uniformity in reporting practices is unlikely unless alterations are made to the mobilisation mechanism, in this instance the IASC. This paper proposes a restructuring of the IASC and the adoption of the convention method as a means to remedy the perceived flaws in the current process.

INTRODUCTION

Traditional international boundaries are becoming less relevant to business enterprises as the global marketplace evolves. International bodies such as the European Union (EU), Association of South-East Asian Nations (ASEAN) and the International Organisation of Securities Commissions (IOSCO) are actively working to create business infrastructures which facilitate international trade and commerce. Aspects of international business and trade — such as law, marketing, finance, and economics — have all, by methods such as treaties and bi-lateral agreements, transcended national boundaries and converged. Within the international business community there is now an expectation that accounting, as the information provider to business and a part of the international business infrastructure, should also transcend national boundaries and converge (Purvis et al 1991). Accountants refer to this process as harmonisation or standardisation.

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Harmonisation will make the comparison of international reporting and investment opportunities easier, more rapid, and a less expensive activity. In addition, the harmonisation of accounting practices has numerous financial, strategic and commercial advantages for multinational corporations (MNCs) (Tondkar et al 1989). In 1973, accounting practitioners from around the world joined forces and established a global body whose function is to minimise variations in international accounting principles and reporting practices via the promulgation of international accounting standards. This body, the International Accounting Standards Committee (IASC), has been productive in its role. The IASC has issued numerous standards and a conceptual framework for financial reporting. Global or international harmonisation in accounting, however, appears to remain as elusive as ever.

Whilst the history of the harmonisation debate indicates that any journey along the continuum identified by Tay and Parker (1990)¹ will be, and indeed already has been, interrupted by numerous hurdles and obstacles, it appears that some within the international business community maybe becoming impatient with the lack of progress. The proponents of harmonisation within the accounting community must develop mechanisms to overcome such obstacles as they arise if harmonisation is to be achieved. This may include the adoption of a new or modified structure to implement the process.

Wallace (1990) suggested that a lack of progress was due to deficiencies in the process, namely that the IASC lacked sufficient authority and substantive due process. In examining its survival strategies, he provided an explanation of how the IASC has tried and is trying to overcome the deficiencies through the management of its external environment. Internally, it was noted, more funds and manpower were needed (Wallace, 1990). Reacting to criticisms, the IASC response has been to broaden the range of membership. Whilst this has advantages in increasing the level of financial contributions, it has resulted in an unwieldy and cumbersome executive structure. Any increase in participants needs to be managed carefully to achieve an outcome that enhances not inhibits the IASC. Yet, there can be little doubt that the IASC harmonisation program has had limited success. Discussions of the nature that follow can be useful devices for re-opening debates in areas that have stalled and require new approaches in order to move forward. In the case of the structure of the IASC, an initial absence of serious debate about the best mechanism to achieve harmonisation may be a cause of the current problems and the lack of progress. The re-organization of the standard setting process is a contentious issue, argumentative by nature. As such, the acceptability of proposals will be dependent upon an individual's opinions and philosophical viewpoint.

The purpose of this paper is to present an alternative mechanism for the harmonisation of international accounting which may assist in overcoming existing deficiencies in the IASC approach. One option is for accounting to emulate the model of international law and move to a system similar to the convention method which operates in intellectual property law. Under the convention method, universal practices and obligations can be supported with legal backing after governments consent to negotiated international treaties. In intellectual property law this process is supported by the World Intellectual Property Organisation (WIPO), a body with which a modified IASC may be highly analogous. This may perhaps mean redefining the IASC and altering its structure so that it becomes the International Accounting Standards Convention.

The paper commences with a brief discussion of the proponents of harmonisation and an evaluation of the current approach to achieving the harmonisation of international

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