Finance and Accounting

Executive Summary

The need of accounting standards evolved because auditors and financial analyst were generally confronted with problems of accounting like misinterpretation, biasness, ambiguity and inaccuracy. To reduce these kinds of accounting errors, a set of accounting standards was developed, which was universally recognized. Without these accounting standards each and every business entity would have to develop their own accounting standards that would make the comparison of financial information of different business enterprises difficult. The interests of the financial activities of the individual and institutional investors have become global recognizable and there has been active involvement of various organizational bodies for the development of a widely accepted accounting framework beneficial to the investors. The existence of an efficient and liquid capital market can only be possible, if the investors are provided with transparent, relevant and reliable information.

Introduction: Universal Accounting Approach &Cross Border Investment

The corporate sector is facing certain complexities in terms of corporate governance and financial reporting and has also affected the US Capital markets. The current financial community is devoid of strong framework, which can integrate the systems altogether and develop a global financial reporting language. The silver lining in the current complexities would be the sudden and tremendous progress towards the achievement of a global financial reporting language. The development of a global financial reporting language would be the establishment of a strong financial framework, which will comply with the universal accounting standards and regulations. The recent complex state of corporate governance in the UK, US and the rest of the world have forced the lawmakers of various standard setting bodies, to identify and develop varied accounting and management solutions (Allen, McAndrews and Strahan, 2001). The US Congress has responded to the crisis of the situation by developing a strong accounting framework for varied small, medium and large sized organizations. Apart from the Sarbanes-Oxley Act (2002) developed by the US government, the silent and positive work done by the International Accounting Standard Board (IASB) and International Accounting Standard Committee Board (IASC) has contributed significantly to the outcome of the organizations. These boards are endowed with activities and tasks for the development of accounting standards, which comply with the current accounting environment (Beck, Kunt and Levine, 2002). The study will lay emphasis on the accounting standards developed by leading organizations, associations and their contribution towards the betterment of the economy. The author of the study will also highlight the accounting techniques, significantly for the cross border and regional investments. Finally, the study will conclude with the summary of the existing environment market with the application of the accounting standards and tools.

Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB)

The IASB and FASB have been working in unification since the year 2002 and the two boards have converged their required tactics for the development of several accounting and investment projects. It is one of the non-profit organizations, whose primary purpose is to formulate certain accounting principles within the US region for the interest of the common people. It was established in the year 1973. The boards helped in establishing the accounting standards and regulations for educating the issuers, auditors, government and various other users. Some of the main objectives of the board would be to improve the utility of the financial reporting for the guidance of varied users, develop standards for the current business organizations, identify reports in the accounting process and promote international convergence of accounting standards in compliance with the quality of financial reporting (Djankov, et al., 2008). The IASB is one of the major accounting standards board, which are responsible for checking whether the accounting standards developed by them are effectively executed and implemented within the system for the betterment of the organization or not. The relevant associations develop high quality accounting standards, which are highly compatible with the business environment that can be used for the regional and cross border investments (Jovanovic, 2008). It is also responsible for the development of accounting framework, which is accountable for the construction of the organizational structure and also preparation of consolidated financial statements for the benefit of cross listed companies. The organizational body established in the year 2001 was ready for the preparation of accounting standards and is also responsible for the development of International Financial Reporting Standards (IFRS) (Liu, 2011). The Securities and Exchange Commission (SEC) was established in the year 1934, which was enacted by the

US Government agency primarily responsible for the enforcing of the Federal Securities Law that helps in the regulation of the securities industry and also the US stock market. The FASB works in unification with the IASB board to converge their accounting standards with a systematic set of regulations that helps the users of this accounting information worldwide (Lumpkin, 2010).

Accounting Standard & Cross Border Investment

Cross border investment is required for enterprise growth that relates to unrelated and parallel diversification (Ortiz, 2005). These cross border investments help in the development of the organizational structure, which contributes directly to the strategic growth of the organizations (Beckett, Hewer and Howcroft, 2000). There have been various legal and regulatory functional and non-functional barriers for cross border investment and consolidation with the legal requirements in prerequisite for the integration of the singular capital market (Schinckus, 2006). Cross border investment requires the analysis of shareholder's value gains and profits as a result of varied cross border deals relative to domestic and international transactions. It also helps in cross border consolidation in the banking industry and also to analyse shareholder value. Then shareholder's helps in the development of various strategies and integration of economy (Schinckus, 2008). IFRS have changed the accounting and financial information available in the market, which includes the active participation of customers, management and the government. The internationalization concept of equity trading has witnessed rapid and unprecedented growth in the recent times. The sound portfolio management system will dictate that insurance companies, large institutional investors, pension funds, mutual funds and asset managers seek international diversification if they are going to reduce their asset holdings risk to a required level of expected return and outcome. Traditionally, the investors would be able to generate a stable revenue stream while expecting a higher return on their portfolio. Although, there is varied difference between the IFRS and GAAP policy, there are certain similarities which bind the accounting policies together and help them to attain the goals in shared unification. The harmonization of the accounting standards is a prerequisite for covering the gaps in the accounting differences and also maintaining their own standards and accounting practices. The increased needs of the business enterprises have led to the development of the accounting standards as well as dissemination of accurate accounting information. There has been increased interest among the varied community developments to adopt a unified accounting standard for smooth execution of business activities. There are needs of standardized accounting methods because of the increase in the trading activities regionally and nationally. The developments in the capital markets are largely dependent on the comparable, transparent and consistent financial information. This would be required for optimal investment and managerial decision making, which would be largely influenced by the consistent financial information for acquiring capital at a very cheap cost. International trade includes all the economic transaction, which helps in the steady flow between the regions and countries and due to this it has gained importance in international trade. Financial information is regarded as an important as it helps the management to make certain credit and investment decisions. The cross border investment indicated the large volume transactions, which occur internationally and regionally for helping the shareholders, creditors and other general investment community. This is done to compare the financial performance of the companies across the globe. The non-financial information will help the corporation only to concentrate in the areas of Corporate Social Responsibility (CSR). The varied differences and discrepancies have recognized the importance of the barriers in cross border investments that have allowed the foreign investors to prefer markets with high quality financial information that acted as barriers for cross border investments. Accurate accounting standards have enabled the verifiability of the accounting information and has been regarded instrumental in making asymmetrical investment decisions. The G-20 Leader summit in the year 2005 saw a demand in the development of an accounting framework, which required the unification of the accounting standards formulated by IASB and IFRS. The regulators and researchers in the US have become increasingly conscious in setting up of a strong framework for the betterment of the organizations. The rationale behind the application of unified accounting standards in the cross border investments would be the reduction of asymmetric information in accounting methods, alleviate the information between the regional and international users. The utility on the usage of accounting information for cross border investment decision would also help in developing the relevancy of the organization. Adoption of IFRS accounting policies would help in the facilitation of growth in bilateral economic activities between two or more countries.

Benefits & Desirable Characteristics of Standardized and Uniform Accounting Methods

The setting up of unified accounting standards for reduction of information asymmetry would facilitate the exchange procedure and also promotes the cross border capital flow. Unified accounting standards would help in increasing the international mobility of capital flows, which would include variables like capital controls, geographical location and distance and also the exchange rate risks. These people have an exchange additional informational advantage over the foreign investors, which have better access to information and know readily about the economic prospects of the country and can also anticipate the future of the governmental policies. The significant differences and discrepancies of the accounting information would be disadvantageous for foreign investors. It would also be not useful and less comprehensible for users, who lack knowledge of the economic environment in which the enterprise operates. A unified accounting standard would help in the understanding the utility of the transaction costs and also any other related costs. To invest in a particular country with different financial reporting standards the investors would have presumably the dedication to apply the accounting standards as per regulations and policies with the IFRS and IASB principles. IFRS adopting countries have greater access to the pool of investment capital that increases the liquidity, also associated with lower costs of equity capital, which is beneficial and attracts potential investors. The voluntary adopting of the IFRS principles would help in the enhancement of the business environment with a higher level of mutual fund investment policies in the investment market and also enhance the knowledge of the global fund managers. For the removal of the accounting difference and discrepancies, it is essential for the organizations to introduce certain desirable characteristic into the requirements of financial reporting. However, the IFRS accounting standards have been designed to reflect the economic value and substantially more than the legal forms. It also reflects the gains and losses, earnings of the company and other useful financial information in the balance sheets. The contribution towards the accounting regulation system and the cross border investments would also be reflected in the positive cash flow, net income and other lower frequency factors of the net income of the company. The users of the accounting information would also help in the quality accounting system development within the organization, which will remove any errors if any and also help in the enhancement of the organizational systems. This process would also require the systematic up date of the financial accounting information and also safeguard and protect the data for the organizational interests. The comparative analysis would help in the identification of the US accounting standards and the

IASC, which would help in the assessment of quality requirements and also understand the impact of the differences.

Conclusion

The financial statements exhibit the financial and accounting positions of the organization which was based on the specific requirements and regulations. The accounting standards help in detecting losses and improvement in classifying the accounting portion and restoration of accounting information. Thus, it is observed that for maintenance of rigour and relevance in the accounting systems, the accounting professionals would help in the removal of varied accounting challenges that are required in liberating the global marketplace. The crux of the unified accounting system would be to understand the value of the cross border transaction systems and its effect on the overall economy.

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