

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)  
CONVERGENCE WITH THE INTERNATIONAL ACCOUNTING  
STANDARDS BOARD (IASB)

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**BACKDROP:**

Accounting records and financial statements are prepared in accordance with the accounting principles and standards. The development of accounting principles and standards are closely associated with the growth and development of trade, commerce and industry. Accounting principles may be defined as *“those rules of conduct or procedures which are adopted by the accountants universally while recording business transactions”*. Accounting principles commonly associated with the theory and procedure of current accounting practices. The term accounting standard may be defined as *“written documents, policy documents issued by an expert accounting body or Government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statement”*. Such accounting institutions or bodies are currently found in many countries in the world, e.g., Accounting Standards Board in India, Financial

Accounting Standards Board in USA, Accounting Standards Boards in UK and Canada, and at the international level, the International Accounting Standards Board.

**METHODOLOGY:**

Against this backdrop, the paper makes an attempt to i) study the major differences between International Financial Reporting Standards and US GAAP and ii) analyze initiatives taken to converge accounting standards at international level. The present study is based secondary data. The required information is collected from various reports and websites.

**INTERNATIONAL  
ACCOUNTING STANDARDS  
BOARD:**

The development of international accounting standards is closely associated with the development of international business transactions. In order to cope with international

business, accounting must also be internationalized. In this regard, a group was formed in 1967, consisting of members from three countries, America, Canada and UK. This group, known as "Accountants International Study Group" (AISG), published many papers on accounting standards. At a meeting (1972), this group emphasized the need for accounting standards and proposed to set-up an international body which would lay down international accounting standards.

In order to maintain uniformity in accounting principles throughout the world, International Accounting Standards Committee (IASC) was formed on 29-06-1973 with headquarters at London.

This committee was formed and constituted as a result of an agreement between sixteen leading professional bodies from nine countries. Later on many other countries have taken membership in the Committee. In 2001, as part of the reorganization of IASC, the constitution was changed and its title was changed to International Accounting Standards Board (IASB). The main objective of the IASB is *"to formulate and publish in the public interest, standards to be observed in the presentation of audited financial statements and to promote their world-wide acceptance and observance."* The

board also will facilitate uniformity and harmony in the application of accounting principles and understanding accounting information. So far, IASB has been issued 41 standards on various accounting issues that are now renamed as International Financial Reporting Standards (IFRS).

### **FINANCIAL ACCOUNTING STANDARDS BOARD (FASB):**

In USA until 1971, accounting evolved in accordance with the best professional judgment of certified public accountants (CPAs) and accounting principles board (APB) which was established in 1936 to resolve specific accounting problems. As a result of the criticism of the Accounting Principle Board, the Financial Accounting Standards Board (FASB) was set up in 1972 as a designated organization in the private sector for establishing standards of financial accounting and reporting in USA. It is financed by voluntary contributions from public accounting firms, industry, investor and creditor organizations and various related organizations and individuals. The main objective of FASB is *"to establish and improve standards of financial accounting and reporting for the guidance and education of the public including auditors and users of financial information"*. So far, FASB was able

to issue 154 accounting standards called as Statements of Financial Accounting Standards (SFAS) on different accounting problems. In the United States domestic firms that are registered with the Securities and Exchange Commission (SEC) must file financial reports using US GAAP, foreign firms filing with the SEC can use US GAAP, their home country GAAP, or international standards.

framework. In particular, both see the primary purpose of financial reporting as the provision of useful information to investors for the prediction of future cash flows; and both have similar definitions of asset and liability, which are identified as the basic elements of financial statements. But, there are some general differences between US GAAP and IFRS. The some major differences between US GAAP and IFRS are as follows:

#### **US GAAP AND IFRS COMPARISON:**

The US and the IASB largely share the same conceptual

<b><u>TOPIC</u></b>	<b><u>US GAAP</u></b>	<b><u>IFRS</u></b>
1. Property, Plant and Equipment	No revaluation above cost	Fair value
2. Investment properties	Cost and depreciation	Fair value
3. Amortization of goodwill and Intangibles	40 years maximum	20 year presumption
4. Correction of Fundamental Errors	As prior year adjustment	Option to take to current year
5. Borrowing costs on Construction	Capitalized	Can be capitalized or expensed
6. Development expenditure	Expensed	Must be capitalized
7. Joint venture entities	Equity method	Equity method or Proportional consolidation

In order to avoid divergent accounting practices, FASB have been undertaking various projects with other standard setting bodies like IASB.

### **CONVERGENCE WITH THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB):**

In October 2002, the FASB and the International Accounting Standards Board (IASB) announced the issuance of a memorandum of understanding (Norwalk Agreement), making a significant step towards formalizing their commitment to the convergence of US and International accounting standards.

The FASB has undertaken the following six key initiatives to strengthen the goal of convergence of US GAAP with International Financial Reporting Standards (IFRS):

#### ***1. Joint projects being conducted with the IASB:***

Joint projects are those that standard setters have agreed to conduct simultaneously in coordinated manner. Joint projects involve the sharing of staff resources, and every effort is made to keep joint projects on a similar time schedule at each Board. Currently, the FASB and

IASB are conducting joint projects to address Revenue Recognition and Business Combinations.

#### ***The short-term convergence project:***

The short-term convergence project is an active agenda project that is being conducted jointly with the IASB and it is expected to result in one or more standards that will achieve convergence in certain areas. The scope of the short-term convergence project is limited to those differences between US GAAP and IFRS in which convergence around a high quality solution appears achievable in the short-term. Because of the nature of the differences, it is expected that a high quality solution can usually be achieved by selecting between exiting US GAAP and IFRS.

#### ***2. Liaison IASB member on site at the FASB offices:***

One of the most visible features of the FASB's daily operations that promote convergence is the presence of a full time IASB member in residence at the FASB offices. *James J. Leisenring*, a former FASB Board member, playing a role of liaison Board member to the FASB. The role of liaison board member is to facilitate information exchange and increase cooperation between the FASB and the IASB.

#### ***3. FASB monitoring of IASB Projects:***

IASB projects are monitored by the FASB based upon the FASB's level of interest in the topic being addressed.

#### ***4. The convergence research projects:***

The FASB staff is currently working on a research project related to convergence. The project seeks to identify all of the substantive differences between US GAAP and IFRS and to catalog those differences according to the Board's strategy for resolving them. The project scope includes differences in standards addressing recognition, measurement, presentation or disclosure. Any topic in which a specific accounting treatment would be permissible under one basis of accounting but would not be permissible under the other basis of accounting is included in the project scope.

#### ***5. Explicit consideration of convergence potential in all Board agenda decisions:***

Within the framework of the Board's agenda criteria, all topics formally considered for addition to the FASB's agenda need to be assessed for the possibilities for cooperation with the IASB or another standard setter. Factors that the Board considers in assessing topics for the agenda include:

- a) The possibility that resolution would increase convergence of standards worldwide,
- b) The opportunities for cooperation with other standard setters and
- c) Whether appropriate and sufficient resources are available for a joint or other cooperative effort. As a result of these and other initiatives, the FASB expects to make significant progress toward international convergence in the next few years.

### **CONVERGENCE OF ACCOUNTING STANDARDS - RELEVANCE TO INDIAN COMPANIES:**

The significance of convergence of accounting standards arises on account of globalization of Indian Economy. Globalization of Indian Economy led to increasing attention to accounting standards as Indian companies also participating in foreign markets and attracting foreign investment. Further, it is also observed that majority of Indian accounting standards are formulated in line with the International Accounting Standards, so convergence of Indian Accounting Standards with International Accounting Standards leads to maintain harmony and uniformity in the financial reporting. Thus,

convergence of accounting standards worldwide will greatly help the users of accounting information in making economic decisions by providing accounting information that is comparable, transparent and reliable.

### CONCLUSION:

There are many parties interested in international convergence of accounting standards. These include: shareholders, stock exchange, multinational companies, accounting firms, trade unions and income tax authorities. The scope for convergence is great because the international variations in practice are very large. The main reason for divergent accounting practices is nationalism, i.e., unwillingness to accept international accounting standards. However, FASB and IASB are making efforts to achieve convergence in accounting practices at international level.

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### Websites:

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3. [www.sec.gov](http://www.sec.gov)
4. [www.iasb.org](http://www.iasb.org)
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