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INNOVATIONS IN INTERNATIONAL ACCOUNTING AND TAXATION SYSTEM IN GLOBAL ARENA; CHALLENGES AHEAD

Dr. N.S. Rathi

Assistance Professor, Department of Commerce,
Dr. Babasaheb Ambedkar Marathwada University, Aurangabad.

Emhemad Omar .A. Abusef

Dr. Babasaheb Ambedkar Marathwada University, Aurangabad.

ABSTRACT

The concept of international accounting standards and taxation system is main area of discussion during this paper. In global arena, now days the use of international accounting standards and its implementation in different industries for taxation system is growing and hence this imposes the many challenges. The international standard initially introduced during the year 1960's, however it's adopted in current business environment as well as economy. Different innovations in international accounting as well as taxation system worldwide are addressed by different countries governments and policymakers. The primary reviews suggested that lenders, investors, as well as different industries prefer to use such international accounting standards and taxation system in order to deliver the best financial reporting. The aim of this research article is to present the various innovations in the international accounting and taxation system over the global arena, also the different future challenges in this area.

Keywords: International Accounting Standards, Taxation System, Global Arena, Challenges, Financial Reporting & Capital Markets.

I. INTRODUCTION

The group of professional accounting experts introduced the methods of International Accounting Standards during the year 1973. This was formed with aim of bridging the gap between accounting standards among countries worldwide, the International Accounting Standards Committee (IASC) was founded in 1973 by a group of professional accounting practitioners with an attempt to formulate a uniform and global accounting standards that would aim at reducing the

discrepancies in international accounting principles and reporting practices [1] [2]. In this light, the International Accounting Standard (IAS) was proposed which has actively been championing the uniformity and standardization of accounting principles over two decades now (Carlson, P, 1997). Meanwhile, in April 2001, the International Accounting Standards Board (IASB) took over the setting of International Accounting Standards from the International Accounting Standard (IASC). Henceforth, the IASB updated the already existing International Accounting Standard (IAS) and referred to them as the International Financial Reporting Standards (IFRS) [3].

At present day, there are many companies and organizations those are looking to use International Accounting Standards rather than existing local accounting standards. This IFRS issued by the International Accounting Standards Board (IASB). This international standard now used in many countries worldwide and emerging economies such as Korea. According to the survey by Deloitte Touché Tohmatsu (2010), more than one hundred countries around the world have either adopted or intend to adopt the IFRS for their domestic companies. As of December 2011, China on the other hand has substantially converted their national standards with IFRS (IFRS Foundation, 2012). The European Union (EU) was the first group of industrialized nations to announce its intention to support convergence with the IFRS. The European Commission (EC), which is the EU's permanent civil service. Besides that, countries such as Hong Kong, Singapore and Australia have also move towards IFRS platform from 1 January 2005 [7] [8].

During this research article we are aiming to present the different innovations for international accounting and taxation system in global arena. In addition to this we are briefly presenting the challenges ahead of implanting the International challenges in private sector. In this section further we present few points such as significance of this study, problem definition, aims and objectives etc. Apart from this in below sections, section II, review of international accounting standards and taxation system discussed, in section III the advantages of using international accounting standards discussed, in section IV the challenges of existing and future international accounting standards presented.

1.1 Significance of the Study

In this research article, the main significance is to take the review of international accounting standards, its different innovations, and its future challenges. The main significance of this research study is to present the detailed study of obstacles application as well as implementation of International Accounting Standards in the private section such as banking, IT section, manufacturing companies, automobile companies etc. The implementation of International Accounting Standards and taxation system in global arena private sector always associated with challenges; hence it becomes necessary to point the possible future challenge as well.

1.2 Statement of the Problem

In recent years, the development of international accounting standards and adoption by such industrialized countries as: Britain, Germany, United States of America, Canada and the Members of the European Union have been a major of concern among accounting professionals. In spite of the numerous studies about the Adoption of International Accounting Standards by developed and industrialized countries around the world, less attention has been given to developing countries. In fact, no articles and accounting standards by developing countries and present the books about adoption of Ghana (Zeghal and Mhedhbi, 2006). In addition, there are a few that exist mainly to developing countries, international accounting standard whether it (Tyrrall et al 2007) focuses on essential to adopt. Secondly these articles and books of various developing countries international accounting standards discussion on economic development is country specific adoption of international accounting by developing countries on previous studies. For example the developing countries have taken as the analytical framework which is Armenia in international accounting

standards implementation process analysis (McGee 1999). The application and implementation of International Accounting Standards in private sector of India is very complex and suffering from many side problems. The factors that influenced the development are disclosed and analysis of the level of compliance with those standards in various countries is considered.

II. REVIEW OF INTERNATIONAL STANDARDS AND TAXATION SYSTEM

Different countries with different accounting practices is an accepted situation, however it is not without its disadvantages. As the idea of global corporations and markets without borders began to become a reality, members of the accounting profession realized the need for international standards. In 1971, the International Accounting Standards Committee (IASC) was formed. It was a loosely formed at the behest of Accounting Committee Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, and it is the same framework from the United Kingdom as the British and Australian frameworks that the u.s. financial accounting standards Board (FASB) boards. The same, about international accounting bodies in different countries of the International Federation of Accountants (IFAC under) business activities time. IASC and IFAC member IFAC tangent to each other automatically IASC [7]. The structure International accounting standards, established IASC with autonomy and international accounting documents relating to the publication of the issues discussed. 1970 roughly forty IASC standards have been issued; that went largely unused by most large corporations and countries with already established accounting systems. Its greatest progress was in Europe and with developing or newly industrialized countries [5].

For example in the 1990's Italy, Belgium, France and Germany all allowed large corporations to use International Accounting Standards (IAS) for domestic financial reporting? Yet in large part, the IASC found itself in a situation where it issued standards but had no power of enforcement, thus no real authority [10]. (Nobes 1999) In light of its progress in Europe, the IASC focused its efforts at gaining authoritative powers over accounting regulation in European markets. European multinational companies having are long suffered for financial burden of filing under national standards and filing under U.S.

GAAP for listing on U.S. exchanges were interested in working towards authoritative international standards that would phase out the use of U.S. GAAP. With this incentive, in early 2000, the IASC terminated its link with the IFAC as the first step in restructuring itself. In 2001, the IASC reorganized as the International Accounting Standards Board (IASB) and began developing International Financial Reporting Standards (IFRS) in addition to the existing IAS. (IASB) the IASB "appointed and who are accountable for the public interest, the Board of Trustees of the IASC Foundation is a diverse group geographically and overseen by an independent professional standard setting boards," defined as to that end the IASB Board members of fourteen different countries and different educational or professional background.

This means that the IASB wanted agreement between its standards and the national standards of a country. To that end the IASB began its convergence efforts within Europe. This made sense because the EU presents a strong capital market and EU ministers had expressed an interest in IFRS. Indeed by 2005, all European multinational companies were using IFRS for their financial reporting needs. This was a great achievement for the IASB and provided the necessary drive for U.S. GAAP convergence with IFRS. Due to pressure from EU officials and corporations in 2008 the SEC eliminated the rule requiring European companies to restate their financial statements to U.S. GAAP for listing on US exchanges. This provided IFRS a foothold in the US financial reporting. With these rapid changes, the SEC began to seriously look at IFRS and the benefits it provides. (SEC Release 2008).

Reasons for Harmonizing International Accounting Standards

In recent years, due to the increasing internationalization and much interest rate deals with financial information from countries other countries. To harmonize international accounting standards regulators, preparers and users of financial information is a lot of concern there is that professionals and effective financial decisions need financial information from different countries a whole host of. These include the following

Firstly, financial analysts and investors need comparable and comprehensible financial information of foreign companies to be better help in their decision whether to buy a particular share or invest in other ventures. The key issues that investors and financial analyst look for are reliability and comparability of the financial information. There are even differences between countries in accounting standards, better still, investors and financial analysts are clear about the nature and magnitude of difference. and of course, foreign companies that another country's domestic market share at its shares list in order to provide sound and reliable financial information home country which meets local standards would be required by the stock exchange regulators have similar such as the World Bank., International grantors compatible accounting standards for their borrower countries performance comparison feature [11].

Secondly, multinational companies are required to prepare a consolidated financial statement so as to reflect the overall activities of the parent company and all the subsidiaries under its wings. It would be a great relief to accountants if accounting standards were harmonized since the same standards would be used in preparing financial statements by the subsidiaries in other countries. Moreover, it would be much easier to prepare financial information needed for appraisal in subsidiaries in other countries.

Finally, international accountancy firms are also much interested in harmonizing accounting standards in that it helps them in regulating their large client base. Tax authorities also would benefit from harmonization of international accounting standards because it would be beneficial in “dealing with foreign incomes by differences in the measurement of profit in different countries.

International Accounting Standards Committee (IASC)

United States of America and the West Germany of IASC (Benson, 1979) are the main brain behind. IASC is an independent accounting entity which along with the International Federation of Accountants ((Norbes and Parker, 2004) dating back to IFAC) close relationship. The main purpose of the IASC should have and the public interest in the presentation of the financial statements the accounting standards to be produced and their observance □ (IASC, 1992) and to promote the worldwide acceptance to publish [12].

Commencing from 1983 to 2001, the activities of the IASC was monitored by a board which constitutes seventeen member countries among which nine or ten are developed countries whiles three or four developing countries and four other organizations mainly IASC's consultative group such as the World Bank, the International Confederation of Trades Unions and the International Federation of Stock Exchanges. IASC's budget is mainly borne by the remaining members of the Board budget funds are used for the other remaining members pay subscriptions whiles. Revenue also publications and donations as well as activities to fund generated from the IASC.

III. ADVANTAGES OF INTERNATIONAL STANDARDS

Most of the various national financial regulatory and standards setting bodies agree that there are numerous concrete benefits to implementing international standards. The SEC explicitly stated this as far back as 1988, in a policy statement that reads “all securities regulators should work

together diligently to create sound international regulatory frameworks that will enhance the vitality of capital markets” (p2). Capital markets are one area that can benefit greatly from uniform standards. Currently companies desiring to issue stock via capital markets in different countries must follow the different rules of each country. This creates significant barriers to entry because meeting the varied financial reporting requirements leads to considerable increased costs. For example, in 1993 Daimler-Benz spent \$ 60 million to prepare financial statements adhering to U.S. GAAP, and expected to pay between \$15 and \$20 million each subsequent year to meet U.S. GAAP (Doupnik 2007). Moreover divergent standards also create inefficiencies in cross-border capital flows. Uniform reporting standards will lead to decreased cost of capital because internationally accepted standards will expand the base of global funding without the penalty of additional reporting costs. This will eliminate cost as a barrier to entry and encourage investors to pursue access to foreign markets; which will lead to increased efficiency in cross-border capital flows. In addition to eliminating excess cost, another benefit of global standards is that they will eliminate duplication of effort formulating accounting standards. Global standards facilitate a concentration of accounting experts committed to formulating standards to meet information users’ needs; standards that have a global approach instead of a narrow national focus. Also international standards could lead to greater agreement between accounting and economic measures.

One aspect central to the benefits of using global standards is harmonization. Standard setting officials and accounting researchers stress the importance of differentiating ‘standardization’ of the rules from harmonization. An easily understood definition of harmonization provided by Wilson (1969) is:

The term harmonization as opposed to standardization implies a reconciliation of different points of view. When a particular standardization procedures should be adopted by all other means this is a more pragmatic and conciliatory approach to standardization, harmonize better communication than. Explained and understood the information internationally becomes a matter of the form (p & p).

Harmonization is an internal benefit that national standards, key nationalist opposition can be met with the Elimination of force. Harmonize global standards through the use of the financial statements will increase comparability across borders; Thus investors and creditors to provide a superior quality information. However, some developing countries fear the accounting standards by the standards harmonization; will dominate especially developed countries are hesitant to embrace US GAAP (Nobes, 2006).

IV. CHALLENGES AHEAD

There are many benefits offered by using the International Accounting Standards and taxation system in global arena. However there are many challenges those further required to be addressed in near future. In future these challenges will execute ahead of global arena. In order to understand the future challenges, we must look at the things those influences on implementation and development of international accounting standards and taxation system. These factors are cultural and social values, legal systems, political systems, economic conditions, business activities, capital markets, standard setting processes, forms of ownership, and cooperative efforts by countries. Therefore, if such challenges are accurately understand, then those will be mitigated from future development of international accounting standards. International accounting standards are important today and will most certainly become more important for the future as they are further developed.

V. CONCLUSION

In this paper we have studied the details of International Accounting Standards, its innovations and challenges ahead in private sector. The use of international accounting standards in global arena was patiently waited in order to actively use in business, financial aspects, private sector etc. Currently the new innovations in International Accounting Standards and Taxation System resulted into rapid growth of using the International Accounting Standards and Taxation System. During this paper we highlighted advantages of using the International Accounting Standards, its future challenges.

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