The International Accounting Standards Board

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Introduction

The United States of America has a huge influence on the accounting standards in use around the world. The USA follows the Financial Accounting Standards Board (FASB), which has many standards that are disseminated by the international accounting standards committees. The rest of the world follows the International Accounting Standards Board (IASB). The IASB is head-quartered in London, England and is an independent and privately-funded accounting standard-setter (International accounting standards, 2010). The board consists of representatives from nine different countries and is designed to achieve convergence in accounting standards around the world (IASB international, 2010).

History

The International Accounting Standards Board was established on April 01, 2001 to replace the International Accounting Standards Committee (IASC). The IASB is expected to develop International Financial Reporting Standards (IFRS), which are accounting standards promulgated after 2001, and to enforce the use of each standard (International accounting standards, 2010). The IASC operated from June of 1973 until April 01, 2001. It was established as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Ireland, Japan, Mexico, the Netherlands, the United Kingdom, and the United States. In 1977, the International Federation of

Accountants (IFAC) was established, and in 1981, the IASC and the IFAC agreed that all standards would be completely issued by the IASC autonomously (International accounting standards, 2006).

Figure 1 illustrates a timeline of the history and development of the IASB.

Figure 1. IASB Timeline

1966	Proposal to establish an International Study Group comprising the Institute of Chartered Accountants of England & Wales.
1967	In February the Accountants International Study Group (AISG) was founded.
1973	In June the International Accounting Standards Committee (IASC) was established
1973-2000	Between these years, the IASC released a series of standards known as the International Accounting Standards
1997	Standing Interpretations Committee was established to consider contentious accounting issues
2000	International Accounting Standards were finally recognized in the Stock Exchanges around the world
2001	The International Accounting Standards Board (IASB) came into effect on April 01, 2001
2003	The first IFRS was published in June
2005	Companies in the UK were required to present their financial statements using the international accounting standards adopted by the European Union

Source: Knowledge guide to IAS & IFRS, 2010.

Today, the International Accounting Standards Board (IASB) is an independent group that consists of fifteen board members. The members are appointed by a Board of Trustees, and by 2012, an additional board member will be added, following a decision made in January 2009 (Members of the IASB, 2007). These members are listed in the Appendix.

Purpose

In April 2001, Framework was adopted by the International Accounting Standards Board (IASB) to serve as a guide to the Board in developing accounting standards. Framework has four main purposes: defining the objectives of financial statements; identifying characteristics that make the information useful; defining the basic elements of financial statements; and providing concepts of capital maintenance (Summaries of international financial reporting standards, 2010). The objective of financial statements is to provide information on financial position, changes in financial position, and an organization's financial performance (The IASB framework, 2008).

Framework maintains two major assumptions about International Financial Reporting Standards (IFRS). The first is the accrual basis which assumes that a transaction will be recorded when it occurs, not when the cash from that transaction is received. The second is going concern, which assumes that a company or business entity will remain in existence for the foreseeable future (International financial reporting, 2010).

For many years, each country has had its own system of accounting standards and principles; however, as many companies became international, the workload to report financial statements multiplied. Not only were companies required to report financial statements using their home country's standards; but the company would also be required to report financial statements using the standards of all countries that were listed as exchanges (The unification of international accounting standards, 2007).

Generally Accepted Accounting Principles (GAAP)

The United States of America is currently the only country in the world that does not follow International Financial Reporting Standards (IFRS) or the International Accounting Standards Board (IASB), but rather follows Generally Accepted Accounting Principles (GAAP) and the Financial Accounting Standards Board (FASB). The Securities and

Exchange Commission (SEC) recently issued a proposal in which the United States would eventually comply with IFRS and follow the IASB instead of GAAP.

Since 2002, the FASB and the IASB have been working together to adapt GAAP and IFRS with a goal of producing a single, high-quality set of accounting standards (Kamman, Kosnik, & Kelly, 2009). On October 29, 2002, the FASB and the IASB issued a memo with the understanding that a significant step would be made toward formalizing the merge of the FASB and the IASB (FASB vs. GAAP financial accounting standards board, 2010). This change is expected to occur in 2014; however, it has been placed under severe scrutiny due to the major changes that are expected for accounting principles for United States companies (McKay, 2009).

Generally Accepted Accounting Principles (GAAP) is a common set of accounting principles, standards, and procedures that companies use to report their financial statements. GAAP are a combination of respected standards and are the commonly accepted ways of recording and reporting accounting information (Generally accepted accounting principles, 2010). It was first established in 1973 and is currently the only organization in the private sector responsible for developing accounting standards in the United States (FASB vs. GAAP financial accounting standards board, 2010). Companies use GAAP to give investors a minimum level of consistency while analyzing financial statements such as revenue recognition, balance sheet classification, and outstanding share measurements (Generally accepted accounting principles, 2010). Figure 2 illustrates the Financial Accounting Standards Board Mission Statement.

Figure 2: FASB Mission Statement

The FASB mission is to establish and improve standards of financial accounting and reporting for the guidance and education of the public including issuers, auditors, and users of financial information. Accounting standards are essential to the efficient functioning of the economy because decisions about the allocation of resources rely heavily on credible, concise, transparent, and understandable financial information. Financial information about the operations and financial position of individual entities also is used by the public making various other kinds of decisions.

Source: FASB vs. GAAP financial accounting standards board, 2010.

In order to accomplish the FASB's mission statement, the FASB acts to improve the usefulness of financial reporting, keep standards current, consider promptly, promote the international convergence of accounting standards, and improve a common understanding (FASB vs. GAAP financial accounting standards board, 2010).

Similarities Between FASB and IASB

An important similarity between Generally Accepted Accounting Standards (GAAP) and International Financial Reporting Standards (IFRS) is the manner in which they recognize stock-based compensation. The model followed by both Boards maintains that the fair value of shares and options available as compensation to employees should be recognized over the employees' service dates (Putra, 2009).

On May 23, 2002, the International Accounting Standards Board (IASB) issued the Preference to International Financial Reporting Standards, which addresses the Board's due process for developing and issuing IFRS. The due process is very similar to the FASB's due process, which involves accountants, financial analysts, and other users of financial statements (Gornik-Tomaszewski & McCarthy, 2003).

In April 2004, both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) agreed to combine their projects on the reporting and classification of items of revenue, expenses, gains, and losses. This agreement led both Boards to examine the presentation of information in the financial statements (The unification of international accounting standards, 2007).

A further similarity of both Boards states that equity-like instruments giving the holder rights to demand cash settlements must be classified as liabilities (Epstein, 2008). Figure 3 illustrates the agreement regarding the reporting of financial information for both GAAP and IFRS that was implemented on June 30, 2008.

Figure 3: Working Format for Presenting Information in the Financial Statements

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business • Operating assets and liabilities • Investing assets and liabilities	**Business** • Operating income and expense • Investing income and expense	**Business** • Operating cash flows • Investing cash flows
Financing • Financing assets • Financing liabilities	**Financing** • Financing asset income • Financing liability expense	**Financing** • Financing asset cash flows • Financing liability cash flows
Income Taxes	**Income Taxes (related to business and financing)**	**Income Taxes**
Discontinued operations	**Discontinued Operations, Net of Tax**	**Discontinued Operations**
Equity	**Other Comprehensive Income, Net of Tax**	**Equity**

Source: McClain, & McLelland, 2008

Differences between FASB and IASB

There are both minor and major differences between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). Some minor differences are as follows: The FASB came into existence in 1973 and is based in the United States, while the IASB was established on April 01, 2001 and is based in London, England. The FASB replaced the Accounting Principles Board (APB) and the Committee on Accounting Procedure (CAP), while the IASB replaced the International Accounting Standards Committee (IASC). Additionally, the FASB is a non-profit organization that develops Generally Accepted Accounting Principles (GAAP), while the IASB develops International Financial Reporting Standards (IFRS) (Differences between IASB and FASB, 2009).

One specific example of the differences is that the International Financial Reporting Standards (IFRS), produced by the IASB, prohibits the use of Last-In-First-Out (LIFO) for inventory purposes (The unification of international accounting standards, 2007). LIFO is an asset-management and valuation method that assumes that all assets acquired last are the ones that are used, sold, or disposed of first. Selling an asset for less than its initial cost constitutes a capital loss; selling an asset for more than its initial cost constitutes a capital gain. Using LIFO to manage inventory can be tax advantageous but may also increase tax liability (Last in first out – lifo, 2010).

Another concept the IFRS prohibits is the use of extraordinary items. Because this has been prohibited, the way earnings per share (EPS) are reported on income statements is quite different. These differences affect the way investors, analysts, creditors, government agencies, and businesses analyze financial statements (The unification of international accounting standards, 2007). Although the calculation of EPS between the two Boards is similar, there are some minor differences. While GAAP gives companies a choice between whether to settle contracts in either cash or shares, IFRS requires companies to settle contracts with shares only (Putra, 2009).

A further major difference between IFRS and GAAP are characteristics defining equity and debt. GAAP requires entities to reassess whether an embedded derivative should be separated at the end of each reporting period, while IFRS only requires this if there is a change in the terms that significantly modifies the cash flows. Also, GAAP requires non-current presentation of defaulted debt if a waiver is granted before the settlement issuance date, while the IFRS requires this after the balance sheet date only (Epstein, 2008). GAAP allows convertible debt to be recorded as long-term debt; while the IFRS records convertible bonds separately into the equity component and the debt component, which is illustrated in Figure 4.

Figure 4: IFRS Accounting for Convertible Debt

As indicated, a significant difference in iGAAP and U.S. GAAP is the accounting for convertible debt. To illustrate, assume Amazon.com issued, at par, $10 million of 10-year convertible bonds with a coupon rate of 4.75%. Amazon makes the following entry to record the issuance under U.S. GAAP.

Cash	10,000,000	
Bonds Payable		10,000,000

Under iGAAP, Amazon must "bifurcate" (split out) the equity component—the value of the conversion option—of the bond issue. The equity component can be estimated using option-pricing models. Assume that Amazon estimates the value of the equity option embedded in the bond to be $1,575,000. Under iGAAP, the convertible bond issue is recorded as follows:

Cash	10,000,000	
Discount on Bonds Payable	1,575,000	
Bonds Payable		10,000,000
Paid-in Capital—Convertible Bonds		1,575,000

Thus, iGAAP records separately the bond issue's debt and equity components. Many believe this provides a more faithful representation of the impact of the bond issue. However, there are concerns about reliability of the models used to estimate the equity component of the bond.

Source: Putra, 2009

Currently, the view of fair value is another difference between both Boards. The IASB classifies all assets according to their cash flows, while the FASB requires everything to be valued at fair value. Figure 5 illustrates the concepts that require improvements and in which the IFRS and GAAP need to develop a common understanding.

Figure 5: Concepts Requiring A Common Understanding

Areas identified for improvement in IFRSs and US GAAP, where the Boards are at different stages in standard development and will seek a common standard				
Convergence topic	**Progress expected to be achieved by 2008, as stated in the 2006 MOU**	**Current status**	**Estimated completion date**	**Next step(s)**
8. Consolidations	To implement work aimed at the completed development of converged standards as a matter of high priority.	Both Boards to publish Exposure Drafts in 2008.	Both Boards to issue Final standards in 2009-2010.	Decision in 2008 on a strategy to develop a common standard.
9. Derecognition	To have issued a due process document relating to the results of staff research efforts.	Both Boards to publish Exposure Drafts in 2008 or early 2009.	Both Boards to issue Final standards in 2009-2010.	Decision in 2008 on a strategy to develop a common standard.
10. Fair value measurement	To have issued converged guidance aimed at providing consistency in the application of existing fair value requirements.	FASB: Completed standard. IASB: Issued Discussion Paper in 2007. Board deliberations are ongoing.	FASB: Standard issued in 2006. IASB: 2010	IASB: Exposure Draft in first half of 2009 FASB: Review FAS 157 in light of IASB's deliberations.
11. Post-employment benefits (including pensions)	To have issued one or more due process documents relating to a proposed standard.	FASB: Completed first stage of FASB-defined project. IASB: Discussion paper issued in March 2008.	IASB: 2011	IASB: Exposure draft in 2009, following consideration of comments on discussion paper.

Source: Alloway, 2009

Why the US Should Not Adopt IFRS

Although the Securities and Exchange Commission (SEC) believes in making the United States follow the IASB and IFRS, the majority of American business people do not share this belief. In 1999, the FASB conducted a study which concluded that FASB is not a lower quality standard than IFRS. According to Yohn, GAAP is just as good, if not better, than the IFRS and many believe that there is no reason to switch now. According to Coffee, European scandals are very different than American scandals due to significant differences in ownership structure; therefore, the IASB and IFRS will not work as well as the FASB and GAAP (*The Accounting onion: top ten reasons why us adoption of IFRS* *is a terrible idea,* 2008). Another negative aspect in changing to IFRS from GAAP is the possibility that market values for stocks and bonds would go down drastically (Albrecht, 2008).

The Securities and Exchange Commission (SEC) originally called for improvements to funding and governance of the IASB; however, in most recently released statements, the SEC has stated that the IFRS is highly inadequate. According to MIT and Wharton professors, the United States economy and capital markets will not be served well by the IFRS because different countries have different goals with respect to financial reporting regulations (McKay, 2009).

Conclusion

The International Accounting Standards Board (IASB) has some concepts in common with the Financial Accounting Standards Board (FASB); however, there are more differences than similarities. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) both provide excellent principles; however, the United States should continue to comply with GAAP and continue to have GAAP developed by FASB.

American companies will not be likely to fully accept IFRS or the IASB, because it moves control over financial standards abroad and because IFRS has standards that differ from the American standards- those upon which business decisions in this country have been made. Although, the SEC is attempting to merge both Boards and both concepts, the differences between the two suggest that it may take longer than four years to create a Standards Board that the United States will accept.

Appendix: International Accounting Standards Board Members

Name	*Appointed*	*Term Expires*
Sir David Tweedie, Chairman	January 2001	June 30, 2011
Stephen Cooper	July 2007	June 30, 2012
Philippe Danjou	July 2007	June 30, 2012
Jan Engstrom	May 2007	June 30, 2012
Patrick Finnegan	July 2009	June 30, 2014
Robert P Garnett	June 2005	June 30, 2010
Gibert Gelard	June 2001	June 30, 2010
Amaro Luiz de Oliveira Gomes	July 2009	June 30, 2014
Prabhakar Kalavacherla	January 2009	June 30, 2013
James J Leisenring	January 2001	June 30, 2010
Patricia McConnell	July 2009	June 30, 2014
Warren McGregor	January 2001	June 30, 2011
John Smith	September 2002	June 30, 2012
Tatsumi Yamada	January 2001	June 30, 2011
Zhang Wei-Guo	July 2007	June 30, 2012
Dr. Elke Konig	July 2010	June 30, 2015
Paul Pacter	July 2010	June 30, 2012
Darrel Scott	October 2010	October 2015

Source: Members of the IASB, 2007

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