THE GLOBALIZATION OF ACCOUNTING STANDARDS : IFRS VERSUS US GAAP

Anne B. Fosbre, Georgian Court University
Ellen M. Kraft, Richard Stockton College of New Jersey
Paul B. Fosbre, New Jersey City University

ABSTRACT

The movement of business toward a global economy has accelerated the need to move toward global accounting standards. Two recent decisions by the United States Securities and Exchange Commission, SEC, have had a major impact on the issue of converging US GAAP and international accounting standards. This paper examines the implications of the SEC decision to allow foreign companies to use IFRS in financial reporting without reconciliation to US GAAP on investors, multinational corporations, and global financial reporting. The decision of the SEC to unite world regulators on the convergence of global accounting standards is also reviewed. The European Commission, the Japan Financial Services Agency, and the International Organization of Securities Commission, IOSC are to be included in the International Accounting Standards Committee Foundation IASCF in an IASCF Monitoring Group (SEC ,2008). Differences between IFRS and US GAAP are examined. The authors' conclusion is that it is both timely and necessary to converge and harmonize IFRS and US GAAP into a single set of Global Accounting Standards. This will lead to a more stabilized and prosperous world economy and it will help to resolve many of the world's financial reporting problems.

JEL: M4, M40, M41

INTRODUCTION

The movement of world economies and the expansion of corporate America overseas with dramatic financial results brought forward the need for a single set of global accounting standards that could be used for domestic and cross border financial reporting of foreign and US multinational companies. Advances in technology, the Internet, lower trade barriers, NAFTA, communication, and transportation systems have expanded the marketplace in which companies operate. Multinational companies have their home in the US, but operate in other countries. The trend toward US companies earning more profits abroad is not new, but it has accelerated in recent years and spread to many types of companies. Many of these multinational companies are earning more than 50% of revenue from foreign sales reflecting the growing globalization of US business. Examples of American companies that have obtained 50% or more in revenues from foreign sales include Honeywell International, Coca Cola, Pepsi Cola, and IBM (Holstein, 2007). Nearly 500 foreign companies are listed on the New York Stock Exchange while the London Exchange lists over 400 foreign companies (Spiceland, 2007).

On November 15, 2007 the Securities and Exchange Commission, SEC exempted foreign firms from including a reconciliation from International Financial Reporting Standards, IFRS to US Generally Accepted Accounting Principles, US GAAP when filing on US stock exchanges. Foreign public firms are now permitted to file using the International Financial Reporting Standards (IFRS) without reconciliation to US GAAP as previously required. This move has created a mandate to converge IFRS and US GAAP and financial statement requirements (SEC, 2007).

On June 18, 2008 the SEC issued a press release stating that the world's securities regulators are uniting to increase their oversight of international accounting standards. The European Commission, the Japan

Financial Services Agency, and the International Organization of Securities Commission, IOSC, are to be included in the International Accounting Standards Committee Foundation IASCF in an IASCF Monitoring Group (SEC, 2008). The threat of increased global power by the SEC has become one of the largest sticking points in the convergence of US and international accounting standards. This movement to include world regulators will aid in resolving world concerns about global control by the SEC and the US in overseeing the globalization of accounting standards

This paper examines the implications of the SEC decision to allow foreign companies to use IFRS in financial reporting without reconciliation to US GAAP on investors, multinational corporations, and global financial reporting. The decision of the SEC to unite world regulators on the convergence of global accounting standards is also reviewed. The European Commission, the Japan Financial Services Agency, the International Organization of Securities Commission, IOSC is to be included in the International Accounting Standards Committee Foundation IASCF in an IASCF Monitoring Group. (SEC, 2008) The differences between IFRS and US GAAP are compared. A detailed list of countries that have adopted IFRS is provided.

LITERATURE REVIEW

The United States Government and business community have played a major role in shaping the accounting profession from the standpoint of accounting standards. The review of the literature cites events that lay the foundation for justification for having global accounting standards.

Besides government and business, technology has also played a role in shaping the future of the accounting profession. With the creation of technology and computer communication, information could be recorded and transmitted quickly with remarkable accuracy. Thus, the "World Wide Web" in the 1990's created the source of obtaining reliable international financial information. The standard protocol of the Internet technologies allowed for a growth in global business. The increase in global business led to an increased focus on the growth of global transactions. In 1999 the Bank on International Settlements, BIS revealed that the annual value of cross-border debt and equity transactions exceeded the value of the national gross domestic products in many western economies including the US, Canada, as well as Germany and France. The growing interest in foreign financing activity created a demand for accounting standards that met the needs of investors and companies operating in global equity markets (Bank on International Settlement, 1999). In 2000 Gunther Gebhardt of the Brookings Institution wrote that market demand and market forces will achieve globally accepted accounting standards (Gebhardt, 2000).

In 2002 following the US accounting scandals of Enron, World Com and other US companies the US Congress legislated The Public Accounting Reform and Investor Protection Act of 2002 (The Sarbanes Oxley Act). This Congressional Act requirement referenced a previous act passed by Congress entitled The National Capital Markets Efficiency Act of 1996. In this act, the US Congress directed the SEC to respond to the growing internationalization of the securities market by heavily supporting the development of high quality international accounting standards as soon as possible (Congress, 1996, 2002).

With the legislative response to the accounting scandals in the US, the US Congress in the Sarbanes Oxley Act of 2002, has given direction to the SEC to move toward IFRS. In the act, the US Congress requested that the SEC undertake a study on the adoption by the US reporting system of a principle based accounting system. This reference can be interpreted as an IFRS accounting system. In addition, the SEC was required to complete its study within one year and submit its report to the US Senate and House of Representatives (Congress,1996, 2002).

Following the SEC request, the Financial Accounting Standards Board, FASB, and the International Accounting Standards Board, IASB, responded to the Congressional mandate by attempting to reach convergence between IFRS and US GAAP financial accounting standards. The boards met in September 2002 and pledged commitment to the convergence project called the Norwalk agreement (Day, 2002). In 2002 FASB and IASB signed the Norwalk Agreement formalizing a joint agreement to the convergence of US GAAP and IFRS. The FASB and IASB agreed to resolve existing differences between their standards.

At a meeting in 2005 FASB and IFRS reaffirmed their commitment to the convergence of these standards. A common set of high quality global standards remains a priority. At the time it was thought that the convergence would take many years of discussion and compromise before agreement could be reached. However, rapid changes are occurring. The increasing participation of jurisdictions and countries in the European Union has expanded the international interest in formalizing one set of global accounting standards. The November 15, 2007 move by the SEC to allow IFRS in financial reporting by foreign companies on US stock exchanges without the requirement of reconciliation to US GAAP has created ultimately a mandate to converge IFRS and US GAAP financial statement requirements.

Robert Herz is Chairman of the FASB. He has chaired FASB since 2002 and was reappointed to a second five year term in July 2007. Mr. Herz has predicted a minimum of five years for the convergence of IFRS and US GAAP standards to occur. (Journal of Accountancy, 2008). Law Schools have recognized the need for global accounting standards. To understand the Securities and Exchange Commission's (SEC's) mandate and the extent of the requirements, it is necessary to focus on an overview of Global Accounting Standards and the complexities involved in reaching harmonization. On January 30, 2003 Harvard Law School hosted a symposium exploring the need for global accounting standards (Harvard Law School, 2003).

HISTORY OF ACCOUNTING STANDARDS IN THE UNITED STATES

The 1933 Securities Act and the 1934 Securities Exchange Act were created to restore investor confidence after the stock market crash of 1929 and the subsequent economic depression in the US. The 1934 Act also created the US Securities and Exchange Commission (SEC). Congress gave the SEC the power and responsibility for setting accounting and reporting standards for companies whose securities are publicly traded on either organized stock exchanges or over the counter markets. It is important to recognize that the SEC has delegated the responsibility to the FASB but not the authority to set standards. The power thus lies with the SEC to disagree or change standards issued by the private sector which it has done.

Early standard setting was done by a private sector body called the Committee on Accounting Procedure (CAP). The CAP was a committee of the American Institute of Accountants (AIA). The AIA was changed to the American Institute of Certified Public Accountants in 1957. From 1938 to 1959 CAP issued 51 Accounting Research Bulletins (ARB's) dealing with specific accounting reporting problems However, criticism of the lack of development of a conceptual framework of accounting led to the creation of the Accounting Principles Board (APB) in 1959 replacing the CAP. Members of the APB were also members of the AICPA. APB operated from 1959-1973 and issued 31 Accounting Principles Board Opinions (APBO's). The APB's main effort was to create and establish a conceptual framework for financial accounting and reporting identifying the basic concepts of accounting. The APB was represented by members of the accounting profession and supported by their organization. Members of the APB served on a voluntary basis. APB was criticized by industry and government for their lack of independence. The criticism led to the creation of the Financial Accounting Standards Board (FASB) in 1973. FASB is represented by seven full time members compared to 18-21 part time voluntary members of the APB. FASB is represented by members of various organizations concerned with accounting standards. FASB is supported financially by the Financial Accounting Foundation (FAF). The FAF is responsible for selecting FASB members who must leave their present employment and work only for FASB.

FASB has created an important document in the formulation of a conceptual framework providing a current and future structure for accounting and reporting standards. FASB has issued seven statements of financial accounting concepts (SFAC's) to describe its conceptual framework. The Board has issued over 163 specific accounting standards to date.

VOLUNTARY INTERNATIONAL ACCOUNTING STANDARDS

The first step towards international accounting standards was the formation of The International Accounting Standards Committee (IASC) in 1973. In 2001 the IASC reorganized and created the International Accounting Standards Board (IASB). The IASC now acts as an umbrella organization similar to the Financial Accounting Foundation (FAF) in the United States. IASC issued 41 International Standards (IAS's). The IASB has endorsed these standards, when it was formed in 2001. Since then IASB has issued 6 standards of its own called International Financial Reporting Standards (IFRS). Compliance with these standards is voluntary since IASB has no authority to enforce them. The International Organization of Securities Commission (IOSCO) has approved allowing members to use these standards for cross border offerings and listings on international stock exchanges. As of 2005 all listed companies in the European Union (EU) must prepare consolidated financial statements using IFRS. About 7,000 companies are affected.

In 1994 the move toward convergence of accounting standards began with the Financial Accounting Standards Board (FASB) and International Accounting Standards Commission (IASC) jointly working on the issuance of new standards for the computation of earnings per share (EPS). Harmonization has yet to be achieved.

ADOPTION OF IFRS AROUND THE WORLD

In response to the need to move toward global accounting standards the adoption of International Financial Reporting Standards IFRS has grown. Figure 1 shows the percentage of the world market capitalization that is using US GAAP, using IFRS, plan to use IFRS or have a partial adoption of the IFRS standards, or have other standards. According to the International Accounting Standards Board (IASB) a world level marketing cap of accounting standards shows that IFRS now covers thirty three percent 33% of global capitalization, US GAAP represents 35%, while 22 % of other territories including China and India plan to have partial adoption of IFRS. Other countries not participating are estimated at ten percent 10% (Financial Times, 2007). In a more recent webcast by Deloitte & Touche revealed that large countries like Brazil, Canada and India have announced mandated adoption of IFRS. All European Union (EU) countries as of 2005 are required to use IFRS reporting. Today IFRS is used in over 100 countries (Deloitte & Touche, 2008).

Table 1 provides a summary of the countries and regions presently using IFRS as the primary accounting standard in the preparation of external financial reporting. The table lists 85 jurisdictions which use IFRS as a basis of preparation.. The auditor's report will reference conformity with IFRS. The table notes the use of IFRS for external financial reporting. Some exceptions include Hong Kong has adopted national standards that are identical to IFRS standards. China has listed 150 companies on the Hong Kong Exchange. Australia and New Zealand have adopted national standards described as IFRS equivalents. Switzerland permits the use of IFRS or US GAAP in financial reporting. Ecuador will adopt IFRS in 2008. Chile moves to IFRS in 2009. Brazil plans on adopting IFRS in 2010. Canada, India, Japan and Korea are scheduled for IFRS in 2011. Other jurisdictions include 24 regions where IFRS is permitted and 4 jurisdictions where IFRS is required in some cases. A total of 113 jurisdictions exist that permit or require IFRS (Deloitte, 2008).

Figure 1: World Market Capitalization by Accounting Standard

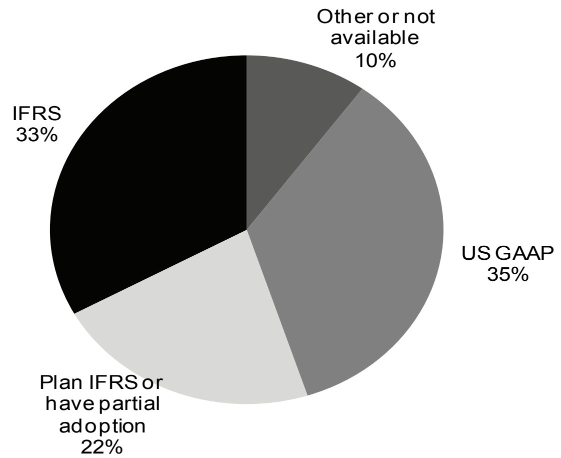

Figure 1 shows the percentage of the world market capitalization that is using US GAAP, using IFRS, plan to use IFRS or have a partial adoption of the IFRS standards, or have other standards. The source of the data is the Financial Times Research.

Table 1: Countries and Regions Using IFRS

Country	Country	Country	Country
1. Abu Dhabi- United Emirates	23.Dubai-United Emirates	45. Japan 2011	67.Norway
2. Anguilla	24.Ecuador 2008	46Jordan	68.Oman
3. Antigua and Barbuda	25.Egypt	47.Kazakhstan	69.Panama
4. Armenia	26.Fiji	48 Kenya.	70.Papua New Guinea
5. Austria	27.Finland	49 Korea South 2011	71.Peru
6 Australia	28.France	50.Kuwait	72.Poland
7. Bahamas	29.Germany	51 Kyrgyzstan	73.Portugal
8. Bahrain	30.Georgia	52.Latvia	74.Qatar
9. Barbados	31.Ghana	53.Lebanon	75.Romania
10.Belgium	32.Grenada	54.Liechtenstein	76.Serbia (Republic of)
11.Bosnia and Herzegovina	33.Greece	55.Lithuania	77.Slovenia
12.Botswana	34.Guatemala	56.Luxembourg	78.Slovak Republic
13.Brazil 2010	35.Guyana	57.Macedonia	79.South Africa
14.Bulgaria	36.Haiti	58.Malawi	80.Sweden
15.Chile 2009	37.Honduras	59.Malta	81.Tajikistan
16.Canada 2011	38.Hong Kong	60.Mauritius	82.Tanzania
17. Chile 2009	39.Hungary	61.Montenegro	83.Trinidad and Tobago
18. Costa Rica	40.Iceland	62.Namibia	84.United Kingdom
19.Cyprus	41 Iraq	63.Netherlands	85.Venezuela
20.Czech Republic	42.Ireland	64.Nepal	
21.Denmark	43.Italy	65 New Zealand	
22.Dominican Republic	44.Jamaica	66.Nicaragua	

The table below is a summary of the countries and regions presently using IFRS as the primary accounting standard in the preparation of external financial reporting as of August 2008.

In developing convergence of standards the standard setters have three options. They may opt for a FASB standard, use an IFRS standard, or if both are inadequate, they may develop a completely new rule. (Herman, 2006) In one instance they decided to converge an IFRS standard to a US GAAP (Discontinued Operations) standard. After reviewing FASB #144 Accounting for Impairment or Disposal of Long Lived Assets and IAS #35 Discontinuing Operations the standard setters decided that FASB #144 was the preferable standard. As a result, IASB issued IAS #5 Noncurrent Assets Held For Sale and Discontinued Operations which generally converged with FASB #144. In another instance, a US GAAP standard converged to an IFRS standard. The standard setters decided that IFRS #8 Accounting Policies and

Changes in Accounting Estimates and Errors was superior to past US GAAP APB #20 Accounting Changes. In June 2005 FASB issued Statement #154 Accounting Changes and Error Corrections to converge with the provisions of IAS #8. In the third instance, the standard setters are developing a new approach or compromise and are jointly working to develop a new standard. For example, FASB and IFRS standard setters have been unable to converge on the handling of extraordinary items, a part of the calculation of Earnings per Share EPS standard (Herman, 2006). With the movement toward IFRS the resolution of standards to be converged are more likely to adopt a simpler or principled based solution.

Many areas of accounting standards remain to be comprised and converged. Some of these areas are outlined in Table 2. Other differences also exit. Measurement of interpretations includes IFRS standards which are for the most part are more broad and principle based as compared to US GAAP. US standards contain underlying principles as well as strong regulatory and legal requirements. As a result the existing environment in the United States has required a more prescriptive approach to financial reporting. (Ernst & Young, 2007). Differences in implementation and enforcement in various countries will make financial statements appear more uniform than they actually are.

Table 2: Areas of Accounting that Have Not Been Comprised and Converged

Conceptual Framework	Comprehensive Income
Earnings Per Share	Inventories
Statement of Cash Flows	Valuation of Property, Plant and Equipment
Lower of Cost or Market	Interest Capitalization
Valuation of Intangible Assets	Impairment of Value
Research and Development Expenditures	Fair Value of Options-Investments
Impairment of Goodwill	Comprehensive Income
Equity Method	Contingencies
Classification of Liabilities to be refinanced	Convertible Bonds
Distinction between debt and equity for preferred stock	Post Retirement Benefit Plans
Leases	Use of the Term Reserves
Recognition of Pension Asset	Classification of Cash Flow
Error Correction	Standards for Presentation of Information in Financial Statements and Segment Reporting
Non Cash Activities	

IMPACT OF ALLOWING FOREIGN COMPANIES TO USE IFRS WITHOUT RECONCILIATION TO US GAAP

In this section we discuss the implications of the SEC decision to allow foreign firms to use IFRS without reconciliation to US GAAP. We begin by discussing the impact on investors. Next, we discuss the impact on multinational firms.

Impact on Investors

The requirement of a reconciliation between IFRS and US GAAP standards for foreign companies filing on US exchanges continued for many years. Choi wrote about the global consequence of international diversity. He discussed Daimler-Benz AG the first German company to list on the New York Stock Exchange. Daimler was required by Form 20F to reconcile its financial statements to US GAAP accounting standards. In 1993 a US $1.3 billion discrepancy existed between German accounting rules and US GAAP Under German accounting, Daimler reported a profit of US $733 million. US GAAP reported a loss of $589 million.. Thus major differences were evident between foreign accounting rules and US GAAP standards (Choi, 1998).

With the enormity of the large number of jurisdictions and countries now using IFRS reporting, the US despite its large role of in worldwide business activity cannot remain isolated in following US GAAP accounting standards, nor can they expect the world to reconcile to US GAAP.

Comparing company financial statements prepared using IFRS and US GAAP reporting present difficulties for investors. Despite the problems, companies with many overseas locations may benefit from using IFRS standards in financial reporting because they may be able to be more flexible in meeting statutory filing requirements in the various locals.

From the investors standpoint IFRS offers a sophisticated and a simplified program for a fresh start in financial reporting. The volume of US GAAP standards have increased in complexity. The rules are hard to figure out. Investors should be advised to check with the company they are considering investing in if the company is using IFRS for financial reporting. It may be able to explain the differences existing between IFRS and US GAAP reporting. For example Glaxo Smith Kline is already making this information available for interested investors. Furthermore any company could use a format similar to the formerly required reconciliation of IFRS to US GAAP to explain differences to interested investors. Or Investors should consult with financial analysts or credit rating agencies.

Impact on Multinational Corporations

Despite the many problems in converging accounting standards, the movement of US Multinational companies to overseas operations is indicated in the following graphs. Data from the Commerce Department reveals that in 2006 the change in corporate profits fell dramatically for domestic operations in the United States and foreign sales revenue received by US Multinational companies exceeded the domestic revenues as indicated in Figure 2, Change in Corporate Profit Receipts From Overseas and Domestic Operations from 2005-2007 (Appel, 2007).

Figure 2: Change in Corporate Profits Receipts from Overseas and Domestic Operations from 2005-2007

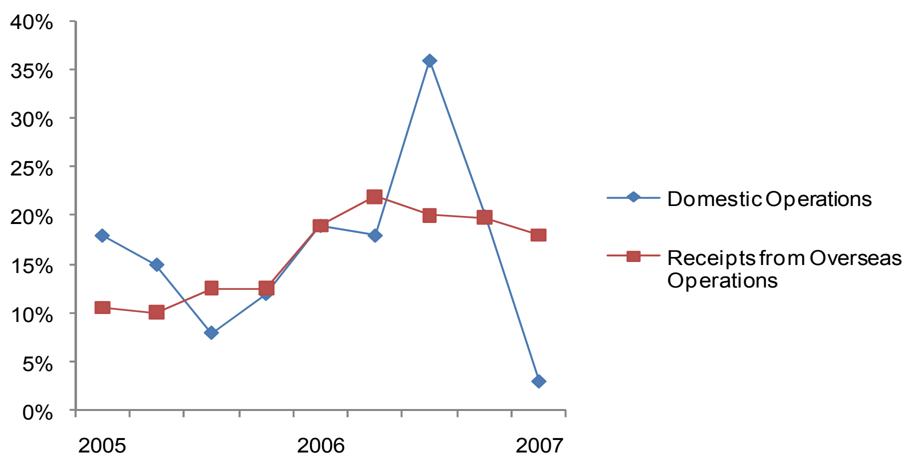

Figure 2 shows the change from 2005-2007. This data from the Commerce Department reveals that in 2006 the change in corporate profits fell dramatically for domestic operations in the United States and foreign sales revenue received by US Multinational companies exceeded the domestic revenues.

For the first time in its history, General Electric's overseas revenue surpassed its domestic sales in 2007 (Deutsch 2008). Despite the increased overseas revenue, the first quarter profit for 2008 has fallen six percent. As a result of the earnings report the stock price fell from $36.75 to $32.05, the largest drop since 1987. The cause of the problem was that their financial services declined sharply in late March after the near-collapse of Bear Stearns. It is important to note that overseas sales are growing even though the slowing of the American economy is damping sales in the United States (Deutsch, 2008). Other companies crossing the 50% threshold in international sales are Pepsi Cola, Coca Cola, Honeywell International, and IBM (Holstein, 2007).

In other areas of business operations, most chemical companies have been building plants and operating offices abroad for decades where operating costs were lower. The low cost operations have become major markets. By the third quarter of 2007 international sales of Du Pont worldwide sales have jumped to sixty four percent 64% and Dow Chemical's international revenue was about sixty five percent 65% of total revenue (Campoy, 2008). Despite these happenings it appears that growth around the world is slowing.

Under IFRS revenue is usually recognized when a sale occurs. This is called the principle based approach. Whereas in US GAAP revenue recognition is generally deferred until the earnings process has occurred and expenses are recorded and are matched against the earned revenue. Commonly called the matching process, this method is identified as the prescriptive approach. With SEC approval, foreign companies may now use IFRS standards for financial reporting without reconciliation to US GAAP. These companies will be reporting higher revenues than a comparable US Multinational corporation following US GAAP.

Since companies are compared by analysts with a focus on revenue dollars, investors tend to regard revenue as a measure of net worth. The corporations with higher revenues will benefit. Thus companies using IFRS standards for financial reporting will have a distinct advantage over US Multinationals using US GAAP. Although many differences between IFRS and US GAAP have yet to be resolved, interest in the differences in revenue recognition and the concern of US multinational companies becomes a contributing factor in the resolution of differences in financial reporting.

THE WORLD'S FEAR OF THE UNITED STATES IN REGULATING ACCOUNTING STANDARDS

European countries have been concerned that the International Accounting Standards Board has been mandating laws to them. In European countries where the IASB standards are laws they have started to propose local or industry-specific exceptions to IFRS, known as "carve-outs" (Reason, 2008). These "carve outs" create a lack of uniformity of the IFRS standards.

European CEO's received extensive questioning from the SEC after filing statements under IFRS. They question the United States motivation in allowing them to use IFRS. In response to their opinion, former SEC commissioner Roel Campos, states "the SEC is simply trying to respond to registrants that have a global presence and may find using IFRS more practical" (Reason, 2008). He believes that the SEC decision to allow foreign companies to report using IFRS is to be responsive to their need and make financial reporting more practical.

On June 18, 2008 the SEC issued a press release stating that the world's securities regulators are uniting to increase their oversight of international accounting standards. The European Commission, the Japan Financial Services Agency, the International Organization of Securities Commission, IOSC is to be included in the International Accounting Standards Committee Foundation IASCF in an IASCF monitoring group. The IASCF is the parent organization that sets international financial reporting standards (SEC,2008).

By definition the SEC regulates the world's largest capital market the New York Stock Exchange and Euronext. Thus, with internationalizing accounting standards and the creation of global accounting standards the SEC will have an increase in global power. The world regulators have had great concern of this happening. The threat of expanded global power has become one of the largest points of contention in the convergence of US and international accounting standards.

The SEC has stated that the IASCF monitoring group will provide an organized interaction between national authorities responsible for the adoption or recognition of accounting standards for listed companies. Global convergence of the standards was expected to require many years of debate and compromise. Instead it may make a relatively quick transition to IFRS brought about by the SEC.

FASB FUTURE AND PROS AND CONS OF IFRS

The basic principles of accounting are very much the same between IFRS and US GAAP but interpretations may vary. FASB board and US GAAP standards will become part of IASB.
While it seems unlikely that FASB will disappear, its future role will be greatly diminished. Three board members have left as of June 30, 2008. FASB will replace only one member. With a five member board going forward the focus of the board is likely to be restricted. FASB's future could very well become a branch of IASB (Wyatt, 2008).

By adopting IFRS as a global reporting standard multinational companies will be able to save labor cost and time associated with preparing financial statements for various locals. Having one set of statements will simplify investor's decisions as they will be able to compare companies using a uniform financial statements. According to Bnet Business Network companies in Europe and Asia have found that converting to IFRS have found that it reduces the cost of capital, improves access to capital, reduces cost of raising capital, increases shareholder confidence, and allows for transparency and comparison among companies (Bnet, 2004). By adopting IFRS, the accounting profession will be required to become educated about the new standards. Colleges and universities will need to revise their curriculums to be consistent will the new standards. The training of current and new accountants about IFRS will involve substantial time and costs. However, the new IFRS standards are not as difficult to learn as the US GAAP standards. Over time the authors believe that benefits of having a uniform reporting system will outweigh the time and cost associated with learning the new standards. However, in the end the enforcement of these standards will rest with local authorities and inevitably there will still be differences.

There is also the issue raised about the United States becoming a global regulating power. With the SEC mandating and the IASCF monitoring it, the SEC is essentially acknowledging this problem. The IASCF should facilitate the organization and communication among the national authorities responsible for adoption of accounting standards for companies in their nation.

CONCLUSION

Although the world is in unchartered territory with the globalization of business, successful foreign operations will help rebuild the American image abroad as well establish many profitable foreign companies. The world of accounting is changing rapidly. Many US Multinational companies have reached a level where foreign sales revenues exceed domestic revenues earned in the US.

Many comment letters sent to the SEC have indicated that it is too premature to implement global accounting standards because many differences between IFRS and US GAAP still need to be resolved. However, a driving force toward accelerating the process of resolution and adoption of global accounting is the revenue recognition factor as well as many other factors.

The revenue recognition factor is a major concern because under IFRS revenue is usually recognized when a sale occurs whereas in US GAAP revenue recognition is generally deferred until the earnings process has occurred and expenses are recorded and are matched against the earned revenue. As mentioned earlier, companies using IFRS standards for financial reporting without reconciliation to US GAAP will be reporting higher revenues than a comparable US Multinational corporation following US

GAAP. This places the foreign companies at an advantage since analysts focus on revenue dollars which investors regard as a measure of worth.

Since companies are compared by analysts with a focus on revenue dollars, investors tend to regard revenue as a measure of net worth. The corporations with higher revenues will benefit. Thus companies using IFRS standards for financial reporting will have a distinct advantage over US Multinationals using US GAAP. Although many differences between IFRS and US GAAP have yet to be resolved, interest in the differences in revenue recognition and the concern of US multinational companies becomes a contributing factor in the resolution of differences in financial reporting.

The movement of the SEC to include the world's securities regulators in the oversight of international accounting standards is a positive step in resolving problems in the convergence of US and IFRS accounting standards. The authors' conclusion is that it is both timely and necessary to converge and harmonize IFRS and US GAAP into a single set of Global Accounting Standards. This will lead to a more stabilized and prosperous world economy and it will help to resolve many of the world's financial reporting problems.

REFERENCES

Appel, Timothy. (2007) Overseas Profits Provide Shelter for US Firms. *The Wall Street Journal,* August 9, A1.

Author Unknown. (2008) Change Agent. *Journal of Accountancy*, February, 30.

Author Unknown. (2007) World Market CAP by Accounting Standards. *Financial Times* January 9.

Bank of International Settlements (1999) Table VII 69th Annual Report , March 31.

Bnet. (2004) Get Ready for New Global Accounting Standards. January. Retrieved on August 10, 2008 from http://jobfunctions.bnet.com/abstract.aspx?docid=158903.

Campoy, Ana .(2008). Chemical Industry's Shift; Companies' Results Could Be Burnished by Foreign Presence. *The Wall Street Journal,* January 22, A11.

Choi, Frederick D.(1998) Global Consequences of International Accounting Diversity (October).

CSpan Television Broadcast, National Governors Association (2008) Jeffrey Imelt, CEO and Chairman, General Electric Corporation "US is Becoming an Export Nation", February 26.

Day, Jackson (2002) (Acting Chief Accountant-SEC) Remarks,

Deloitte. (2008) Webcast, "International Financial Reporting Standards" February 20.

Deloitte (2008) IAS Plus, June 12.

Deutsch, Claudia. (2008) At Home in the World, *The New York Times.* February 14, C1.

Ernst and Young. (2007) US GAAP VS IFRS The Basics

Gebhardt, Gunther. (2000) The Evolution of Global Standards in Accounting. The Brookings Institution.

Harvard Law School. (2003) Symposium Exploring the Need for Global Accounting Standards, January 30.

Herrman, Don. (2006) Convergence in Search of the Best. *Journal of Accountancy*, January, 69.

Holstein, William J. (2007) Have and Have-Nots of Globalization. *The New York Times,* July 8, BU 4.

Kranhold, Kathryn. (2008) GE's Strength Abroad Helps It Weather Weakness in US. *The Wall Street Journal,* January 19, A3.

Minnihan, Brian. (2008) Bridging the Global Accounting Standards Gap, *E Commerce Times*, Retrieved on March 2, 2008, from http://www.ecommerce times,com/story/61132..html?welcome=1204324142.

Reason, Tim and Johnson, Sarah. (2008) Regulations of the World Unite. retrieved on June 23, 2008 from. http://www.cfo.com/article.cfm/11571221/c_11569934?f=home_todayinfinance

Rummel, Nicholas (2008) SEC may let Firms Phase in IFRS, Investment News, June 24.

SEC (1996) Section 509 (4) The National Capital Markets Efficiency Act of 1996

SEC (2002) Section 108 (D) (1) Public Accounting Reform and Investor Protection Act of 2002 (The Sarbanes Oxley Act.

SEC, (2007) SEC takes action to Improve Consistency of Disclosure to US Investors in Foreign Companies, November 15, 2007 Press Release.

SEC, (2008) Authorities responsible for regulation of public companies announce next steps regarding the creation of a group to interact with the International Accounting Standards Committee Foundation, June 18,2008 Press Release.

Spiceland, J. David, (2007) *Intermediate Accounting*,: New York: McGraw-Hill,-Irwin, 9.

Watson Wyatt (2008) Wilson Wyatt Insider US, April.

Zimmerman, Vernon K. (1984) International Accounting, p.7.