School of Economics and Commercial Law
GÖTEBORG UNIVERSITY

Department of Business Administration

Development of Harmonization in the 21st Century

- Is Financial Accounting Harmonization Possible and can it be Measured?

Master Thesis

Accounting and Finance
Spring Term 2004

Tutor:
Marcia Halvorsen

Authors: Samira Joumal 800514
Sandra Vulin 760919

School of Economics and Commercial Law
GÖTEBORG UNIVERSITY

Abstract

Master Thesis, Accounting and Finance, School of Economics and Commercial Law, Göteborg University, Spring 2004

Authors: Sandra Vulin and Samira Joumal
Tutor: Marcia Halvorsen
Title: Development of Harmonization in the 21^{st} Century – Is Financial Accounting Harmonization Possible and can it be Measured?

Background: Over the years there has been an active debate in the accounting community on the harmonization of accounting standards on an international level. The same set of rules would make comparison easier for users. An attempt to harmonize financial accounting is currently being attempted by the US organization, the Financial Accounting Standards Board (FASB) and their international counterpart, the International Accounting Standards Board (IASB).

Purpose: The purpose of this thesis is to find out whether it is possible to harmonize financial accounting and to see whether it is possible to measure harmonization.

Delimitations: This research aims to look at the harmonization process, with a focus on the EU and the United States only. We have decided to choose these particular regions for comparison due to the current short-term convergence process that the two regions are presently involved in.

Methodology: This is a descriptive case study in the form of an interim report covering the short-term convergence process. Furthermore, we will describe, through the perspective of experts in this particular field, the most applied methods of measuring harmonization.

Conclusions: We have drawn the conclusion that harmonization can be considered possible. Both the FASB and the IASB seem to be cooperating well in the short-term projects. Financial accounting harmonization is, to a certain extent, measurable. However, it is difficult to find an exact measurement of the achieved level of harmonization.

Keywords: Financial Accounting Harmonization, Harmonization Measurement, FASB, IASB, Convergence Process

Table of Contents

List of Figures

Appendices

1 Introduction

In this introductory chapter an overview of what this thesis concerns is offered. Following the background to our study, we state the problem and the purpose of the thesis, as well as the delimitations. The chapter ends with an outline of the study.

1.1 Background

In the world of today, business and trade are perhaps more international than ever and users of financial statements can be found worldwide. International companies operate on a global scale and are listed on several stock markets. Accounting practices have, however, evolved differently through history in different countries due to variations, for example, in economic development, cultural background and political situations. In order to meet the needs of the increasingly globalized business community, financial information has to be easily accessible, reliable and simple to understand. Over the years there has been an active debate in the accounting community on the potential harmonization of accounting standards and rules on an international scale. A similar set of rules and standards would make comparison easier for users, as well as facilitate the work of accountants and make the life of the international companies a little less complicated. For many years there has been an effort to harmonize accounting standards and several international organizations, as well as institutions on a local level, have been dedicated to this development.

An attempt to harmonize financial accounting is currently being undertaken by the US organization, the Financial Accounting Standards Board (FASB) and their international counterpart, the International Accounting Standards Board (IASB), as a result of the Norwalk Agreement (see appendix II). Their aim is to adopt best practice and there have been discussions concerning which one of these standard setters will have the stronger influence on the decisions. The FASB is, in the view of some, considered to be the more influential of the two.

1.2 Problem

Based on the background description we would like to find out whether the efforts toward financial accounting harmonization can be, to some extent, realized. Consequently, we have formulated our main research problem as stated below:

> Is financial accounting harmonization possible, and if so, to what extent?

In order to answer the main question we have decided to divide this research into two separate segments.

The first section will deal with the following:

Sub-topic 1: How is the harmonization convergence process between the FASB and the IASB progressing?

In this segment we will focus on the present attempt to harmonize financial accounting. We will perform an interim case-study on the convergence process between the FASB and the IASB, with focus on their short-term projects. This will give us an indication as to whether harmonization is possible or not.

The second section will deal with the following:

Sub-topic 2: Is financial accounting harmonization measurable?

Several attempts have been made in the past to measure harmonization. We intend to look at selected scientific articles concerning previous attempts to measure financial accounting harmonization. This will assist us in answering the main research problem.
If harmonization is found to be measurable then a conclusion can be drawn about whether harmonization exists and is realizable.

1.3 Purpose

The purpose of this thesis is to find out whether it is possible to harmonize financial accounting and to what extent. We will also look at which different methods of measurement have been used in order to establish how harmonization has developed over the years, and whether it is possible to measure harmonization.

1.4 Delimitation

This research aims to look at the harmonization process, with a focus on the EU and the United States only. Even though other countries could be relevant for this research, we have decided to choose these particular regions for comparison due to the current short-term convergence process that the two regions are presently involved in. The aim of the case study is to present an interim report attempting to assess how far, the US organization, the FASB, on one hand and the international organization, the IASB, on the other, have progressed in their efforts to create a similar system of accounting standards. These organizations will be referred to as the FASB and the IASB throughout this paper. The FASB rules will be referred to as “US GAAP” and the IASB rules will be referred to as IAS/IFRS (see appendix I).

Furthermore, the research on the topic of harmonization measurement will be concentrated to the past two decades. During this period this issue was widely debated in business articles and academic journals and among standard setters and politicians.

We will not perform any statistical measurements in the case-study on the convergence process between the FASB and the IASB, since the measurements are best applied after the process is completed in order to evaluate the achieved level of harmonization. The two sub-topics will separately help us to answer the main research problem.

1.5 Thesis Outline

Chapter 1:	*Introduction* – This chapter presents the background and the problem statement of the thesis. Furthermore, it covers the purpose, delimitation and disposition.
Chapter 2:	*Methodology* – The second chapter deals with the determination of research design and sources of data that we have used; their credibility is also discussed.
Chapter 3:	*Theoretical Background* – The third chapter describes the function of financial accounting as an information system and describes the main legislative and standard setting bodies. This is followed by a presentation of the causes behind the major differences in international financial accounting and an explanation of what financial accounting harmonization is.
Chapter 4:	*Research Area I*- This chapter is a case study on the ongoing short-term convergence process between the standard setters, the FASB and the IASB. The background is given, followed by a presentation of the projects and the amendments.
Chapter 5:	*Analysis I* – In this segment we will present an analysis of our first research area.
Chapter 6:	*Research Area II* – This part will deal with the measurement of financial accounting harmonization. The most significant measurement indices will be presented and evaluated.
Chapter 7:	*Analysis II* – In this segment we will present an analysis of our second research area.
Chapter 8:	*Conclusions*- In this final chapter the conclusions will be summarized and suggestions will be made for future research.

2 Methodology

This chapter deals with the determination of research design and sources of data. The research approach used is briefly presented. Thereafter follow data collection sources and methods. Finally, the credibility of the research is discussed. The main focus is on clarifying and discussing how we have chosen to proceed when conducting our research.

2.1 Research Design and Research Approaches

A research design is the basic plan that guides the research process, especially in the data collection phase and the final analysis.[1] This basic plan functions as a framework that specifies the type of information to be collected, the sources of data, and the data collection procedure, which, if thoroughly made, will ensure that the information is gathered effectively and is consistent with the research objectives. [2]

As the purpose of the research has been formulated and the main problem defined, then the next step in the research process is selecting a research approach. There are several types of research approaches that can be used depending on the purpose of the study, for example, exploratory, descriptive, conclusive or performance-monitoring research.[3]

2.1.1 Research Approach Used

This is a descriptive study. The descriptive approach is useful in this context since we aim to describe the background of the harmonization phenomenon and conduct a case study in the form of an interim report covering the short-term convergence process between the accounting standard setters, the FASB and the IASB. Furthermore, we will describe, through the perspective of experts in this particular field, the most applied methods of measuring harmonization.

This descriptive type of research can be used to describe past or current events or even illustrate the background to certain phenomena and various consequences or relations between specific events.[4] In this type of research it is important to consider the perspective from which the situation is described and what kinds of information sources are available. [5] Furthermore, it is useful to consider if any previous studies have been done in the particular area, by whom and for what purpose. Also, it is important to look at the conclusions already made and what sort of complementary research might be

[1] Kinnear, T.C. & Taylor, J.R. (1996)
[2] Ibid.
[3] Lundahl, U. & Skärvad, P-H. (1999)
[4] Andersen, I. (1998)
[5] Lundahl, U. & Skärvad, P-H. (1999)

necessary.[6] Data is usually gathered by consulting secondary sources, expert interviews and previous similar studies.[7]

2.2 Data Collection

The data collection process is a central part of the research study. This section is, therefore, designed to describe various aspects of the data collection. In this context, data sources available and the chosen data collection technique will be discussed.

2.2.1 Data Sources

Some basic sources of information are analogous situations, experimentation, respondents and secondary data.[8] The main source of information in this study will be secondary data, which will be discussed below.

Secondary data

There are two types of data to be distinguished, i.e. primary and secondary data.[9] Primary data is usually received through interviews, questionnaires and experiments. None of these will be performed in this paper. Instead we intend to rely upon secondary data that has already been collected and published for another purpose, but which will also be useful in this context.

To base research mainly on secondary sources is appropriate in three situations: [10]

- When it is impossible to collect primary data.
- When examining how others have studied a certain situation or event.
- When determining what has previously been said concerning a certain topic.

In the first situation respondents are often not available, or are unwilling to participate in interviews. Our proposed respondents were not prepared to participate in interviews since the subject treated in our research is not yet completed. For this reason, we decided to base this research on the use of secondary data. In the second situation it is important to bear in mind that opinions through secondary sources are less spontaneous but are also more reflective. This can be both positive and negative, since the information can either be biased or well considered.[11] The final situation makes it possible to establish which decisions have been taken and who has said what. Our research's advantage over interviews is that by analyzing documents it is possible to follow up what has actually

[6] Lundahl, U. & Skärvad, P-H. (1999)
[7] Kinnear, T.C. & Taylor, J.R. (1996)
[8] Ibid.
[9] Ibid.
[10] Jacobsen, I.D. (2002)
[11] Ibid.

been accomplished on a specific subject matter.[12] The document research is similar to an observation study in this aspect.

When basing a study on secondary sources only, it is of great importance to consider the choice of sources and their credibility, which will be discussed below. The secondary data we have used consists of data base articles, business review articles, literature on the topic of financial accounting harmonization and internet sources.

2.2.2 Data Collection Approaches

There are two data collection approaches: *quantitative and qualitative*. The latter technique is used in this research, since we do not intend to quantify or measure a problem precisely, but rather to recognize existing patterns and reflect the view presented in previous research regarding this particular problem statement.

The qualitative data collection approach gives a general impression of a situation, a so-called holistic view.[13] The qualitative approach is inductive in the sense that empirical facts help to form a theory or make a generalization possible.[14] The main idea with qualitative research is to exemplify a topic through interviews, observations and analysis of documents. Attempts are made to make an in-depth analysis of a certain problem statement using just a small sample of information material.[15] This approach is very flexible and sensitive to nuances, but at the same time is not as precise as a quantitative approach based on statistics and figures.[16]

The qualitative data collection approach is characterized by[17]:

- The information sought relates to the motivation, beliefs, feelings, and attitudes of selected individuals;
- Small convenience or quota samples are used;
- An intuitive, subjective approach is used in gathering the data; and
- The approach does not intend to provide statistically or scientifically accurate data.

The danger with a qualitative approach in this particular case consists mainly of the possible collection of misrepresentative material and misinterpretations or unclear connections between theory and empirical findings. [18]

12 Jacobsen, I.D. (2002)
13 Kinnear, T.C. and Taylor, J.R. (1996)
14 Svenning, C. (1996)
15 Ibid.
16 Ibid.
17 Kinnear, T.C. and Taylor, J.R. (1996)
18 Svenning, C. (1996)

2.2.3 Data Collection Technique Used

In this study we are confined to secondary data only, since we will not carry out any interviews or use questionnaires. As was mentioned before, this decision was taken since our proposed respondents were not prepared to participate in interviews since they felt that they did not have enough comments on the subject treated in our research. For this reason, we decided to base this research on the use of secondary data. Instead, we will gather our information from previous research in this area, expert opinion in business articles and literature covering this topic.

2.3 Credibility of the Study

In scientific research there are two significant factors that need to be considered. The *validity* of the study implies that the research is, in fact, focused on measuring that which was intended.[19] *Internal validity* is connected to the link between the theory and the empirical research, as well as using a satisfactory amount of indicators to cover a specific topic.[20] *External validity* is directed towards the project as a whole and the possibilities for generalization from the findings of a specific study.[21] We consider this thesis to have a high level of validity and it is based on the fact that the articles we used for this study are all written by experts with knowledge in this particular area of accounting. We also believe that a considerable number of viewpoints have been expressed on this topic by various experts. Still, it needs to be taken into consideration that the authors could have been subjective and this could affect the validity of the end result of the thesis.

The research also needs to have a high degree of *reliability*. If the same study was conducted at a later time by different people, the results should be pretty much the same. This is, however, more relevant for quantitative rather than qualitative research.[22]
The reliability of a research is usually considered low in qualitative studies. Still, we think that this research could perhaps be replicated using the same sources of information. However, different researchers can have different views and interpret the material in a subjective manner, which can have a negative impact on the reliability of the research. This is common in a qualitative approach, which usually has a high element of subjectivity and the interpretation of the collected data is completely up to the authors.[23]

Disadvantages of using secondary data include problems with the accuracy of the data, the fact that time makes data irrelevant and the data may not fit the information needs of the research.[24] However, we believe that the sources used in this research are trustworthy. The stated laws and recommendations are issued by accounting standard setting bodies and are based on existing law. The potential subjectivity by authors in the choice of

[19] Svenning, C. (1996)
[20] Ibid.
[21] Ibid.
[22] Ibid.
[23] Ibid.
[24] Kinnear, T.C. & Taylor, J.R. (1996)

literature and journal articles, as well as in the material itself, is hopefully eliminated through our selection of a variety of sources which we have compared in order to attain as much objectivity as possible.

Since most of the collected material is in English and since the thesis is written in English, interpretation can be a cause for concern since English is not our native language. Mistranslation could occur. However, we have a good understanding of English, and our advisor has English as her native language. Therefore, we do not feel there is a significant problem with the use of English.

This chapter covered the research approach and sources of data. This has been done in order to clarify and explain how this research has been conducted.
The use of data collection sources, methods and the credibility of the research have been discussed.

----

3 Theoretical Background

This segment describes the basic structure of financial accounting and its function as an information system providing financial accounting information to external users. Then, an explanation of the causes behind the major differences in international financial accounting will be given in order to facilitate the comprehension of what financial accounting harmonization is. This was followed by a description of the main standard setting organizations.

3.1 Accounting as an Information System

An accounting system, similar to any other system, is a set of elements that operate together in order to reach a certain goal. A system usually consists of three separate steps: input, processing of the input and output. These separate activities also form the entire accounting process which starts with the observation, followed by the collecting, recording, analyzing and finally by the communication of the collected information to the users.[25] Accounting information is data used for decision-making and is dependent on how the accountant collects and organizes the raw data for final transformation into information.[26]

The three main activities in the accounting system are shown in the Figure 1.1[27]

Figure: 1.1 The Process of Accounting Information

3.1.1 The Relationship between Decision Making and Accounting

An important aspect of financial accounting as an information system can be found in the factors affecting the input and output. During the first activity in the accounting process the accountant selects raw data that best suits the intention. This filtering process determines which raw data becomes input data, which in turn, determines the output of an accounting system. Since a decision-oriented information system, such as the accounting

[25] Wilkinson, W. J. & Cerullo J. M. (1997)
[26] Iqbal, M. Z. et al. (1997)
[27] Wilkinson, W. J. & Cerullo J. M. (1997)

system, has the aim of producing information which meets the needs of its users, the information also becomes specified according to the users' requirements. The specific information needs of accounting users are therefore somewhat related to the financial accounting process. The linkage between decision makers and accounting is shown in the Figure 1.2 below:[28]

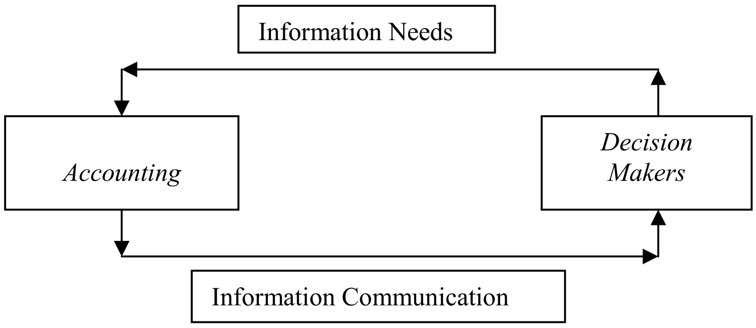

Figure 1.2 Relationship Between Accounting and Decision Making

This linkage allows making some interesting conclusions. Since the objective of accounting is to provide information that meets the needs of its users, it is important to correctly identify these needs in order to specify the character of the output. It is therefore possible to draw the conclusion that accounting users somewhat determine and control the objective of accounting.[29]

The harmonization process between the FASB and IASB is only one of many initiatives showing how different groups of accounting users influence the accounting system and is an excellent example of the strong relationship between accounting and decisions makers.

3.2 Users of Accounting Information

Accounting information is of great interest for the many groups of users. The accounting information serves as guidance in their decisions. The following seven user groups are the main groups of users:[30]

- The equity investor group is the existing and potential shareholders.
- The creditors, which provide short-term loans and finance.

[28] Iqbal, M. Z. et al. (1997)
[29] Ibid.
[30] Marriott, P. et al. (2002)

- The employee group made up of the existing, potential and past employees.
- The adviser group made up of financial analysts, journalists, economists and stockbrokers.
- The business contact group, which namely are customers, competitors, suppliers and those interested in mergers and takeovers.
- The government, in particular, the tax and local authorities.
- The public, such as taxpayers, political parties and consumers.

Each of these groups uses financial accounting information as a basis for different decisions. For instance, shareholders need the financial information to reach share-trading decisions. Employees need the financial information to assess employment forecast. Suppliers and creditors use the financial information in order to decide whether to offer credit or a loan.[31]

3.3 Causes Behind International Differences

The reason for accounting practices evolving differently through history in different countries is mainly due to environmental factors. Some of these factors are the amount of private ownership, the degree of industrialization, the rate of inflation and the level of economic growth.[32] Apart from purely economic factors, differences are also a result of historical, institutional and cultural factors.[33] Accounting standards have then evolved through a combination of different practices developed by accounting professionals, in a combination with the legal requirements imposed in response to economic pressures or to avoid intentional misuse of financial reporting.[34] Throughout this thesis we will only discuss the Anglo-Saxon and the Continental accounting traditions. Below we will discuss some of the more significant reasons for the present differences in accounting practice:

3.3.1 Legal System

Common law, which has a significant influence on the Anglo-Saxon accounting tradition, attempts to provide an answer to a specific case rather than to formulate a general rule for the future. This in turn shapes company law, which traditionally does not create rules to cover the behavior of companies and how they should prepare their financial statements.

[31] Marriott, P. et al. (2002)
[32] Radebaugh, H. L. & Gray, J. S. (1997)
[33] Choi, F. D. S. et al. (1999)
[34] Walton, P. et al. (1998)

Instead accountants establish rules for accounting practice, which can be written down as recommendations or standards. [35]

The Continental accounting tradition is, on the other hand, strongly connected to Roman law, which is based on ideas of justice and morality. Company law establishes rules for accounting, which leads to a system of centralization and a desire to control the economy. This affects both the nature of regulation in the specific country, as well as the type of detailed rules that appear as a result. [36]

3.3.2 Structure of Ownership

The various structures of ownership and types of business organizations constitute another significant difference between the Anglo-Saxon and Continental tradition.

In the Continental tradition capital is provided by banks, state or family-owned businesses. Since these owners usually have access to internal information, the external financial reporting is mainly aimed at protecting creditors and at providing information for governments. [37]

In countries influenced by the Anglo-Saxon tradition, private shareholders or institutional investors finance many companies. This type of ownership with no access to internal information produces the need for more information and transparency. [38]

This division between countries with credit-based financial systems and mainly inside shareholders versus countries with important equity markets and many outside shareholders could perhaps be the key cause of international differences in financial reporting. [39]

3.3.3 Taxation

Another major dissimilarity between the two main accounting traditions lies in the relationship between accounting and taxation.

The valuation of assets and liabilities in the Continental tradition originates from civil law and tax law. Civil law often sets the upper limit of asset valuation in order to protect the interests of creditors and to prevent companies from overestimating their assets and giving a distorted image of their wealth and profit development. [40] Tax law usually sets the lowest value limit and helps regulate the size of depreciation. Furthermore it prevents companies from underestimating the value of their assets in order to avoid paying high

[35] Nobes, C. & Parker, R. (2000)
[36] Ibid.
[37] Ibid.
[38] Ibid.
[39] Ibid.
[40] Smith, D. (2000)

income taxes. It is common that corporations choose the lowest possible value in order to decrease income taxation. [41] Since the information from financial statements is mainly used for taxation purposes in these countries, it results in a domination of tax law within the Continental accounting tradition and its financial accounting practice.[42] Within the Anglo-Saxon accounting tradition there has always been a separate view on financial accounting and taxation, which has made financial reporting better suited to meet market information needs.[43]

Presently, the EU is moving more and more towards a separation of financial accounting and taxation. This has so far been a significant obstacle for harmonization under IAS/IFRS.[44] As previously mentioned, financial statements are to a large extent prepared on a tax basis in the Continental tradition, while the Anglo-Saxon system has always separated financial reporting and tax reporting. This leads to important differences, for example, in the calculation of depreciation, where fast depreciation of assets is used for tax purposes, whereas financial reporting tends to use a slower rate of taxation.[45]

3.3.4 Additional Influences

Apart from these main factors one can also find other aspects that have played a role in the development of different financial accounting practices. The accounting profession itself helped to form various practices in different countries and the way countries dealt with inflation in the past is another factor that has created differences between countries.[46] In Anglo-Saxon countries, committees of accountants were primarily involved in the battle against inflation, while governments intervened in many continental countries. [47] Another cause is academic accounting theory that has created different schools of thought. Furthermore, many legal requirements have appeared purely in response to economic and political events. [48] A good example of this is the American stock market crash in the late 1920s which had a strong impact on the development of modern accounting in the United States.

3.4 Harmonization

First, in order to establish what harmonization actually is, it is necessary to look at different definitions that have been made in past research. There is often confusion concerning the terms *harmonization* and *standardization*. The first, harmonization, implies a "clustering of accounting practices around a few available methods with the

[41] Smith, D. (2000)
[42] Nobes, C. & Parker, R. (2000)
[43] Smith, D. (2000)
[44] Nobes, C. & Parker, R. (2000)
[45] Halvorsen, M. Tutorial (2004)
[46] Nobes, C. & Parker, R. (2000)
[47] Ibid.
[48] Ibid.

aim to achieve harmony between practices."[49] The other, standardization, is defined as "a strict adherence to one set of rules to achieve uniformity in practices."[50] From these explanations it is easy to see that the overall harmonization objective of the international accounting community is to come to an agreement concerning the same set of options, rather than producing strictly uniform rules and standards for everyone to follow.[51]
It is also important to make the distinction between *harmonization* and *harmony*. The first implies a process over a period of time, while the second implies a state at a given time.[52]

Another aspect that also needs to be considered is the two types of harmonization that are mentioned in research terminology, *de facto* and *de jure harmonization.* [53] The first refers to accounting practices and the second refers to accounting regulation.[54] It is important to make this distinction in order to clarify which one of these is being measured and also to make it possible to analyze how these two elements interact and influence each other.

Harmonization of accounting standards is considered to be an important step towards facilitating the business environment and as more and more countries are involved in global daily business transactions this topic is becoming increasingly significant.
The communication of financial information across borders would without a doubt be easier with the same set of accounting standards. This is especially true for large, multinational companies, where a single set of rules facilitates internal management control and accounting processes, as well as the external audit.[55] However, there are also voices raised against harmonization and the elimination of differences, who argue that regulations made by supranational organizations can create problems for local investors or the local tax regimes.[56]

The need for harmonization and the obstacles that lie in its way will be discussed further in the following sections.

3.4.1 Reasons for Harmonization

In the view of many people there is a definite need for harmonization of accounting standards among all users of financial statements. [57] Arguments presented are that similar standards are easier to understand and can help to protect investors, since both investors and analysts need to be able to interpret the financial statements of international companies. [58] Therefore it is essential for these statements to be reliable and comparable.

[49] Tay & Parker, W.S.J. (1990), Van der Tas, L.G. (1988)
[50] Ibid.
[51] Ibid.
[52] Ibid.
[53] Ibid.
[54] Ibid.
[55] Walton, P. et al. (1998)
[56] Ibid.
[57] Nobes, C. & Parker, R. (2000)
[58] Ibid.

Harmonized accounting would also make it much easier and cheaper for international companies to produce financial reports. Presently, international firms are obliged to produce several statements, all depending on the accounting regulations of the different countries in which they operate. For instance, if a UK based firm has a subsidiary in Japan and at the same time is listed in the United States, it is obliged to produce three different reports: a UK report, one following Japanese regulations and yet another complying with US requirements. [59]

Different standards can also make transactions result in a profit in one country and a loss in another, as was the case for Daimler-Chrysler when they had their first listing on the New York Stock Exchange in 1993 and suddenly reported a gigantic loss under US GAAP rules, while there was no loss under German accounting rules.[60]

The accountancy profession itself would definitely benefit greatly by harmonization since this process would make auditing easier and less time consuming. [61] Other groups that could also benefit from harmonization are, for instance, tax authorities that need to consider differences in the measurement of profit when dealing with foreign incomes and labor unions that have to cope with multinational employers. [62] All these difficulties would be greatly reduced through harmonization.

3.4.2 Obstacles to Harmonization

One of the obstacles to harmonization is the actual size in differences of the current accounting practices between countries. Some question the possibility to merge the need of financial accounting users, such as shareholders, and their requirement for reliable and comparable financial statements on one side and a more tax-oriented, conservative view on the other, like the one based in the Continental tradition. Nationalism and political interests can result in unwillingness to compromise or adapt to a single set of standards, which can be noticeable in the present development of harmonization between standard setters discussed later on in this research (see chapter 3.7) [63]

Another difficulty can be the lack of strong local professional accountancy organizations in certain countries, which can make it more difficult for international bodies such as the IASB to be effective. However, this is not relevant for the US or EU regions, since in both areas the accounting and auditing professions are very strong and highly involved in the standard setting process. [64]

One more obstacle that definitely can obstruct the complete harmonization of accounting standards is the opinion that supports the view that all differences should not be overcome after all. There may in fact be an expressed need for two financial statements,

[59] Epstein, J.B. & Mirza, A.A. (2003)
[60] Ibid.
[61] Nobes, C. & Parker, R. (2000)
[62] Ibid.
[63] Ibid.
[64] Ibid.

one on the domestic level and another on an international level, due to national differences and requirements. [65]

3.5 Legislative Organizations: Governmental and Professional

This section gives a presentation of the financial accounting standard setting bodies related to the case-study of the harmonization convergence between the IASB and the FASB. Some of the bodies are governmental while others are professional organizations.

3.5.1 Standard Setters in the United States

FASB
The Financial Accounting Standards Board was formed in 1973 and is the main and most influential organization in the private sector for establishing standards of financial accounting in the United States.[66] Their standards are also referred to as US GAAP.
The statements of standards (called Statements of Financial Accounting Standards-SFAS) either modify earlier issued standards or establish new standards. There are presently 150 FASB standards established in the US GAAP.[67] Except for issuing new standards, the work of the FASB also includes issuing statements of financial accounting concepts and interpretations.[68] Concepts statements establish general concepts that will be used to guide the development of standards and are not intended to be used for direct application. The interpretations clarify and explain already existing standards.[69]

SEC
The US Securities and Exchange Commission (SEC) is an independent government agency with jurisdiction over companies listed on the US stock exchange.[70] The primary mission of the SEC is to protect investors and make sure that the securities markets are reliable. [71] The SEC oversees stock exchanges, broker-dealers, investment advisors, mutual funds and public utility holding companies. Their primary concern is to promote disclosure of important information, enforce the securities laws, and protect investors who interact with these various organizations and individuals. [72] The SEC has an enforcement authority that makes it possible for them to take action against individuals and companies that break the securities laws. Typical law breaking includes insider trading, accounting fraud, and providing false or misleading information about securities and the companies that issue them. [73]

[65] Nobes, C. & Parker, R. (2000)
[66] Nobes, C. (1995)
[67] Ibid.
[68] Iqbal, Z. M. (1997)
[69] Nobes, C. (1995)
[70] Walton, P. et al. (1998)
[71] http://www.sec.gov (2004/04/28)
[72] Ibid.
[73] Ibid.

3.5.2 European Union Standard Setters

EU Commission

The Commission's responsibility within accounting is focused on improving the quality, comparability and transparency of financial information provided by companies. Furthermore, the Commission also aims to ensure the compatibility between the Accounting Directives and the International Accounting Standards, IAS/IFRS.[74] IAS/IFRS will be applied for group accounts throughout the EU by January 1, 2005. [75]
To achieve this, the Commission has a close co-operation with international bodies, such as the International Accounting Standards Board (IASB), International Federation of Accountants (IFAC), OECD and the World Bank, among others. [76] The European Union has been involved in the international harmonization process since the middle 1960s as part of its program of company law harmonization.

3.5.3 International Standard Setters

IASB

The International Accounting Standards Board was previously known as the International Accounting Standards Committee (IASC) and was formed in 1973. The IASB is a London-based organization that develops global accounting standards in order to promote transparency and comparative information in financial statements. The IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world. The IASB has 14 members with different professional backgrounds who reside in nine countries.[77] The organization issues International Accounting Standards (IAS), also referred to as International Financial Reporting Standards (IFRS). As already mentioned in the delimitation, these standards will be referred to as IAS/IFRS in this thesis.

The Trustees

The IASB Foundation's activities are directed by the trustees who are individuals of different geographic and professional backgrounds. Among other things, they appoint the IASB-members and have responsibility for constitutional changes. The trustees make sure that any regional interest does not dominate that IASB.[78]

SAC

The Standards Advisory Council (SAC) has the objective of giving advice to the IASB and sometimes advises the Trustees. The Council consists of about fifty members.[79]

---

[74] http://europa.eu.int (2004/05/03)
[75] Ibid.
[76] Ibid.
[77] IFRS (2003)
[78] Ibid.
[79] Ibid.

IFRIC

The International Financial Reporting Interpretations Committee (IFRIC) assists the IASB in establishing and improving standards of financial accounting for the benefit of users, preparers and auditors of financial statements. The role of the IFRIC is to offer guidance on newly identified financial reporting issues or issues where conflicting interpretations have developed, or seem likely to develop. The IFRIC also helps the IASB in achieving international convergence of accounting standards by working with national standard-setters.[80]

IOSCO

The International Organization of Securities Commission (IOSCO) was founded in 1983 by eleven securities regulatory agencies from North and South America. Today, the IOSCO has 181 member countries and is still growing rapidly. The Organization's members regulate more than 90% of the world's securities markets and the IOSCO is today the world's most important international cooperative forum for securities regulatory agencies as well as one of the key international standard setting bodies in the world. The main objective of the organization is the focus on cooperation and transfer of expertise, in particular between developed and emerging markets. [81]

IFAC

The International Federation of Accountants (IFAC) is a global organization for accountants and approximately 160 organizations are tied to this group. Its main objective is to protect the public interest by encouraging high quality practices by accountants and strengthening the accountancy profession. The IFAC acts as a representative for its members and cooperates with external groups that in some way depend on or have influence on the work of accountants. The aim of the organization is to contribute to the development of strong international economies by promoting high-quality professional standards, supporting the international convergence of such standards, and speaking out on public interest issues. [82]

3.6 Development of Accounting Standards

The development of accounting standards has evolved differently over the years in different countries and below a description will be given on this progress in the United States and the European Union.

3.6.1 Development of Accounting Standards in the United States

The stock exchange crash and the following economic depression in the late 1920s and early 1930s forced a new way of thinking concerning accounting regulations in the United States. [83] The organization, the US Securities and Exchange Commission (SEC),

---

[80] IFRS (2003)
[81] http://www.iosco.org (2004/04/28)
[82] http://www.ifac.org (2004/05/03)
[83] Radebaugh, H. L. & Gray, J. S. (1997)

was formed and a Securities Exchange Act was implemented, which required extensive disclosure and control of accounting standards.[84] Presently, the securities markets have a strong influence on accounting regulation in the United States and the securities law and accounting standards are enforced by the SEC. Due to the enormous growth of the securities markets there has been a greater need for external financial information in the United States than in other Anglo-Saxon countries. [85]

Even though the SEC has legal authority to prescribe accounting standards, it acts more as a supervisor and relies on the private sector and the FASB to set them. [86]
Corporations are required to follow the FASB standards; otherwise they will not be registered by the SEC and it will not be possible for anyone to trade in their securities.
However, only a minority of listed corporations are required to follow the very detailed SEC regulations and the same rules do not apply for the large number of small enterprises. [87]

The FASB standards are very detailed and extensive, even when compared to standards in other Anglo-Saxon countries, like the United Kingdom. The United States is possibly unique in having the most all-embracing system of accounting regulations in the world, especially where the securities market is concerned. [88]

3.6.2 Development of Accounting Standards in the European Union

The European countries have over the centuries developed their own separate sets of accounting systems. However, not until the formation of the Common Market did it become relevant to aspire towards a harmonized accounting framework. [89]

The idea of European harmonization began with the introduction of the 4th and 7th European Company Law Directives, which dictated accounting policies for companies in the European Union countries. The Directives were introduced in the 1970s and their basic principle was that no corporation should be at a competitive disadvantage as a result of legal differences between countries.[90]

However, the Directives were very "basic" and left a lot of room for different interpretations. Furthermore, they did not cover all the topics and left much of the standard setting to national accounting regulators. [91] To have effect they needed to be transferred to national company law, which was a time consuming process. [92] National accounting standards remained to be the most influential and in fact, some European multinationals had been adapting to US GAAP for years in order to gain a US stock

[84] Nobes, C. & Parker, R. (2000)
[85] Ibid.
[86] Radebaugh, H. L. & Gray, J. S. (1997)
[87] Ibid.
[88] Ibid.
[89] www.pwcglobal.com (2004/05/30)
[90] Radebaugh, H. L. & Gray, J. S. (1997)
[91] www.pwcglobal.com (2004/05/30)
[92] Ibid.

exchange listing. [93] For a while there was a real possibility that US GAAP would become the dominant accounting language in Europe. In 1973, however, the International Accounting Standards Committee (IASC) was formed with the aim to develop global accounting standards, and has since then, according to some, evolved to be a competitor to the US GAAP standards. The organization is presently known as The International Accounting Standards Board (IASB) and issues International Accounting Standards (IAS), also referred to as International Financial Reporting Standards (IFRS). [94]

3.6.3 Efforts Toward Harmonization in the 21st Century

In the late 1990s there was a reaction within the European Union against the domination of US/UK/IAS accounting regulation. A plan was created to develop a set of continental EU accounting standards, but it was quickly abandoned. [95] The EU decided instead to endorse the IAS/IFRS standards fully and implement them, for group accounts, by January 1, 2005. Today the competition stands between the IASB and the FASB on who will be the dominant standard setter in the world. [96]

US GAAP contains a large number of specific rules. This rules-based approach has evolved over the past 30 years in response to increasingly complex business transactions. Many rules were implemented in order to block attempts to find loopholes in earlier standards and to present a false picture of company performance. Unfortunately, these efforts to prevent "creative book-keeping" were often not successful, since the creation of more and more specific rules in fact made it easier to find ways around this strict regulation system. Over time the US GAAP has actually moved from being a system based on accounting principles to become largely based on strict rules. [97]

After the accounting scandals of Enron and WorldCom in 2001 and 2002, some have argued that such scandals could have been avoided had a more "principles-based" approach been used in the United States, similar to the approach in the international standards. The IASB, through its international standards, has a goal of providing general guidance rather than creating detailed rules. However, these companies, such as Enron and WorldCom, could have just as well avoided complying with these principles as they avoided complying with the US GAAP. [98] It is not clear whether management fraud can be avoided even with accounting standards largely based on principles. Nevertheless, in the Sarbanes-Oxley Act of 2002, a US law enacted after the first scandals appeared, there is a demand that the SEC investigate if the US should adopt a principles-based accounting system after all. [99]

[93] www.pwcglobal.com (2004/05/30)
[94] IFRS (2003)
[95] Epstein, J.B. & Mirza, A.A. (2003)
[96] Ibid.
[97] Ibid.
[98] Epstein, J.B. & Mirza, A.A. (2003)
[99] Ibid.

A change from a rule to a principles-based approach in standard setting could have a positive effect on the quality and transparency on financial reporting.[100] Detailed accounting standards and rules are believed to be costly and difficult to use. Furthermore they have a tendency to be so specific that the actual spirit of the standards is lost.[101] Principles-based accounting standards, on the other hand, can leave too much room for individual judgment by companies and auditors, as well as make the comparability of financial information more complicated.[102]

Presently, a complete transformation from rules to principles in the US GAAP seems unlikely, but it is very possible that new standards imposed as of today will take on a more principles-based approach. [103]

Over the past years the differences in accounting among many nations have declined and will probably continue to do so since the IASB and its US counterpart, the FASB, are committed to the harmonization of the final set of differences in the near future (see chapter 4.1).
At the moment, the SEC refuses to recognize IAS/IFRS as a basis for filing registration statements and reports under US securities laws without an adaptation to US GAAP. This is a major obstacle for IAS/IFRS standard becoming a worldwide recognized authority for financial reporting. [104]

…………………………………………………………………………………………

This chapter is an introduction to international financial accounting and its differences, providing an understanding for the need of financial accounting and financial accounting harmonization. The description is given of accounting as an information system and its users, followed by the differences in international accounting and the definitions, needs and obstacles of harmonization. Finally, a description is given of the main legislative organizations involved in the financial accounting harmonization process and the development of accounting standards.

…………………………………………………………………………………………

[100] www.fasb.org (2002/10/30)
[101] Ibid.
[102] Ibid.
[103] Ibid.
[104] Epstein, J.B. & Mirza, A.A. (2003)

4 Research Area I - Case Study: the Convergence Process between the FASB and the IASB

Following the information received in the theoretical background, we will perform a case study on the ongoing short-term convergence process between the standard setters, the FASB and the IASB. First, we will give the background to the convergence process, followed by a presentation of the short-term projects and the amendments made in each project.

4.1 The Convergence Process

The convergence process between the two accounting standard setters, the FASB and the IASB, was officially initiated in September 2002 when the Memorandum of Understanding, “The Norwalk Agreement”, was signed. The agreement symbolizes a major step towards convergence of US and international accounting standards. The main objective of the Norwalk Agreement is to develop compatible accounting standards that could be used for international financial reporting. The two Boards have agreed on two main projects in order to achieve compatibility:[105]

- Short-term convergence projects; and
- Joint projects.

The short-term projects are aimed at removing a selection of differences between US GAAP and International Financial Reporting Standards (IFRS, which include International Accounting Standards, IAS). The short-term projects are expected to result in standards that will lead to convergence in certain areas. The scope of the short-term convergence project is limited to those differences between US GAAP and IAS/IFRS where convergence appears to be achievable in the short-term perspective. The Boards are currently working toward eliminating the existing differences and aim to achieve this convergence by selecting between existing US GAAP and IAS/IFRS. The Boards intend to implement the new or revised standards on or before January 1, 2005.[106]

In addition to the short-term convergence project, the Boards are working on several so called joint projects on major accounting topics and are developing a coordinated agenda for continuing the convergence effort. The FASB and the IASB are currently working on joint projects concerning Revenue Recognition and Business Combinations.[107]

As stated in the delimitations, (see chapter 1.4), this study will only focus on the short-term projects since the joint projects are not set within a time limit. Therefore, the

[105] www.fasb.org (2004/04/25)
[106] Ibid.
[107] Ibid.

outcomes that can be gathered from these projects take form in broad trends from which definitive conclusions are difficult to draw.

4.2 Short-Term International Convergence

The objective of the short-term convergence project is to eliminate a set of selected differences between US GAAP and IAS/IFRS.[108] The Boards plan to eliminate differences by selecting between existing IAS/IFRS and US GAAP. In the case that the FASB chooses not to change US GAAP, the FASB will simply communicate a reason for the decision to the IASB. The IASB works according to the exact same procedure in the short-term convergence process in the case they are unwilling to change IAS/IFRS.

In addition to achieving compatibility, the agreement between the Boards also includes issuing exposure drafts of proposed changes to US GAAP or IAS/IFRS that show the solutions to the identified differences.

The plan for the short-term convergence is to take the following areas under consideration:[109]

- Asset Exchanges
- Liability Classification
- Inventories
- Earnings per Share
- Accounting Changes and Correction of Errors

A description of each area and the tentative decisions reached within each area will be given in chapter 4.3. There have been discussions about a possible expansion of the short-term convergence project to include definitions of working capital and current assets. Furthermore, the Boards have also begun research on issues relating to income taxes, intangible assets and interim reporting.[110] These areas will not be analyzed in this research since it is not within our theoretical framework and the Boards are in the initial convergence process in these areas; therefore there are no Exposure Drafts available for empirical research.

[108] www.fasb.org (2004/04/19)
[109] Ibid.
[110] Ibid.

4.3 Short-term Projects

In the upcoming section, the short-term projects undertaken by the FASB and the IASB will be presented. These are asset exchanges, liability classification, inventories, earnings per share and accounting changes and correction of errors.

4.3.1 Asset Exchanges

Business transactions are usually associated with the involvement of cash, monetary assets or liabilities that are exchanged for goods or services. These go under the definition monetary transactions and have the value of a fixed amount of currency. This short-term project involves, however, the exchange of assets that are not fixed in terms of currency and are identified as non-monetary transactions.[111] Non-monetary exchanges occur when an item of machinery or equipment is exchanged for another similar item.[112]

The project is limited to the exchanges of similar assets.[113] Similar assets are those that are used for the same general purpose and used in the same line of business.

Some of the different kinds of rules that exist and are still in effect even if they are no longer issued are the APB Opinions and the ARB (see appendix I). The international standard on asset exchanges is IAS 16[114] and the US GAAP equivalent is APB Opinion 29.[115]

The IAS/IFRS will in the future require a gain or loss to be recognized on the exchange of similar assets.[116] The cost of the asset obtained would then be measured by the fair value of the asset given up.[117] Current US GAAP rule rejects the idea of gain recognition.

The FASB has in this matter taken a number of decisions from which the most essential will be described briefly.

- The FASB has decided that non-monetary exchanges of assets should be accounted for at fair value only if the asset received and the asset given has a determinable fair value. The transaction must also have commercial substance.[118]

The fair value of the assets in a non-monetary exchange is determined by estimating the realizable value of similar assets. For instance, if cash could have been received instead

[111] Williams, R.J. (2003)
[112] IFRS (2003)
[113] www.fasb.org (2004/04/19)
[114] Epstein, J.B. & Mirza, A.A. (2003)
[115] Williams, R.J. (2003)
[116] www.fasb.org (2004/04/19)
[117] Epstein, J.B. & Mirza, A.A. (2003)
[118] www.fasb.org (2004/04/19)

of the non-monetary asset the amount of cash would be the basis for the valuation of the non-monetary asset.[119]

The asset must be fully exchanged in order to be covered by the proposed statement. There are a number of transactions, which the FASB decided to exclude from the proposed statement on asset exchanges. These are: the exchanges of real estate for other real estate and the transfer of assets to a company in exchange for an interest in that company.[120]

4.3.2 Classification of Liabilities on Refinancing

The international standard on Current Liabilities is IAS 1[121] and the US GAAP rules are SFAS-6 and SFAS-78[122]

Liabilities are considered to be current when they are expected to be settled within either the course of the company's operating cycle or are due to be settled within twelve months from the balance sheet date, whichever is longer.[123]

The IAS/IFRS will require that such liabilities are classified as current. This rule will be in force as long as the refinancing is complete by the balance sheet date. US GAAP, on the other hand, classifies liabilities as non-current if the refinancing of the liability is complete by the date the financial report is issued.

The essential parts of the FASB's tentative decisions are as follows:

A long-term financial liability, which is the result of refinancing, should under the IASB position be classified as a current liability; if no agreement to refinance the liability on a long-term basis is completed before the balance sheet date. The current FASB practice of classifying such liabilities as non-current if a financing agreement is completed after the balance sheet date but before the financial statements are authorized for issue would no longer be permitted.

4.3.3 Inventories – Idle Capacity and Spoilage

The international standard on Inventories is IAS 2[124] and the US GAAP equivalence is ARB-43 (see appendix I).[125]

---

[119] Williams, R. J. (2003)
[120] www.fasb.org (2004/04/19)
[121] Epstein, J.B. & Mirza, A.A. (2003)
[122] Williams, R. J. (2003)
[123] Ibid.
[124] Ibid.
[125] Ibid.

The accounting for inventories is of great importance for many entities because of its significance on the income statement and the balance sheet. Inventories are defined as assets held for sale in the ordinary course of business, or which are in the process of production for such sale. They can also be in the form of materials or supplies to be consumed in the production process or in providing services.[126]

IAS/IFRS requires that these costs are excluded from the cost of inventory. US GAAP, on the other hand, does not have the same requirements in their standards.

The FASB has decided to converge with the IAS/IFRS. Unusual amounts of idle capacity and spoilage costs should therefore be excluded from the cost of inventory and be considered as a cost when the idle capacity is in use again.[127]

4.3.4 Earnings per Share

Since 1993 the IASB and the FASB have been working on a common approach concerning Earnings per Share (EPS) that would allow global comparison.[128]
The EPS figures are considered to be an important indicator of corporate success for investors and other users of financial statements, due to the fact that EPS is often used to evaluate past performance of a company and helps users to form an opinion concerning its future potential and in making investment decisions.[129]

The international standard on EPS is IAS 33 and the US GAAP equivalent is SFAS-128.[130]

When a company has a simple capital structure then EPS is calculated by dividing income, or loss, by the average number of outstanding shares. This calculation becomes more complicated when a company also has securities that can cause more shares to be issued in the future and therefore reduce future earnings per share.[131] When potential reduction, so called *dilution,* exists in the capital structure, then a separate presentation of basic and diluted EPS is required according to both IAS 33 and SFAS-128, in order to avoid misleading implications.[132] The main goal is to make sure that the number of shares used reflects the impact of dilutive securities, including those which are not outstanding during the period, but would reduce future earnings if they were.[133] All listed firms that issue, or plan to issue, shares in public securities markets need to follow the requirements of the standards.

[126] Williams, R. J. (2003)
[127] www.fasb.org (2004/04/19)
[128] Williams, R.J. (2003)
[129] Ibid.
[130] Ibid.
[131] Ibid.
[132] Ibid.
[133] Ibid.

Proposed changes by the IASB:[134]

- IAS 33 will be changed to require that basic and diluted EPS is presented for "profit or loss for continuing operations" and "net profit or loss, on the face of the income statement for each class of ordinary shares, for each period".
- Potential ordinary shares will be considered dilutive only when their transformation into ordinary shares would decrease future EPS.
- There will be a change including the assumption that contracts may be settled for cash or shares, since in the future they will be settled in shares.
- If a firm purchases (for cancellation) its own preference shares for more than their carrying amount, the excess should be treated as a preferred dividend in calculating basic EPS.

Other proposed changes to IAS 33 by the IASB include additional guidance compared to the present standard on more complex matters surrounding this issue and will therefore be designed to cover more topics compared to current requirements. [135]

Proposed actions by the FASB: [136]

- The treasury stock method will be applied in the future calculation of annual diluted EPS for options and warrants (independently from any interim calculation). Then they will have a dilutive effect only when the average market price of the common stock surpasses the exercise price of the options and warrants.
- When a firm has issued a contract that can be settled either in shares or in cash at the issuer's option, the firm should assume a share settlement if the effect is dilutive, despite any previous practice.
- "A mandatory convertible security" is a security that on a specific future date will be converted into a fixed number of common shares. Shares that are issued after this date should be included in basic EPS from this date.

Both the IASB and the FASB are making changes in their previous statements and are working towards the common goal to make EPS calculations similar.

4.3.5 Accounting Changes and Correction of Errors

It is necessary that the statements of a company are prepared using the same accounting policies from year to year in order for the statements to be comparable and give the users access to reliable information. All departures from this rule need to be clearly indicated, but a consistent reporting for changes is seen as a problem by many accountants.[137] Even

[134] Epstein, J.B. & Mirza, A.A. (2003)
[135] Williams, R.J. (2003)
[136] www.fasb.org (2004/04/29)
[137] Williams, R.J. (2003)

though financial statements should ideally be presented in the same way over the years, some policies can lose their relevance over time and need to be altered.

The international standard IAS 8 regulates accounting changes and the main objective is to improve the comparability within a company over time, as well as the comparability between different firms.[138] The US GAAP counterpart covering this topic is called APB Opinion 20.

Changes can either be *retrospective*, where all previous statements need to be adjusted, or they can be *current* and only the cumulative effect of the current year is adjusted. There is also a *prospective* treatment where only future changes are taken into account and no adjustments of previous periods are required.[139] Which of these options has to be utilized under which circumstance is regulated in IAS 8 and APB Opinion 20.

The IASB has suggested significant changes in this area and further elimination of differences can be anticipated in the future. Present changes include the elimination of the previous possibility for a company to report the error of the change in principle, or the correction of an error in profit or loss, and show information the way it was reported in previous periods without adjustment, using the current approach. Instead, it will be required for all entities to use the so called "benchmark statement", which is a retrospective approach. In that case all comparative data from previous periods is confirmed and the earliest reported retained earnings balance is adjusted for the effects of error correction, or of voluntary changes. Then, it is implemented through every instance. The term "fundamental error" will also be changed to the broader term "error".

Accounting Policies and Changes in Accounting Estimates: [140]

The IAS/IFRS and the US GAAP differ in some classifications of specific changes in accounting as either changes in policy or estimate. The FASB has agreed to converge to the IASB point of view. According to the new position "a change in depreciation method" will be considered as "a change in accounting estimate".

Voluntary Change in Accounting Policies: [141]

In this case the IASB will change IAS/IFRS to require retrospective application of voluntary changes. This will match the present US GAAP regulations which require "cumulative adjustment in the year of change".

[138] Williams, R.J. (2003)
[139] IAS (2003)
[140] www.fasb.org (2004/04/29)
[141] Ibid

4.4 Remaining Issues in the Short-Term Project

There are some remaining issues that the FASB and the IASB plan to include in the short-term project in the near future.[142]

- Interim financial reporting – The two standards differ in a way that currently has an impact on the recognition of revenues and costs.
- Intangible Assets – The focus of this project is on the recognition of intangible assets other than goodwill.
- Income Taxes – The approaches do not differ to a large extent but those existing involve recognition and measurement differences.

…………………………………………………………………………………………...

This chapter presents the convergence process between the organizations, the FASB and the IASB, which was initiated by the Norwalk Agreement in 2002. The tentative decisions of the short-term projects are presented for each project. The short-term projects are Asset Exchanges, Liability Classifications, Inventories, Earnings per Share and Accounting Changes including Correction of Errors. Finally, the remaining issues in the short-term project are briefly introduced.

…………………………………………………………………………………………

[142] www.fasb.org (2004/04/29)

5 Analysis of the Short-Term Projects

On the basis of our findings concerning the short-term projects between the two standard setters, the FASB and the IASB, we aim to analyze the tendencies of the convergence process up to this date. The research findings give an indication of whether harmonization is achieved and helps identify which organization is the predominant force. Below an analysis will be performed, project by project.

5.1 Short-Term Projects

Asset exchanges

Concerning the project *Asset Exchanges* IAS/IFRS requirements are applied by the FASB, since they agree on valuing non-monetary asset exchanges to their fair value. This implies that a gain will be recognized in the transaction. Furthermore there has been some exclusion made by FASB covering real estate and asset exchanges in return for company interest. These last exclusions imply that the FASB are adapting to the international regulations but not to the fullest extent.

Classification of Liabilities on Refinancing

Regarding liabilities the FASB has agreed to converge with the IASB view on whether a liability is to be considered current or non-current. Previous FASB guidance has considered the date of the final issuance of the financial statement as decisive in the determination of whether a liability can be viewed as non-current, provided that an agreement on refinancing had been made before this date. The IASB regulation states that such an agreement must be made before the balance sheet date. All events after this date are not to be taken into consideration. This is likely to increase comparability and a true and fair view of the firm's financial status, which is beneficial from the accounting information user-perspective (see chapter 3.2). From the company perspective, however, it might be less favorable since they will no longer be able to postpone the refinancing of liabilities until the issuance of the annual report.

Inventories

Unusual amounts of idle capacity and spoilage will not be included in the inventory costs according to IASB, or at least until idle capacity is taken into use again. FASB has again agreed to comply with this view. The fact that they are not taken into account leads to an overvaluation of inventory assets, which can create a misleading status for the investors. On the other hand, since the FASB and the IASB standards treat "abnormal" amounts of spoilage it could be presumed that this does not occur often. However, the interpretation of what is to be considered as "abnormal" is of course of great relevance.

Earnings per Share

In this short-term project both the IASB and the FASB make changes in their standards.

The IASB will amend IAS 33 to require that basis and diluted EPS is presented for “profit or loss for continuing operations” and “net profit or loss”. Potential ordinary shares will be considered dilutive only when a transformation into ordinary shares would lead to a decreased future EPS. The previous option to choose the settlements of contracts in either cash or shares will be removed since they will from now on be required to be settled in shares.

The changes made by FASB are similar to those of the IASB and can be concluded that both the IASB and the FASB are making changes in their previous statements and are working towards the common goal to make EPS calculations similar.

Accounting Changes and Correction of Errors

On the topic of errors, the IASB has decided to change the expression “fundamental error” to “error”, which is a stricter terminology with a wider coverage. The IASB seems to be establishing its principles-based approach even further by this action and making it more difficult for companies to make individual interpretations of the definition “fundamental”. This revised standard appears to have been changed from a narrow rule into a principle. A principle is often associated with leaving too much room for individual judgment, but in this case we consider it being just the opposite, since this principle is of prohibitive character.

The current method of reporting changes is altered to the retrospective method (see chapter 4.3.5), which implies that all previous financial reports need to be adjusted for errors as well. This is the current FASB guideline that is thereby adopted by the IASB, implying tougher conditions for companies. We believe that the retrospective method gives a more reliable and comparable financial statement. This gives the impression that the FASB wants to retain their standard since it is protective of investors, which is a fundamental criteria in the Anglo-Saxon tradition (see chapter 3.3). The negative aspect of this stricter rule is that the implementation is costly for companies and it requires more from the auditors.

The FASB has also made some alterations and has adapted to the IASB classification of changes as a change in estimate and not in principle. The FASB adoption of the IAS/IFRS standard regarding the classification of a change in estimate, concerning depreciation method, simply means that the determination of depreciation method is made on the basis of pure estimation, which motivates the change.

Concerning this particular short-term project, regarding changes and the correction of errors, it appears that the IASB is the main part willing to assimilate and take on the stricter regulations required under US GAAP.

5.2 Convergence in General

Based on the analysis made above it can be stated that both the FASB and the IASB seem to be cooperating very well concerning the short-term projects in general. The agreements appear to indicate that they are striving for harmony and the adoption of the best practice and accepted procedure in each project. Cooperation is crucial in achieving financial accounting harmonization and the short-term convergence project between the FASB and the IASB shows that this basic requirement for harmonization is reached.

The good cooperation may be related to the fact that both organizations are based in countries whose financial accounting practices are based on the Anglo-Saxon tradition which makes them both very similar. So, it is rather logical that the transition is proceeding smoothly. In fact, it is the European Commission that has some disagreements with the IASB and as we mentioned in the theoretical framework, they have previously been reserved towards IASB dominance (see chapter 3.7). We draw the conclusion that this could possibly originate from the Continental tradition in many European countries. The Anglo-Saxon and the Continental traditions are very different in financial accounting views and opinions (see chapter 3.3).

The short-term convergence project shows some tendencies concerning the direction of the standard modifications. It appears that the FASB is adapting to the IASB in the majority of the projects. This may be the case because the IASB is strongly influenced by the United States and the United Kingdom since many of their influential members are from these countries.

The short-term convergence project between the FASB and the IASB can be classified as successful. However, we can not rule out that the future might bring some problems which may not be as easy to solve.

6 Research Area II: Harmonization Measurement

In this section, the most significant indices in the measurement of harmonization are described and the requirements for index measures are presented. There will also be a discussion about the ability of the indices to measure financial accounting harmonization. Articles concerning previous attempts to measure harmonization will assist us in answering the main research problem, by indicating if financial harmonization is measurable.

6.1 Measurement of Harmonization

The studies concerned with accounting harmonization are still very much on an experimental level.[143] New methods and analytical techniques are continuously developed and tested on certain accounting issues and groups of countries in order to study the diversities and similarities of rules and regulations on a global scale.

The literature on the measurement of international accounting harmonization has focused on the use of index measures, which will be discussed further in the following sections.[144]

6.1.1 H-Index

One of the very first attempts to produce a statistical index to measure harmonization was developed by Van der Tas in 1988. It was the so-called *H-index* that measured the sum of accounting methods (p) and their squared frequency of use (i) within a single country. [145]

$$H = \sum_{i=1}^{k} pi^2$$

Its main objective is to measure national harmony and it is primarily used in industrial concentration studies. [146] The main restriction of this index is, of course, that it only measures one country at the time and international comparison is not possible. Therefore, we will not discuss this index any further, since it is not within the frame of our study. The reason why we present this index is due to the fact that it can be considered as the predecessor to the indices presented below.

143 Rahman, A. et al. (1996)
144 Archer, S. et al. (1996)
145 Morris, D.R. & Parker, H.R. (1998), Van der Tas, G.L. (1988)
146 Ibid.

6.1.2 I-Index

In order to facilitate the comparison between countries Van der Tas later on introduced the *I-index*. This measured the sum over accounting methods of a product of the relative frequencies (f) of accounting methods (i) in each of (m) countries. [147]

The formula for the I-index is given below: [148]

$$I = \sum_{i=1}^{k} (fi_1; fi_2 \ldots fi_m)$$

The negative aspect of this formula is that the I-index moves towards zero as more countries are compared. This shows that the index is dependent on the absolute and not on the relative number of companies studied.

This problem called for the introduction of a correction factor: [149]

$$I^{*} = I^{1/(m-1)}$$

m= number of countries

The critique directed towards the I-index was the fact that the correction factor did not make the I-index analogue to the H-index.[150] Still, this corrected I-index is an important contender among harmonization measurement indices. [151]

A study utilizing the I-index was used for observing selected measurement practices in the European Community with the aim of determining the level of harmonization.[152] Annual reports from 1992/3 by eight European-based international companies were analyzed based on a hypothesis which stated that there were in fact differences between the eight selected countries concerning the frequency in which certain policies were chosen.

The results later indicated similarities between certain issues like foreign currency translation and inventory valuation, despite the fact that the European Directives at this time provided little guidance in this area.[153] However, the majority of accounting issues were still not harmonized at this point in time. The results also appeared to show that countries predominantly relying on standards derived from practices were harmonized to a larger extent than countries relying on standards derived from legislation.[154]

[147] Morris, D.R. & Parker, H.R. (1998), Van der Tas, G.L. (1988)
[148] Ibid.
[149] Ibid.
[150] Archer, S. et al. (1995), Van der Tas, G.L. (1988)
[151] Morris, D.R. & Parker, H.R. (1998)
[152] Herrmann, D. & Thomas, W. (1995)
[153] Ibid.
[154] Ibid.

In an attempt to assess the extent to which accounting measurement practices in France, Germany and the United Kingdom were harmonized, the I-index was applied yet again. The results showed that there were significant differences between the countries regarding practices. This study also indicated that the index had to be subjectively valuated by the users of the index, in order for them to determine if there was an acceptable degree of harmony or not.[155]

6.1.3 C-Index

Van der Tas also launched the *Comparability index* (C-index) as an alternative for the H & I indices for companies using multiple accounting policies for the same issue.[156] The C index measures how likely it is that two randomly selected companies adopt the same accounting method and report similar financial information.

The formula for the C-index is given below: [157]

$$C = \sum_{j=1}^{k} \frac{(x_j\,(x_j - 1)}{n\,(n - 1)}$$

x_j = number of companies using accounting method (j)
k = number of accounting methods
n = total number of companies

The ratio of two companies using accounting method (j) is divided with the total number of company pairs. The maximum proportion is reached if all companies studied are applying the same accounting method.[158] This results in increased comparability when the way of reporting moves towards a "generally accepted method" or when there are fewer options of accounting methods available.[159]

The critique directed towards the C-index has indicated that it may perhaps not be the best method to use when it comes to measuring comparability. It lacks the fulfillment of two of the four mentioned requirements.[160]

- Firstly, the C-index depends on the number of companies studied.[161]
- Secondly, it is not able to make geographical distinctions concerning within-country effects of national standardization from the between-country effects of international harmonization. This makes the C-index incomplete as a measure of international harmonization.[162]

[155] Emenyonu, N.E. & Gray, S.J. (1992)
[156] Archer, S. et al. (1995)
[157] Ibid.
[158] Krisement, M.V. (1997)
[159] Archer, S. et al. (1996)
[160] Krisement, M.V. (1997)
[161] Ibid.
[162] Archer, S. et al. (1996)

An additional disadvantage about the C-index is that non-disclosure can influence it in various ways. In the case a company does not disclose a certain financial statement for the reason that the particular transaction has not taken place, it will then be compared with the financial information disclosed by all the other companies, regardless of the method used by these other companies. If a company discloses a financial statement item but not the accounting method, there will not be any possibility to compare the accounts of the companies that disclose the item.[163]

The C-index was used in a research focused on *de facto* harmonization. The main objectives were to establish if any so called spontaneous harmonization had occurred over the years between European international firms and also to evaluate whether differences in results from previous studies actually had any statistical significance. [164]
The main conclusions of the research implied that there was spontaneous harmonization of practices between the companies during the period, apart from the legal harmonization of accounting standards that also took place during this period. The results suggested that the legislative harmonization process within the European Community appeared to be inadequate for the international companies during this time and that the corporations themselves took part in unplanned harmonization of their financial statements, which also put pressures on institutional regulatory bodies. [165]

6.1.4 Between-Country C-Index and Within-Country C-Index

When used to measure international harmony, the C-index does not make a distinction between national and international effects, as was previously mentioned. In order to correct this and emphasize the dangers of assuming that all companies within a country report similar items in the same way, a B*etween Country C index* and a *Within Country C index* was formulated. [166] The between-country C-index has an advantage to the corrected I-index in the fact that it does not decrease when more countries are added to a research.[167]

The between-country C-index is capable to calculate the number of pairs of companies using the same accounting method, where each pair member is from a different country. The result is then divided by the total number of company pairs (assuming all companies use the same accounting method and each pair member is from a different country). [168]

[163] Archer, S. et al. (1996)
[164] Cañibano, L. & Mora, A. (2000)
[165] Ibid.
[166] Aisbitt, S. (2001) ; Archer, S. et al. (1995)
[167] Morris, D.R. & Parker, H.R. (1998)
[168] Ibid.

The formula for the Between-Country C-index is given below: [169]

$$_{BC}C = \frac{\sum_i \sum_j x_{ij} (x_{+j} - x_{ij})}{\sum_i x_{i+} (x_{++} - x_{i+})}$$

The within-country C-index is calculated as the number of company pairs using the same accounting method, provided that both companies come from the same country. This is then divided by the sum across countries of the number of pair companies in each separate country (assuming that all companies use the same accounting method).

The formula for the Within-Country C-Index is given below: [170]

$$_{WC}C = \frac{\sum_i \sum_j x_{ij} (x_{ij} -1)}{\sum_i x_i + (x_{i+} -1)}$$

x_{ij} = number of companies in country (i) using accounting method (j)
x_{+j} = total number of companies in all countries using accounting method (j)
x_{++} = grand total of companies across countries
x_{i+} = number of companies in country (i)

The between-country and within-country C indices first appeared in a study that aimed to show that the decomposed C-index could indicate the probability that two randomly chosen companies would report similar financial information.[171] It also tried to demonstrate that the lowest level of comparability existed when the accounting methods were distributed over the companies in a way that gave each method an equal chance of selection.[172]

The final result indicated that comparability seemed to increase when companies made choices that were close to one generally accepted method or when there was a limited number of accounting methods available. The harmonization that did occur was between countries rather than within countries, which further emphasized the need for a separation of the C index into within-country and between-country measurements. [173]

The decomposed C-index was later applied in a second study that also tested the utility of this index. By quantifying the degree of harmony between four Nordic countries it would be possible to evaluate the impact of regulations on financial reporting over a period of time.[174] The data was obtained from annual reports of companies listed on the stock exchange. To obtain a fairly correct representation of financial reporting, twenty items considered to be of most importance of financial reporting were selected. The indices showed that the level of harmony, both within-countries and between-countries was

[169] Archer, S. et al. (1995)
[170] Ibid.
[171] Ibid.
[172] Morris, D.R. & Parker, H.R. (1998)
[173] Ibid.
[174] Aisbitt, S. (2001)

higher in 1998 than in 1981. Nevertheless, harmonization did not increase between each period. For instance, harmonization within countries decreased between 1992 and 1994.[175]

Furthermore, the result showed that many of the changes in harmonization were not explained by change in legislation.[176] Problems of reliability and validity of the indices, which are presented later in this segment (see chapter 6.3), signify that details of the raw data are essential to be given as a prerequisite in order to understand the results. The results need therefore to be looked at with caution. The conclusion is mainly that the study was not in fact very conclusive at all. The focus has been on the false causal conclusion in terms of weak correlation between harmonizing legislation and "spontaneous" harmonization.[177]

6.2 Index Requirements

There are certain requirements that must be fulfilled by a measure of comparability, or an index. The following four important requirements all need to be considered: [178]

- The measure of comparability has to increase or decrease progressively with increasing comparability of accounting information. In other words, the measure should not show any signs of unsteadiness.
- The index should depend on the relative and not on the absolute frequencies of application of the accounting alternatives.
- Comparability of accounting information is at its maximum if all companies studied apply the same accounting method. The minimum degree of comparability is reached if each of the two accounting alternatives is applied by exactly half of the companies studied.
- The index for the companies operating in a larger geographical area must be decomposable into the figures of the companies operating in segments, such as countries or groups of countries.

6.3 Problems Relating to the Characteristics of the Indices

There are a number of difficulties with the character of the indices, which can be divided into reliability and validity problems. [179]

Reliability problems – These are concerned with the technical constructions of the indices and their application.

[175] Aisbitt, S. (2001)
[176] Ibid.
[177] Ibid.
[178] Krisement, M.V. (1997)
[179] Aisbitt, S. (2001)

- *Disclosure (and non-disclosure) and its interpretation.* The analysis is dependent on the disclosures provided in the annual reports, which mean disclosure is a prerequisite to the measurement. Non-disclosure of an item is problematic, since it is not always clear whether the item is applicable.

Validity problems – validity problems relate to the ability or inability of the indices to capture increases or decreases in harmony. Taking the indices at face value without examining the underlying data is not a good idea since it fails to give an accurate picture.

……………………………………………………………………………………………

In this chapter the most significant indices in the measurement of harmonization are described, followed by a discussion about the ability of the indices to measure financial accounting harmonization. Previous attempts to measure harmonization, and the requirements for index measures, have been presented in order to facilitate the analysis presented in the next chapter.

……………………………………………………………………………………………….

7 Analysis of Harmonization Measurement

On the basis of our empirical findings from Research Area II regarding financial accounting harmonization measurements we will make an attempt to give an answer to whether financial accounting harmonization is measurable. This will be done through an analysis of each index and its capacity to measure harmonization, followed by an evaluation of the measurement of harmonization as a whole. This will in turn reconnect to our main research problem dealing with the question if financial accounting harmonization is possible and to what extent.

7.1 H-Index

Due to the fact that the H-index could only be applied on national financial accounting harmonization we will not include this in our analysis but will only focus on the indices providing measurements that can be related to the comparison of countries on an international level.

7.2 I-Index

The conclusion we can draw from the research findings concerning the negative aspects of the I-index is that the index had the tendency to move to zero as more companies were added to a specific research. This indicates a weakness that needs to be considered when assessing the credibility of the index. The index was also found to be dependent on a subjective valuation by its users when applied since it appeared to be the only way to determine the degree of harmony or harmonization over a time period. However, in comparison to its predecessor, the H-index, the I-index can be considered superior since it able to take more than one country into account.

7.3 C-Index

In similarity to the H-index, the C-index can not be applied in verifying whether international financial accounting is measurable since it is not restricted to any geographical boundaries since the companies are selected randomly. These companies could represent several countries, as well as just one country. It is unable to make distinctions within-country effects of national standardization from the between-country effects of international harmonization, which makes comparison difficult. Moreover, the C-index has inherited a negative aspect from the I-index. This is that the measurement relies upon the absolute, and not the relative figures, which is quite problematic in statistical measurements.

7.4 Between-Country C-Index and Within-Country C-Index

The main advantage of this decomposed C-index is that it is able to make the distinction between national and international effects. Apart from this, it is also possible to add a large quantity of countries to a research that utilizes the between-country C-index and still receive a result close to the "expected value", due to the fact that the index does not decline in proportion to added countries. So far, the negative aspects that can be tied to this index are problems related to validity and reliability. As the example from the research findings found in the articles, the raw data was essential to consider in understanding the results. If not, then the wrong conclusions can be made.

7.5 Concluding Analysis

The majority of research performed in the area of financial accounting harmonization measurement has been based on indices. The most significant indices were described, along with their main weaknesses and strengths in the analysis above concerning each index. Based on this, it appears that the between-country C-index is the best index for financial accounting harmonization measurement up to this time. Still, the question remains if harmonization is possible to measure accurately with this particular index, due to the fact that it is not proven to be an index without faults.

Our research findings have given us the impression that the general understanding of harmonization is that it is most likely to be initiated by legislation. There is a definite need for comparable and reliable information among all accounting information users and the development through time has shown that ever since this need was recognized, the step towards international harmonization has been promoted mainly on a legislative level. An example of this is the formation of the standard setting organization, the International Standards Accounting Committee (IASC) in 1973 and their work to encourage international standards. The present effort of the FASB and the IASB to converge towards a similar set of standards is yet another significant indicator of this tendency.

However, we would like to emphasize the fact that companies are not preparing their annual reports in an isolated environment. There are several other factors, besides legislation, which have had strong influence on financial accounting. Developments in accounting practice, non-legislative regulations and the needs of the financial accounting users are a few of these influential factors. Therefore it is not very reasonable to say that the indices of financial accounting harmonization reflect the effect of legislation only, since the mentioned factors above are not possible to control.

In our theoretical framework we present two different levels of existing financial accounting harmonization. These are *de facto* harmonization and *de jure* harmonization. The first is related to accounting practices and the latter to financial accounting legislation. Since our research findings show that there are other possible factors behind harmonization than legislation, we can draw the conclusion that an increase, or decrease, in harmonization may not necessarily have been affected by the legislative efforts to harmonize financial accounting alone.

Drawing from the research findings concerning financial accounting harmonization measurement the conclusion can be made that it is possible to measure harmonization or at least, the tendencies of harmonization, given that *harmonization* and not *harmony* is being measured. This distinction is important to make, since the measurement of harmonization requires the researcher to look at the change in harmonization over a period of time and not just at the level of harmony at a specific moment. Harmony at a specific point in time does not indicate that a process towards similar financial accounting choices is on its way.

Furthermore, it is of great significance to separate the terms *de facto* harmonization and *de jure* harmonization in order to avoid confusion concerning what is being measured. Even though legislative measures are often taken in the initial stages of the harmonization process, it is common that "spontaneous" harmonization shapes financial accounting practices to a large extent due to market needs that exceed the legislative requirements. This makes it difficult to establish, in retrospect, which of these to, *de facto* or de *jure*, lies behind a specific harmonization process.

Finally, it can be concluded that financial harmonization measurement can, in fact, be measured to a certain extent. It is difficult to get an exact measurement of the achieved level of harmonization, but some indices, like the between-country C-index, are successful in showing the tendencies of the harmonization process when applied.
Since tendencies can be measured, then it is possible to answer our main research problem with a yes, that financial accounting harmonization does exist, but not to the full extent.

8 Concluding Discussion

After making our analysis we will draw some final conclusions of what has been presented in our two research areas. The conclusions of the research areas will be summarized and finally some suggestions for further research will be given.

Our main research problem was: *Is financial accounting harmonization possible, and if so, to what extent?*

In order to answer our main question we divided our research into two separate sections.

The first sub-topic was based on the question*: How is the harmonization convergence project between the FASB and the IASB progressing?*

This was followed by the second sub-topic, which was stated as: *Is financial accounting harmonization measurable?*

Our case-study on the harmonization convergence process between the IASB and the FASB has led us in to the conclusion that harmonization in reality is a project which is possible to carry out. This has been proven through high level of cooperation between the two standard setters. The measurements of financial accounting harmonization have showed that harmonization indeed is measurable, but not to the full extent. However, the measurements have been useful in helping us identifying some important factors that need to be considered when measuring harmonization.

Since harmonization does not have the same meaning as standardization, but only is a definition of decreasing differences between different practices and not total elimination of differences, this interim case-study indicates that the project so far has lived up to the expectation. Judging from the case-study it is presently difficult to state whether the legislation will have a strong impact on the eventual implementation of the modifications among organizations/companies. This can only, to some extent, be assessed through a specific measurement of harmonization.

It can be concluded that harmonization to some extent is possible and measurable.
In addition, we believe that harmonization can be considered to be achievable but a possible standardization may probably not be as easy to accomplish.

8.1 Further Research

What remains to be seen is whether financial accounting harmonization is a phenomenon that will spread worldwide, or if it will only exist in certain regions as it is today. If so, then how will it affect other regions and international financial accounting harmonization, as a whole. Nevertheless, these are topics left for further research.

List of References

Literature

Andersen, Ib., *Den Uppenbara Verkligheten – Val av samhällsvetenskaplig metod,* Studentlitteratur, Lund, 1998.

Choi, F.D.S., Frost, C.A. & Meek, G.K., *International Accounting*, 3rd edition, Prentice Hall, Inc., 1999.

Epstein, J.B. & Mirza, A.A., *IAS 2003 - Interpretation and Application of International Accounting Standards,* John Wiley & Sons, Inc, 2003.

Iqbal, M.Z., Melcher, U.T. & Elmallah, A.A., *International Accounting - A Global Perspective* -, South-Western College Publishing, 1997.

International Accounting Standards Board, *International Financial Reporting Standards (IFRS),* IASC Publications Department, 2003.

Jacobsen, I.D., *Vad hur och varför? Om metodval i företagsekonomi och andra samhällsvetenskapliga ämnen*, Studentlitteratur, Lund, 2002.

Kinnear, T.C. & Taylor, J.R., *Marketing Research – An Applied Approach*, 5th international edition, McGraw-Hill, Inc. 1996.

Lundahl, U. & Skärvad, P-H., *Utredningsmetodik för samhällsvetare och ekonomer*, 3e upplagan, Studentlitteratur, Lund, 1999.

Marriott P., Edwards, J.R. & Mellett, J.H., *Introduction to Accounting,* 3rd edition, SAGE Publications, 2002.

Nobes, C. & Parker, R., *Comparative International Accounting*, 4th edition, Prentice Hall, Inc., 1995.

Nobes, C & Parker, R., *Comparative International Accounting*, 6th edition, Prentice Hall, Inc., 2000.

Radebaugh, H. L. & Gray, J. S., *International Accounting and Multinational Enterprises,* 4th edition, John Wiley & Sons, Inc., 1997.

Smith, D., *Redovisningens Språk*, 2a upplagan, Studentlitteratur, Lund, 2000.

Svenning, C. *Metodboken*, Lorentz förlag, 1996.

Walton, P., Haller, A. & Raffournier, B., *International Accounting*, International Thomson Business Press, London, 1998.

Wilkinson, W. J. & Cerullo J.M., *Accounting Information Systems*, 3rd edition, John Wiley & Sons, Inc., 1997.

Williams, R.J., *2003 Miller GAAP Guide – Restatement and Analysis of Current FASB Standards,* Aspen Publishers, 2003.

Articles

Aisbitt, S., *Measurement of Harmony of Financial Reporting within and Between Countries: the case of the Nordic countries,* European Accounting Review, vol. 10, no. 1, pp. 22-51, 2001.

Archer, S., Delvaille, P. & McLeay, S., *A Statistical Model of International Accounting Harmonization,* Abacus, Vol. 32, No. 1, 1996.

Archer, S., Delvaille, P. & McLeay, S., *The Measurement of Harmonization and the Comparability of Financial Statement Items: Within-Country and Between-Country Effects*, Accounting and Business Research, vol. 25, no. 98, pp. 67-80, 1995.

Cañibano, L. & Mora, A., *Evaluating the Statistical Significance of de facto Accounting Harmonization: a Study of European Global Players,* The European Accounting Review, 9:3, 2000.

Emenyonu, N.E. & Gray, S.J., *EC Accounting Harmonization: An Empirical Study of Measurement Practices in France, Germany and the UK,* Accounting and Business Research, vol. 23, no. 89, pp. 49-58, 1992.

Herrmann, D. & Thomas,W., *Harmonization of Accounting Measurement Practices in the European Community,* Accounting and Business Research, vol.25. no. 100, pp.253-265, 1995.

Krisement M. V., *An approach for measuring the degree of comparability of financial accounting information,* The European Accounting Review, 6:3, 1997.

Morris, D.R, & Parker, H.R., *International Harmony Measures of Accounting Policy: Comparative Statistical Properties*, Accounting and Business Research, vol. 29. no. 1., pp.73-86, 1998.

Rahman, A., Perera, H. & Ganeshanandam, S., *Measurement of Formal Harmonization in Accounting: An Exploratory Study,* Accounting and Business Research, vol. 26, no. 4, pp. 325-339, 1996.

Tay, W.S.J. & Parker, J.R., *Measuring International Harmonization and Standardization*, Abacus, vol. 26, no. 1, pp. 71-88, 1990.

Van der Tas, G.L., *Measuring Harmonization of Financial Reporting Practice*, Accounting and Business Research, vol.18, no.70, pp. 157-69, 1988.

Internet

http://www.sec.gov/about/whatwedo.shtml (2004/04/28)

http://www.iosco.org/about/about.cfm?whereami=page15 (2004/04/28)

http://europa.eu.int/comm/internal_market/accounting/index_en.htm (2004/05/03)

http://www.ifac.org/About/ (2004/05/03)

www.fasb.org/news/nr102102.shtml (2004/05/30)

www.fasb.org/project/short-term_intl_convergence.shtml (2004/04/19)

http://www.pwcglobal.com/extweb/pwcpublications.nsf/docid/6FF0111DFD9B24AC80256B05003EEC9F (2004/05/30)

Oral Sources

Halvorsen, M., Tutorial, 2004/06/10

Appendix I

List of Abbreviations

APB	Accounting Principles Board
ARB	Accounting Research Bulletin
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
SAC	Standards Advisory Council
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards

Appendix II

Memorandum of Understanding - The Norwalk Agreement

At their joint meeting in Norwalk, Connecticut, USA on September 18, 2002, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) each acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, both the FASB and IASB pledged to use their best efforts to (a) make their existing financial reporting standards fully compatible as soon as is practicable and (b) to coordinate their future work programs to ensure that once achieved, compatibility is maintained.

To achieve compatibility, the FASB and IASB (together, the "Boards") agree, as a matter of high priority, to:

a) undertake a short-term project aimed at removing a variety of individual differences betweenU.S. GAAP and International Financial Reporting Standards (IFRSs, which include International Accounting Standards, IASs);

b) remove other differences between IFRSs and U.S. GAAP that will remain at January 1, 2005, through coordination of their future work programs; that is, through the mutual undertaking of discrete, substantial projects which both Boards would address concurrently;

c) continue progress on the joint projects that they are currently undertaking; and,

d) encourage their respective interpretative bodies to coordinate their activities.

MEMORANDUM OF UNDERSTANDING – FASB and IASB 2

The Boards agree to commit the necessary resources to complete such a major undertaking.

The FASB and the IASB agree to quickly commence deliberating differences identified for resolution in the short-term project with the objective of achieving compatibility by identifying common, high-quality solutions. Both the Boards also agree to use their best efforts to issue an exposure draft of proposed changes to U.S. GAAP or IFRSs that reflect common solutions to some, and perhaps all, of the differences identified for inclusion in the short-term project during 2003.

As part of the process, the IASB will actively consult with and seek the support of other national standard setters and will present proposals to standard setters with an official liaison relationship with the IASB, as soon as is practical.

The Boards note that the intended implementation of IASB's IFRSs in several jurisdictions on or before January 1, 2005 require that attention be paid to the timing of the effective dates of new or amended reporting requirements. The Boards' proposed strategies will be implemented with that timing in mind.

Appendix III

FASB – IASB Standards

SHORT-TERM PROJECT	IAS/IFRS STANDARD	DATE OF ISSUANCE	US GAAP STANDARD	DATE OF ISSUANCE
Asset Exchanges	**IAS 16**	March 1982; revised Dec 2003	**APB Opinion 29**	May 1973
Liability Classification	**IAS 1**	Jan 1975; revised Dec 2003	**SFAS-6 ; SFAS-78**	May 1975; Dec 1983
Inventories	**IAS 2**	Oct 1975, revised Dec 2003	**ARB 43**	June 1953
Earnings per Share	**IAS 33**	Feb 1997; revised Dec 2003	**SFAS-128**	Feb 1997
Accounting Changes and Correction of Errors	**IAS 8**	Feb 1978, revised Dec 2003	**APB Opinion 20**	July 1971