



Emerging Markets Queries in Finance and Business

# Convergence of consolidated financial statements regulations: are we there yet?

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## Abstract

The official debut of the convergence process between the IFRS and the US GAAP standards took place in 2002, after IASB and FASB signed the Norwalk Agreement, a memorandum of understanding in which both parties stated their engagement to develop high-quality and compatible standards, with the ultimate goal of a single set of high-quality global accounting standards. The 2002 Norwalk Agreement was reinforced after the publication, in 2006, of a new memorandum document, The Roadmap for Convergence, in which the two regulatory bodies stated their short-term and long-term objectives for the convergence process. One of the long-term convergence objectives regarding the consolidated financial statements, materialized in joint projects – Business Combinations and Consolidations – can be considered completed after the issuance of the new versions of IFRS 3 in 2008 and of IAS 27, IFRS 10, IFRS 11 and IFRS 12 in 2011. But are we there yet? Given that the accounting convergence process had become, for some time now, one of the most debated and challenging issues for practitioners, regulators and researchers, we show the same special interest in the research undertaken. The main purpose of this paper is to establish the level of convergence between the two most representative sets of accounting standards applicable to entities in the private sector. Unlike previous studies carried out on this topic, which measure the general accounting harmonization for private sector, our study focuses on a specific issue, namely the formal accounting harmonization between IFRS and US GAAP regulations regarding consolidated financial statements. The research methodology used for achieving our objective was based on some statistical tools, such as correlation and/or association coefficients. The result reveals that IFRS have substantially converged with US GAAP, at least in the area of consolidated financial reporting, but there still exist some differences between the two referentials.

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Selection and peer-review under responsibility of the Emerging Markets Queries in Finance and Business local organization

*Keywords:* accounting convergence, accounting harmonization, consolidated financial statements, IFRS, US GAAP

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## 1. Introduction

Currently, globalization is a worldwide booming phenomenon, a long process, whose complexity and irreversibility are now recognized, accepted and acknowledged by the vast majority of countries. It is obvious that the benefits of the existence of a common and uniform financial reporting framework, which is based on the globally accepted accounting standards, are more pronounced in the current conditions of globalization. We can thus speak of a process of accounting harmonization, standardization and uniformity accounting, but also of a comprehensive process of accounting convergence, convergence to a set of high quality standards accepted by the accounting profession worldwide. Accounting convergence plays an important role in the projects of prominent international and national accounting regulatory bodies who have realized and supported the need for compatible and high quality international standards. This process of convergence which has become the common goal of the two major international bodies (FASB and IASB) is the largest depth in accounting internationalization plan (Feleagă and Feleagă, 2007). At the same time, the accounting convergence is presented as a process of moving towards a single point, especially the movement toward union or uniformity. Accounting convergence process questions the increase of comparability between two or more international accounting referentials, while accounting harmonization phenomenon refers to the degree of compatibility and/or comparability between a national and international accounting standards. In the specialized literature, the concept of accounting convergence is mainly used where there is a direct reference to U.S. GAAP compared to IAS/IFRS (Mustață, 2008). The convergence between U.S. GAAPs and IFRS has its starting point in 2002, after the meeting of FASB and IASB members, when the Norwalk Agreement was signed. Following this agreement, the IASB and the U.S. Financial Accounting Standards Board (FASB) have expressed their commitment to work together in order to achieve convergence of IFRSs and U.S. Generally Accepted Accounting Principles (GAAP) and to remove the differences between these referentials; there still remains a priority of both the IASB and the FASB the common set of high quality global standards. Over time, the two sets of standards are expected to improve both in quality and become increasingly similar, if not identical. Therefore, Schipper (2005) points out that the purpose of FASB-IASB convergence efforts is to approximate U.S. GAAP and IFRS standards as much as possible in different jurisdictions, improving the overall quality of these standards. To achieve compatibility between standards, these two bodies have focused their efforts on: short term convergence projects; and major joint projects.

Regarding the issue of the consolidated financial statements, the topic of Joint Arrangements was taken into account, and in 2007 an exposure draft ED 9 "Joint Arrangements" was published which has resulted in issuing a standard in 2011, namely IFRS 11. Regarding long-term projects it can be observed as Business Combinations and Consolidation projects are on the agenda of the two regulatory bodies. These two projects have been completed by issuing new standards in 2007-2008 and others in 2011. The entire process of convergence has enjoyed support of the world from the beginning, but we believe that although there were issued a number of new standards on consolidation, convergence has not yet been achieved and there are also a number of significant differences between the two sets of standards.

Our paper is structured as follows: First we presented some aspects regarding the process of convergence between the most important referentials (IFRS and US GAAP), then we continued our study pointing out the main contributions of the researchers on the topic of convergence and harmonization and then, we tried to establish through an empirical analysis the stage of convergence between IFRS and US GAAP regarding consolidation aspects. Finally we provided the research findings.

## 2. Literature review

Accounting convergence process is a very debated and challenging topic of research worldwide. Accounting convergence process is present in the literature in studies that examine in particular the issue of convergence

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