How can International Accounting Standards support Business Management?

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Abstract
This paper traces the benefits of international accounting standards and their contribution to harmonization in business practice. In this review, the goal is to describe and summarize how the accounting standards promote management decisions and influence the business environment in a global scale. It is expected that the unified, standardized accounting information system will lead to new types of analysis and data, furthermore with the possible integration of new indicators from the business management practice of certain countries. The author analyzed and valued the effects of international standards on the business economic environments. There was shown that uniform management accounting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital, and facilitate international capital formation and flow. Reduced costs will also result in more cross-listings and cross-border investments.

Keywords: management information system, international accounting standards, economics of standards, business effects, value based management.

Introduction
International Financial Reporting Standards (IFRS) are accounting principles, methods (‘standards’) issued by the International Accounting Standards Board (IASB), an independent organisation based in London. They purport to be a set of standards that ideally would apply equally to financial reporting by public companies worldwide. Between 1973 and 2000, international standards were issued by IASB’s predecessor organisation, the International Accounting Committee (IASC), a body established in 1973 by the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland, and the United States. During that period, the IASC’s principles were described as ‘International Accounting Standards’ (IAS). Since April 2001, this rule-making function has been taken over by a newly-reconstituted IASB. From this time on the IASB describes its rules under the new label ‘IFRS’, though it continue to recognise (accept as legitimate) the prior rules (IAS) issued by the old standard-setter (IASC). The IASB is better-funded, better-staffed and more independent than its predecessor, the IASC. Nevertheless, there has been substantial continuity across time in its viewpoint and in its accounting standards.

Widespread international adoption of IFRS offers equity investors the next potential advantages by Ball et al., (2006):
1) IFRS promise more accurate, comprehensive and timely financial statement information, relative to the national standards they replace for public financial reporting in most of the countries adopting them, Continental Europe included.
2) Small investors are less likely than investment professionals to be able to anticipate financial statement information from other sources improving financial reporting quality allows them to compete better with professionals, and hence reduces the risk they are trading with a better-informed professional.
3) IFRS eliminate many of the adjustments analysts historically have made in order to make companies’ financials more comparable internationally.
4) The reducing of the cost of processing financial information most likely increases the efficiency which the stock market incorporates it in prices.
5) IFRS offer increased comparability and hence reduced information costs and information risk to investors.

Accounting regulation in the European Union introduced from 2005 obligated economic entities listed and traded on stock markets to apply IFRS on consolidated financial statements exerted a decisive influence on the accounting globalization. The draft – accepted by the US Securities and Exchange Commission (SEC) – that
enables the acceptance of financial statements created on the basis of IFRS without converting it according to US General Accepted Accounting Principles (GAAP) was a significant leap toward the convergence of IFRS and US GAAP. SEC is to examine the possibility for US economic entities to choose between US GAAP and IFRS for avoiding the necessity of revealing differences between the two systems and to conduct its comparison. Moreover on March 2007, SEC announced its intention to accept financial statements created in accordance with IFRS from January 1, 2009 beside the ones created according to US GAAP. Since in case such multinational companies like Daimler Chrysler owning more than 900 subsidiaries, operating on 5 continents in more than 60 counties, the published financial results according to international standards is 1.5 times of the one according to German accounting standards. If earning after taxation (EAT) – deducted actual tax burdens - according to US GAAP is taken as 100 percent, due to differences between national accounting standards, EAT would be 25% more in UK, 3% less in France, 23% less in Germany and 34% less in Japan (Barth et al. 2007).

The European Commission’s (EC) directives were aimed at making financial statements increasingly comparable in terms of format and general recording and measurement rules. The Fourth Directive, enacted in 1978, specifies “True and Fair View” (TFV) as an overriding principle of financial reporting. It defines the format and measurement of balance sheets and profit and loss accounts. The Seventh Directive, issued in 1983, addresses associated with consolidations. The most important effects of both directives are the adoption of TFV and relaxation of book-tax conformity for consolidated accounts.

With increasing globalization of the marketplace, international investors need access to financial information based on harmonized accounting standards and procedures. Investors constantly face economic choices that require a comparison of financial information. Without harmonization in the underlying methodology of financial reports, real economic differences cannot be separated from alternative accounting standards and procedures. Harmonization is used as a reconciliation of different points of view, which is more practical than uniformity, which may impose one country’s accounting point of view on all others. Organizations, private or public, need information to coordinate its various investments in different sectors of the economy. With the growth of international business transactions by private and public entities, the need to coordinate different investment decisions has increased. Especially the multinational companies spend enormous money for preparing and auditing their accounting reports according to the different national regulations. For these multinational companies the aspects of maximizing the profit is significantly more important than the consideration of national interest or the geographical position. Because of this there is a demand for creating such accounting systems which are evaluating the holder’s economic results equally.

Previous related literature

International accounting literature provides evidence that accounting quality has economic consequences, such as costs of capital (Leuz and Verrecchia, 2000), efficiency of capital allocation (Bushman and Piotroski, 2006) and international capital mobility (Guenther and Young, 2008). The accounting system is a complementary component of the country’s overall institutional system (Ormrod et al., 2006) and is also determined by businesses’ incentives for financial reporting. Li and Meeks (2006) provide the first investigation of the legal system’s effect on a country’s financial system.

The financial reporting quality include the tax system (Shleifer and Vishny,. 2003) ownership structure (Easton, 2006; Ball and Lakshmann, 2005), the political system (Radebaugh and Gray, 2007), capital structure (Daske et al., 2006) and capital market development (Botsari and Meeks, 2008). Therefore, controlling for these institutional and firm-level factors becomes an important task in the empirical research design too.

One study (Meeks and Swamm, 2009) characterises of accounting amounts for businesses that adopted international standards to a matched sample of companies that did not, and found that the former evidenced less earnings management, more timely loss recognition, and more value relevance of accounting amount than did the latter. They found that international standards adopters had a higher frequency of large negative net income and generally exhibited higher accounting quality in the post-adoption period than they did in the pre-adoption period. The results suggested an improvement in accounting quality associated with using international standards.
Another study (Jermakowicz et al., 2007) found that first time mandatory adopters experience statistically significant increases in market liquidity and value after international standards reporting becomes mandatory. The effects were found to range in magnitude from 3% to 6% for market liquidity and from 2% to 4% for businesses by market capitalization to the value of its assets by their replacement value.

**The effects of accounting standards on business management**

*The financial statements' role in performance assessment*

Financial statements, called as accounting statements in Hungary reflects the results of management or the liability of management to enable making such decisions like investing instruments should be maintained or it should be sold, or the assignment of management should be prolonged or it should be replaced. Usually the total amount and availability of cash and cash equivalents are also requested and assessed since it determines the ability to fulfill obligations (transferring for suppliers, interests and paying out dividend for shareholders). Users of financial statements could even better assess the total amount of cash and cash equivalents if the statement focuses on the financial situation, performance of the business. Financial situation of given economic entity is influenced by the possessed economic resources, financial structure of the entity, its liquidity and ability to adopt environmental changes. Preceding data on possessed economic resources and its changes in the past may be useful to create cash and cash equivalents forecasts while preceding data on financial structure could be used for set up loan forecasts and to determine how future revenues will be divide among shareholders. Analyzing accounting information may also be used to determine how successful the business will be in acquiring additional finances. Forecast based on former rate of liquidity and dispensability may indicate whether the entity will be able to fulfil its due obligations. Data on the performance of business, especially on its profit are required to forecast the future changes of economic resources what the business is likely to possess, thus data on changes of performance is relevant. From financial forecasts, trend-extrapolations the following conclusions may be drown: whether the given business could raise cash-flow on the basis of existing resources or not; how successfully it could use additional financial resources. Business’ ability of raising cash and cash equivalents and cash flow may be derived from all these information. Several means of funds could be determined while creating forecasts of financial situation of given business, like financial resources, working capital, liquid or financial instruments. Information on financial situation primarily indicated in balance sheets while information on performance is indicated in profit and loss statements. Some components of financial statements are connected to each other since they are derived from the same transactions or event. Despite the fact that all of the statements provide different information, presumably none of them serves only a single purpose or contains answers to all requested questions. Profit and loss statement, statement of cash flow together with a balance sheet could provide an overview of economic entity’s performance.

In countries whose culture is characterized as small power distance and weak uncertainty avoidance, one would expect a greater tendency to use accounting measures as an indicator of the results of the manager’s decisions. Thus, the profit of a profit centres is more likely to be used as a measure of manager performance than to indicate the effectiveness of policies and procedures prescribed for the manager. Likewise, cost is more likely to serve as an indicator for the results of decisions made by a cost centres manager.

For example, a field study comparing companies in the US and Taiwan found that managers in many Taiwanese firms did not have the full range of general management skills because the boss virtually all of the decisions. Taiwan’s strong uncertainty-avoidance and long-term orientation are consistent with this tendency toward centralization.

Germany’s strong uncertainty-avoidance culture also suggests a tendency toward centralization. Evidence of such a tendency is provided by an automobile industry expert. „Of the top 100 managers (at Volkswagen), 50 are not used to making their own decisions or thinking on their own.“. (Lere, 2009).

There is a significant body of evidence that identifiable differences in the dominant culture of countries do exist and that they are associated with differences in the typical accounting practices of countries. Beside the cultural and the economic characteristics, there are also political and legal ones, which have an affect on the way how a country adopts IFRS. In this respect there is a huge difference between the code law and the common law countries as for the latter ones it is much easier to adopt a principle based system than for the earlier ones, who are rather used to precisely composed acts ruling all of the areas one can think of.

The application of international financial reporting standards will allow greater comparison of international financial results. More sources and reports will be available to a greater audience of analysts to follow trends in countries where previously due to different regulations and thus different reports these were less meaningful.
The unified financial reporting system will probably lead to new types of analysis and data, furthermore with the possible integration of new indicators from the practice of certain countries.

New indicators also mean a redistribution and transformation of competencies within a management structure. The evaluation of effectiveness related to the managers' decisions could change the skills requirements needed to fill certain positions and also the tasks assigned to them thus leading to a different organizational culture.

With numerous affiliates, subsidiaries and foreign operations in different countries, multinational companies spend a lot of time and have to pay huge amounts of money for completing their consolidated financial reports. Each subsidiary of multinational corporations has to prepare their financial reports according to their country’s national regulations and eventually they all have to reconcile their financials to IFRS or the accounting standards their parent company is using.

Concerning the increase in earnings, the strict application of international standards and the presence of incentives for transparent filings led to higher accounting quality, significant increase in market liquidity and capital market benefits, more timely loss recognition and more value relevance of accounting and more frequent large negative net incomes.

**Role of international accounting standards in the division of labour**

Even the work of Adam Smith concerning division of work demonstrate the significant change that leads from economic entities managed by its owner through divided leadership from shareholder till hired management. Hired management of limited partnership may provide further options for maximize risk management and financing such projects that exceed those available for economic entities managed by its owner. In addition monitoring fund assessment and investment may be challenging without hired experts. Informational asymmetry may occur concerning asset valuation namely external shareholders are usually less informed of financial investments than hired managers what also may cause motivational anxiety. As Adam Smith (1776) has written “Management of such partnerships rather handles shareholders’ investments than its own thus the same caution could not be expected that lead to lavishing of funds…”

Now than let us examine the role of international accounting standards in division of labour, but first of all in absence of its adaptation let us consider the study of Gwilliam et al. (2005): In 1980, Lloyd, one of the largest retail chains in the UK created and published its financial statement without taking into consideration the accounting and audit regulations since the latter one was not in force. Defaults of information flow between branch offices and management could be traced back to the lack of modern and uniformed accounting standards. Different sales values and funds were indicated by the branch offices and by the headquarters due to differing accounting principles and method.

Concerning decisions on fund assessment and investments Smith (1996) gave the following examples for the misuse of accounting standards: The Coloroll share company operation in the UK, grew to 10 times of original company within 4 years thanks to acquisitions but kept low rate of (fictive) profit by using accounting tricks, “creating reorganizing reserves”. Next year its capital has degraded and bankrupted. The Accounting Standard Board (ASB) has created and published unified principles and accounting methods to avoid such misunderstandings, differences and failures between economic entities participating in the division of labour. Their aim was to eliminate bankruptcy of such large company like the British Coloroll or the American WorldCom. The board consisting of accounting researchers, experts, auditors aimed to create such standards like restrains management from misinforming shareholders concerning the profit achieved by company or the amount of dividend. In addition Easley and Hara (2004) have created such accounting methods that restrain management from altering former performance, results. Similar case has been published recently in Hungary: the First Hungarian Natural Gas and Energy Trading and Service Provider Ltd tried to alternate its profit by self-revision to “achieve” loss. Sodestrom and Sun (1996) - in their study - introduced methods that may prevent company management from misinforming shareholders by motivating then to apply accounting standards especially in the statements of their performance and funds.

Adoption of IFRS may lead to less time being spent trying to be in line with all the strict rules and regulations that come with the national rules-based accounting. Western European and American multinational corporations have been often outsourcing their accounting tasks to lower cost countries. If a globally accepted financial reporting standard was available, it would be even more likely that companies would contract out their accounting tasks to lower cost countries. Currently, the management of companies from developed countries might be concerned that they do not find the necessary accounting expertise in developing countries. With the adaptation of the worldwide accounting standards, companies could centralize accounting training and could
obtained a long-lasting position in the economic life. The success of leasing could be explained by the arising
international accounting methods should be introduced. “accounting tricks” or due to defaulted payment of instalment. Thus uniformed contract and standardized
extra premium in the interest rate. With such a warranty, lower interest rate could be set, thus both lender and
assessment become more and more complex. Fluctuation of interest rate is highly influenced by innovation
standards promote innovation. The other 50% of them stated that standards restrain innovation. This involves
Statement that standardization has a leading role in innovation is proven in numerous studies e.g. Temple (2005).
Regarding the division of labour, an obvious advantage can be identified in the case of companies with global
operations and foreign reporting requirements. Such benefits include the ability to streamline reporting and
reduce related costs by developing common reporting systems and consistency statutory reporting. Such
companies could develop regional financial centres, relocate finance resources depending on where they may be
needed, and centralize training and development efforts.

**International accounting standards and financial innovation**

Statement that standardization has a leading role in innovation is proven in numerous studies e.g. Temple (2005).
According to data provided in above mentioned study, 50% of the interviewed person conceived that accounting
standards promote innovation. The other 50% of them stated that standards restrain innovation. This involves
that standards may promote or restrain innovation as well. This could question mark the role of standards in
innovation. As mentioned above and argued by Smith, division of labour promote innovation. New markets
could be achieved by using standards thus new markets entries and products may give a significant boost to
innovation – as argued by Chatterjee (2006).

Using widely accepted standards for innovative products could also result in better sales figures. Without these
standards, low-quality products and remaining stocks could not be relocated, thus innovation would lose its
economy-boosting effect. In addition new standards expand the scale of innovative products, market entries thus
without new standards, innovative products could be hardly obtained. Loan contracts may also provide us with a
perfect example for the role of standards in financial innovation. International accounting information has
already took a significant part of such contract, but for now adapting these information for performance
assessment become more and more complex. Fluctuation of interest rate is highly influenced by innovation
(Epstein, 2009). This involves that higher risk advantage could be achieved through lower interest rate and the
lack of negotiations before signing contracts. On the other hand lenders are compensated through exercising
extra premium in the interest rate. With such a warranty, lower interest rate could be set, thus both lender and
debtor could meet beneficial offer. Even so in some case – e.g. mentioned in their study of Meeks and Meeks
(2002) – terms indicated in the contract were defaulted due to false determination of profit, lowered loan risks
“accounting tricks” or due to defaulted payment of instalment. Thus uniformed contract and standardized
international accounting methods should be introduced.

In many countries the growth of the financial leasing proves that leasing is like a financial innovation that
obtained a long-lasting position in the economic life. The success of leasing could be explained by the arising
needs of financial capacity in the economy, and not with the temporary favourable environmental conditions. Alongside the clients in the frame of financial innovation there is an increasing demand for services and goods for handling wealth, and for that, to have a higher benefit in the case of unfavourable financial conditions.

Nowadays, in many countries the accounting systems do not put the interests of the investors at the first place primarily, but the interests of the credit banks and tax aspects. The introduction of the IFRS helps countries to converge their accounting systems to the Anglo-Saxon model, where the report is made on the ground of the aspects of the investors. The standard system could help to spread the financial innovations in a wider environment, because the IFRS is similar to the Anglo-Saxon approach and it is the most efficient where there is a prosperous capital market. It would support the spread of the financial innovations worldwide and the unified attendance in the accounting systems.

The effects of international accounting standards on the transaction costs

Naturally financial markets may not be misleading with accounting tricks for good. Despite the fact that information concerning market prices could not be published by using international accounting standards, it remains essential to assess stock prices. If an economic entity have a semi-massive effect in a country, stock prices will react to published information nevertheless what principles or method were used in financial statements.

Literature (e.g. LaPorta, 1998) consisting many events proves that in many cases market participant did not reacted to changes of reports (performance, profit and loss statements) mainly owning to shift in used standards. For example: an economic entity changed its amortization method to achieve higher profit rate. Since market participant had enough information that the increase in profit was due to amortizing assets, stock price of given entity has not risen.

Similar effects could be experience in case of mergers and acquisitions in the USA (Bradshaw et al, 2008). Since market participant were not touched by the fact, that increased profit was due to amortizing assets not performed before merge. Consequently standards should be used to eliminate manipulations, extra work caused by the alternations and unnecessary costs.

Another part of transaction costs are affected by international accounting standards, e.g.: costs connected to signing a loan contract or “so-called contract”. Accounting data may limit contracting parties’ freedom in the sense that how data could be used and represent their interest, e.g. information provided by loan contract on debtor’s engagement or limitation of the liability management.

Invoice of business tax may be mentioned as a theoretical example for “so-called contracts” since EBT (earnings before taxation) and EAT may differ significantly as later one is to be modified by accounting standards, rates and indexes. It is especially typical to the third sector where income is strongly affected by international accounting standards.

Zeff (2006) highlights the cost-saving effect of international accounting principles in connection with contracts since without theirs standards, lender would be forced into contracts that may push them toward bankruptcy. Both lender and debtor prefer accurately defined obligations and demands that may be detailed by international accounting standards. Efficiency of loan contracts may be increased by using more transparent, comprehensible and comparable reports based on international accounting standards since misconceived reports may lead to losses decreasing assets. These losses could be derived from false assessment of assets, obligations, consolidated profit or net assets. Since information on which reports are based may not be compensated from other resources, it motivates market participant to rely on such reports and decrease risk of investments by that.

In order to promote the outcome, a standard-setter must explain its view of the economics of transactions in the objectives to the standards. If there are competing views about how to faithfully represent the economics of a transactions, then the standard should state whether there is more than one acceptable treatment and why that conclusion was reached. Preparers and auditors could then use this information to reconcile the economics of a transaction to their understanding of the objectives of the standard-setter. Investors want to understand the fundamental judgments being made by preparers and external auditors. Under a more principles-based system, both preparers and auditors will increasingly be called upon to exercise sound judgment as a replacement for rigid adherence to the compliance process of a rules-based system. This is a positive development, as it will promote clear and understandable financial statements that faithfully reflect a company’s economic condition.
Yet at the same time, it is clear that a system which relies on judgment requires that those judgments be clearly communicated in order to ensure comparability.

Applying international accounting standards may also decrease the costs of data processing systems since it supersedes to store and process differed data. The standardized the financial data base is, the higher the benefit gained. Decreasing risk connected to the operation if data processing systems may affects (decreases) stock prices since shareholders expect increase in performance. Unified international accounting principles may enhance cross-border investments, increasing their benefits. Since accounting standards may enhance the ability of forecasting profit rate, it could act as potential opportunity for investors.

The transaction costs of investors decrease with the steps taken in the direction of a single presence of stock markets, the disappearance of different national regulations. The costs regarding accounting, auditing and international comparison will decrease with uniform reports instead of expertise needed for the summarization of several types of reports and comparisons. With the use of numerous different accounting and reporting standards, it is very difficult for companies to benchmark themselves against their competitors.

Businesses with foreign operations have to use different national accounting standards to complete their consolidated financial statements. Auditors (both internal and external auditors) have to be experts of each applicable national accounting standard or law of the multinational organizations’ subsidiaries to be able to properly review and validate the accuracy of the company’s financial reports. If the IFRS was adopted worldwide, auditors could work more effectively with significantly less people. Also, smaller audit firms could review and validate the financial statements of multinational companies. Currently the big four audit firms (Deloitte, E & Y, KPMG, PWC) seem to be auditing most of the big internationally recognized corporations as they have operations (with the necessary expertise) in almost all countries around the world. I believe that IFRS could bring increased competition in the auditing field, which could reduce the unavoidable audit costs.

Due to experts’ opinions and impact studies, profit increasing effect of international accounting standards through cost-saving (transaction costs, costs of management) is proven.

**International accounting standards decrease costs of capital**

Practically speaking accounting is an instrument to project economic transactions and assess their performance. Particularly the later could be a remarkable tool for financial market participant if indicating accurate data on the financial situation, performance, mobility of resources, obligations due of examined business. Domestic investors prefer domestic business since report are created according to well-known international accounting standards and could be interpreted easily. On the other hand foreign investors prefer reports created on the basis of international standards rather than domestic standards. Costs of foreign investments could also be reduced if invested to the optimal opportunity where cost of managing active investments could be reduced to minimal level while maximizing profit.

About 1000 foreign companies registered at SEC, converted their accounting reports from theirs national accounting rules according to US GAAP and are listed and traded on the stock market of USA. But only some of them have such investment instruments (instrument of governance, ability to classify and account activities, ability to initiate claims) that are common used in the US, exposing their voluntarily to risk of being sued on the basis of insufficient investment-protection. Thus risk of exchanging stock may also increase the cost of capital since it is connected to the risk level of investment (decreasing risk factors results in the decrease of transaction cost emerging during investment). Risk may include the reliability of the accounting statements of business’ financial position its performance. The cost-saving effects (through decreasing risk level of assets) of reliable and true financial statement is proven by numerous studies (including Pincus et al. 2006, and Ali et al 2000 researches) since reliability of accounting data effect on the prices of assets. The above mentioned studies have pointed out, that only that management could take effect on the cost of capital which has provided exact and reliable information to shareholders. Accordingly international accounting standards and unified methods could assist shareholders since unreliable reports could mean a possible risk-factor. This accounting model based on the principles of historical costs for invested vehicles distort it’s the real value if late is defined as realizable income from cash flow applying financial resources. The invested vehicles receive criticism nowadays that may lead to the review of financial resources’ evaluation. Necessity for re-evaluating applied international standards of the financial instruments was suggested by expert due to present sub-primed mortgage and economic crisis.

Uniform financial reporting standards will result in a lowered cost of capital, because the investors are willing to accept lower returns (interest on debt, dividends, and capital appreciation on equity) from their investments in
corporate securities. Investors can reach to lower returns when the perceived risk of their investments is reduced. Risk is a function of many factors, but accounting risk refers to the risk in investing that derives from difficulties in understanding the accounting principles being applied by the reporting entities, and the possibility that financial reporting standards may not be uniformly adhered to. Another aspect of accounting risk arises from the inability of users to process the information. If measurements and disclosures are of such complexity that the investors cannot understand this information when making decision, so they will perceive greater risk and should demand higher expected returns, therefore reaching a higher cost of capital too.

There is also risk based not on the underlying financial reporting principles, but on the confidence that the reporting entity has faithfully applied them. This depends on the investors’ belief in the regulatory regime overseeing financial reporting (e.g. Security Exchange Commission – SEC – enforcement), and on the auditors’ capabilities and willingness to enforce GAAP or IFRS rules. While auditors’ honesty is challenged (such as Parmalat case had happened in Italy), the reluctance to confront clients opting for aggressive interpretations of accounting standards is more widely acknowledged. It is finding out, that the reducing accounting risk should have salutary effects on the cost of capital. A number of academic studies have investigated this premise, with overall positive, although there is not unanimous support for this proposition. Investor confidence in a given entity’s financial reporting depends on more than the financial reporting standards it claims to subscribe to.

For examining accounting standards from a different point of view confirmed the fact, that unreliable information used in reports may further increase cost of capital. The complexity and misconception of financial statements may cause higher risk factors resulting in longer rate of return and higher costs of capital. Without doubt it may be concluded that accounting risk could be lowered with the use of reliable and true international accounting standards.

If shareholders blindly trust in published reports may become a risk-factor as well. It also depends how shareholder trust in the regulations over financial statements (e.g.: SEC in the USA), technical background and knowledge of auditors to enforce international accounting standards. Considering all factors mentioned above, it could be declared that increasing reliability and better interpretability of information provided in financial statements could decrease investors’ cost of capital. Beside direct risk-factors, indirect risk-factors do also have effects on investors’ cost of capital.

Reporting according to IFRS provide much better access to world capital markets, which reduces the cost of capital. Investors cannot easily interpret the given countries’ national financial reports. They are very reluctant to invest in companies without clear financials. It is high risk to invest in companies without easily accessible, clear financial reports. Investors expect higher returns from these companies, thus the cost of debt is higher for companies not preparing IFRS reports. IFRS would put the financial statements in a simple and understandable form for investors and other businesses interested in the firm. IFRS financial statements could have a positive effect on companies’ credit ratings thus the cost of borrowing may be reduced. Also, IFRS are widely accepted as the financial statements framework for companies who would like to get admitted to any of the world’s stock exchanges. Since worldwide adoption of IFRS would create a common language for accounting, new capital markets would open to companies who have been reporting only in accordance with their national standards. One can easily say that companies have the opportunity to prepare their statements according to IFRS. However, small and middle size companies do not have enough funds and manpower to complete their financials both according to the national standards required by the law and according to IFRS, which would be desirable to enter the international capital markets.

In an increasingly global international environment a better developed international financial reporting system is becoming more important by the day. The advantages of more standardized national accounting rules and more comparable financial report are manifold. One of these advantages is the decreasing cost of capital. Investors may accept lower returns (interest on debt, dividends, and capital appreciation on equity) if on the other hand they only have to take lower risks. This is true if the international standards are properly enforced by the regulatory regime.

Investors can reach to lower returns when the perceived risk of their investments is reduced. Risk is a function of many factors, but accounting risk refers to the risk in investing that derives from difficulties in understanding the accounting principles being applied by reporting entities and the possibility of financial reporting standards may not be uniformly adhered to. Another aspect of accounting risk arises from the inability of users to process the information. If measurements and disclosures are of such complexity that the investors cannot understand this information when making decision, so they will perceive greater risk and should demand higher expected returns, therefore reaching a higher cost of capital too.
returns, therefore reaching a higher cost of capital too. This risk is originated from that the accounting directions are not clear and unified used by the different companies.

It seems to be apparent that the appropriate accounting standards contribute to the division of labour, to financial innovation and to the reduction of the transactional costs, the cost of capital and even to the increase of the enterprises’ earnings.

Conclusion

Standardization of accounting systems has tended to follow the integration of the markets employed by the accounts. The present impetus for global accounting standards follows the accelerating integration of the world economy. The global accounting standards would enable the world’s stock markets to become more closely integrated. The more closely world’s stock markets approach a single market, therefore, the lower should be the transaction costs for investors and the cost of capital for firms in that market. The differences in international reporting practice prior to IFRS constituted a palpable barrier to efficient international investment, monitoring and contracting. And the literature suggest that being confined to small segmented capital markets imposes a substantially larger cost of capital on firms and transaction costs on investors, which would inhibit much worthwhile investment. Although we do not have all elements for the cost-benefit calculation, the evidence points to substantial net gains for smaller economies which have joined to the IFRS regime. There is certainly empirical research evidence to support the notion that uniform financial reporting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital, and facilitate international capital formation and flow. And there is a sufficient basis to endorse IFRS and begin the challenging task of educating users, auditors, and regulators. Educators and practicing accountants alike have significant roles to play in this exciting future.

Reporting according to IFRS provide much better access to world capital markets, which reduces the cost of capital. Investors cannot easily interpret the given countries’ national financial reports. They are very reluctant to invest in companies without clear financials. It is high risk to invest in companies without easily accessible, clear financial reports. Investors expect higher returns from these businesses, thus the cost of debt is higher for the businesses not preparing IFRS reports. IFRS would put the financial statements in a simple and understandable form for investors and other businesses interested in the firm. IFRS financial reports could have a positive effect on businesses’ credit ratings thus the cost of borrowing may be reduced. Also, IFRS are widely accepted as the financial reporting framework for companies who would like to get admitted to any of the world’s stock exchanges. Since worldwide adoption of IFRS would create a common language for accounting, new capital markets would open to companies who have been reporting only in accordance with their national standards. One can easily say that companies have the opportunity to prepare their financials according to IFRS.

The accounting system differences matter even to financial analysts who specialize in collecting, measuring and disseminating business information about the covered companies suggests that there are potential economic costs, associated with variation in national rules across countries. Besides it is very important task for managers and researchers the valuation and analyzing the effects of international accounting standards on business decisions, especially their contribution to standardization and globalization.

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