

# CHAPTER 1

## FINANCIAL REPORTING AND ACCOUNTING STANDARDS

Intermediate Accounting

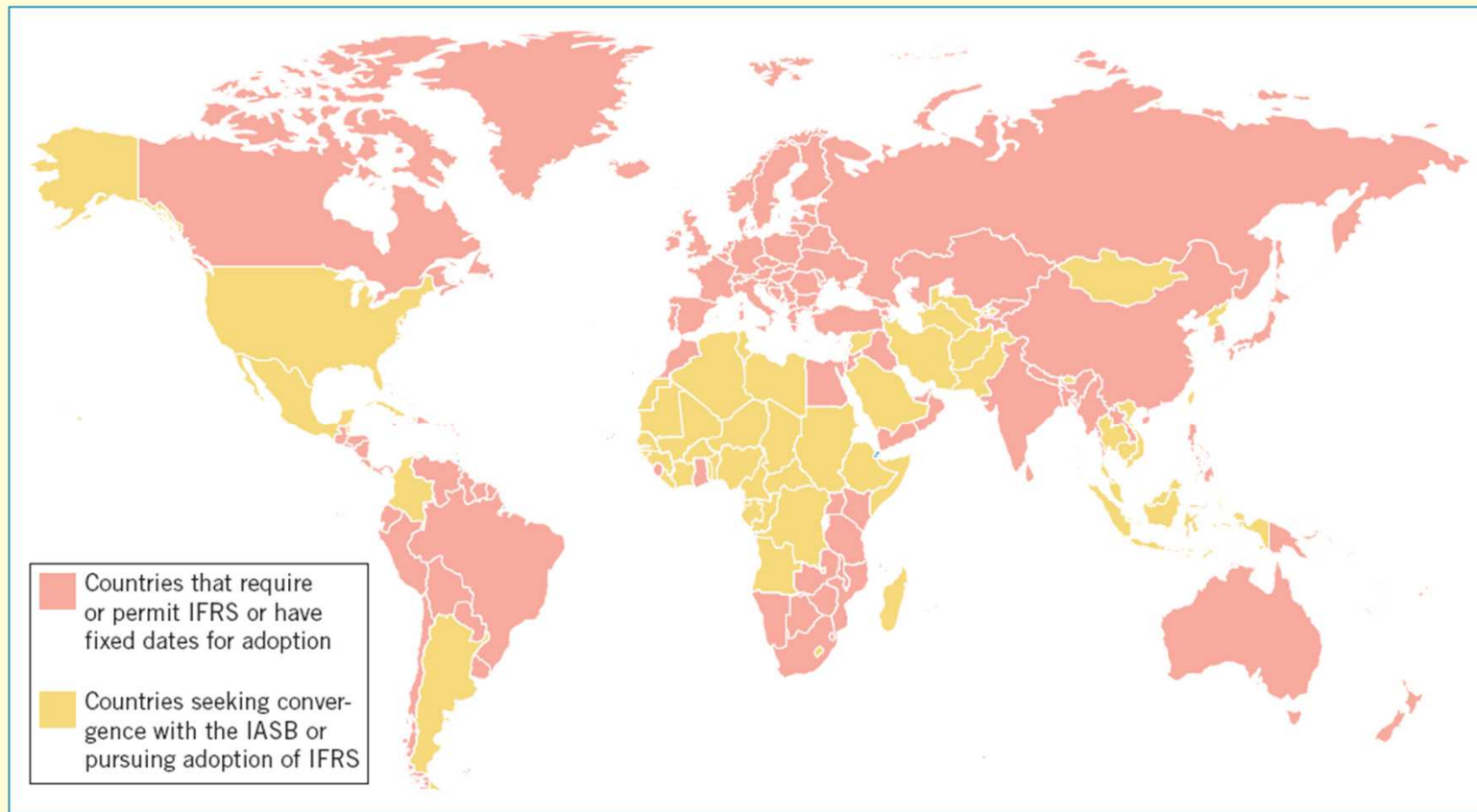
Presented By:

Ratna Candra Sari

Email: [ratna\\_candrasari@uny.ac.id](mailto:ratna_candrasari@uny.ac.id)

## WHOSE STANDARDS?

Recent events in the global capital markets have underscored the importance of financial disclosure and transparency not only in the United States but in markets around the world. As a result, many are examining which accounting and financial disclosure rules should be followed. As indicated in the graphic below, much of the world has voted for the standards issued by the IASB. Over 115 countries require or permit use of IFRS.



# Objective of Financial Accounting

**Objective:** Provide financial information about the reporting entity that is useful to

- present and potential equity investors,
- lenders, and
- other creditors

in making decisions in their capacity as capital providers.

# Objective of Financial Accounting

## General-Purpose Financial Statements

- Provide financial reporting information to a wide variety of users.
- Provide the most useful information possible at the least cost.

## Capital Providers (Investors)

Investors are the primary user group.

# Objective of Financial Accounting

## Entity Perspective

Companies viewed as separate and distinct from their owners.

## Decision-Usefulness

Investors are interested in assessing the company's

1. ability to generate net cash inflows and
2. management's ability to protect and enhance the capital providers' investments.

# Standard-Setting Organizations

## Two Major Organizations:

- **International Accounting Standards Board (IASB)**
  - Issues **International Financial Reporting Standards (IFRS)**.
  - Standards used on most foreign exchanges.
  - Standards used by foreign companies listing on U.S. securities exchanges.
  - IFRS used in over 115 countries.

# Standard-Setting Organizations

## Two Major Organizations:

- **Financial Accounting Standards Board (FASB)**
  - Issues **Statements of Financial Accounting Standards (SFAS)**.
  - Required for all U.S.-based companies.

# Standard-Setting Organizations

## International Organization of Securities Commissions (IOSCO)

- Does not set accounting standards.
- Dedicated to ensuring that global markets can operate in an efficient and effective basis.



<http://www.iosco.org/>



# Standard-Setting Organizations

## International Accounting Standards Board (IASB)

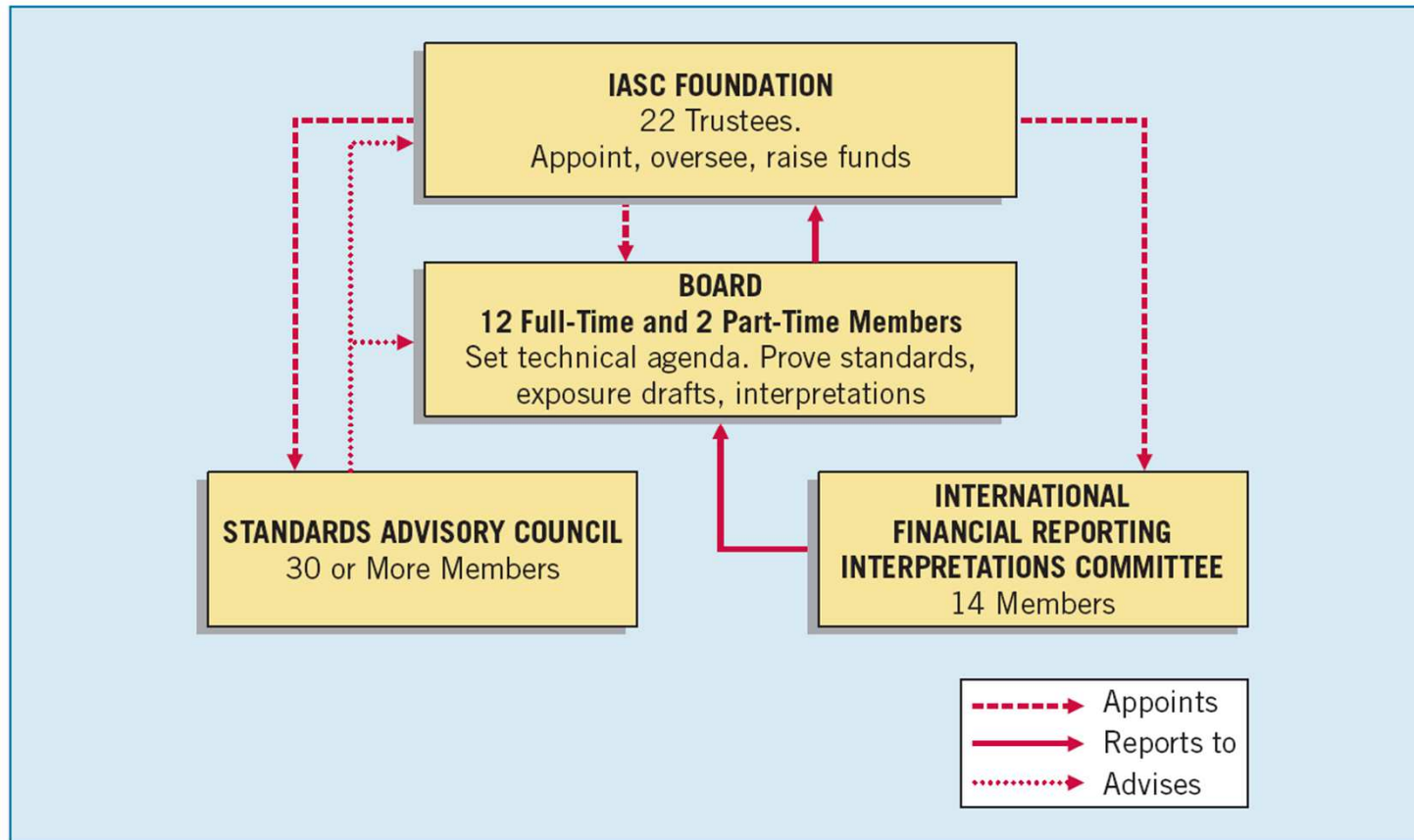
Composed of four organizations—

- International Accounting Standards Committee Foundation (**IASCF**)
- International Accounting Standards Board (**IASB**)
- Standards Advisory Council
- International Financial Reporting Interpretations Committee (**IFRIC**)



# Standard-Setting Organizations

**Illustration 1-4**  
**International Standard-Setting Structure**



# Standard-Setting Organizations

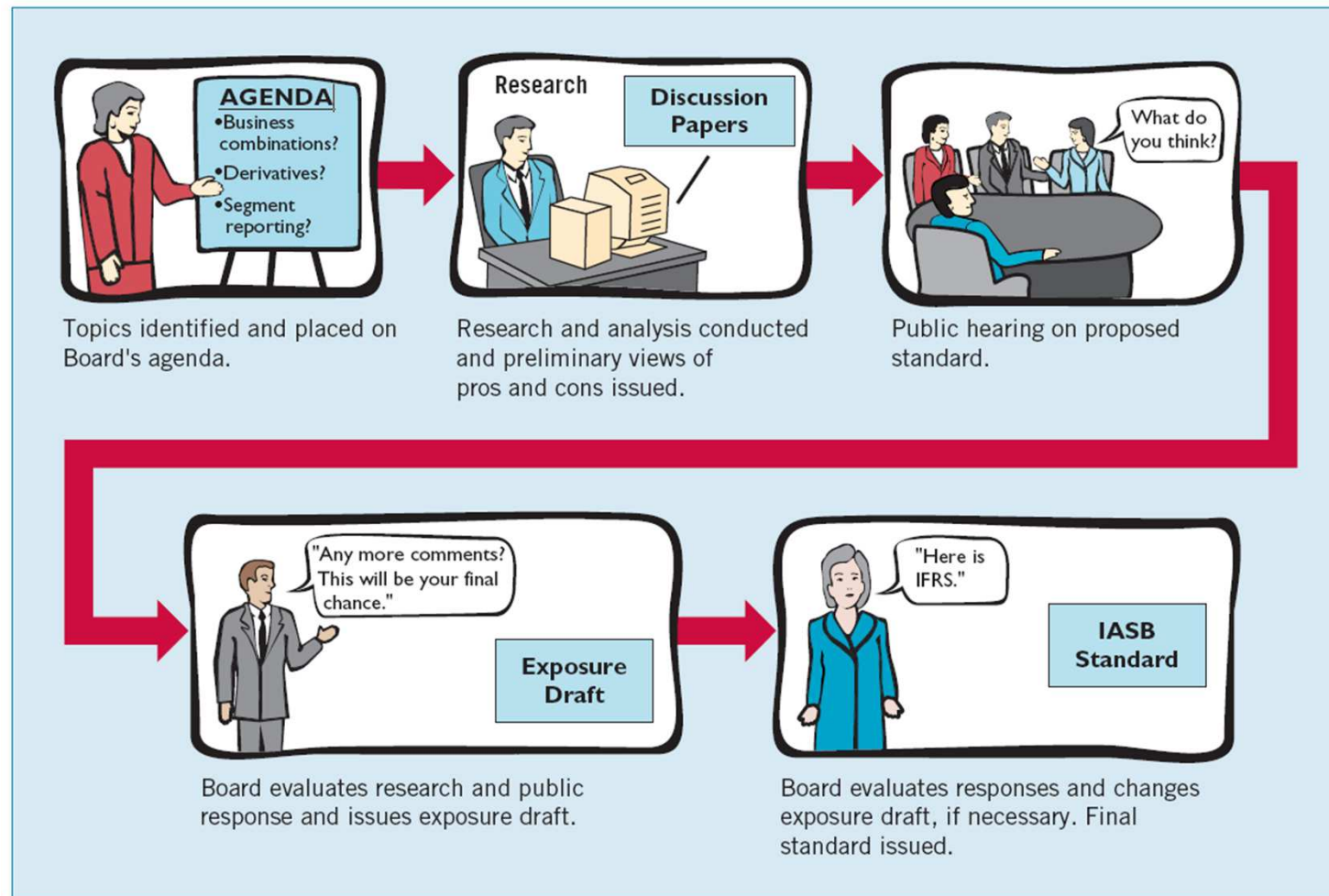
## Review Question

The major key players on the international side are the:

- a. IASB and FASB.
- b. SEC and FASB.
- c. IOSCO and the SEC.
- d. IASB and IOSCO.**

# Due Process

**Illustration 1-4**  
International  
Standard-Setting  
Structure



# Financial Reporting Challenges

## Ethics in the Environment of Financial Accounting

- Companies that concentrate on “maximizing the bottom line,” “facing the challenges of competition,” and “stressing short-term results” place accountants in an environment of conflict and pressure.
- IFRS does not always provide an answer.
- Doing the right thing is not always easy or obvious.

# Financial Reporting Challenges

## International Convergence

In 2002 the IASB and the FASB formalized their commitment to the convergence of U.S. GAAP and international standards. The Boards agreed to:

1. Make their existing financial reporting standards fully converged as soon as practicable, and
2. Coordinate their future work programs to ensure that once achieved, convergence is maintained.