International Business and Management
Vol. 2, No. 1, 2011, pp. 32-41
www.cscanada.net

ISSN 1923-841X [PRINT]
ISSN 1923-8428 [ONLINE]
www.cscanada.org

Business Practice of International Accounting Standardization

Jeno Beke[1]

Abstract: The goal of this study is to describe and summarize how the accounting standards can promote managerial decisions and influence business environment. The unified, standardized accounting information system will lead to new types of analysis and data, furthermore with the possible integration of new indicators from the business management of certain countries. In this research paper the author try to sign and evaluate the differences between national accounting rules and international standards, then the valuing and analyzing their effects on business decisions, management performance and economic environment in Hungary. Financial data are from published financial statements and Hungarian Business Information database. My sample comprises 65 international standards adopting and 260 local accounting rules user firms. The results of applied regression model support that the greater demand for more informative and conservative accounting earnings due to performance evaluations at more widely held by businesses stimulating to adopt international accounting standards. Businesses with lower labour productivity compared to their industry peers have greater incentives to follow accounting standardization.
Key words: Business practice; Accounting standards; Standardization process; Management performances; Comparable research; Hungary

INTRODUCTION

Business accounting information system is a method to provide a set of tools that can be used to meet the requirements of each application. Since accounting applications do not have uniform security and reliability requirements, it is not possible to devise a single accounting protocol and set of security services that will meet all needs. Business management requires that resource consumption be measured, rated, assigned, and communicated between appropriate parties. Managers of businesses use accounting information to set goals for their organizations, to evaluate their progress toward those goals, and to take corrective action if necessary. Decisions based on accounting information may include which building and equipment to purchase, how much merchandise inventory to keep on hand, and how much cash to borrow, etc. Modern accounting renders its services to a wide variety of users: investors, government agencies, the public, and management of enterprises, to mention but a few. Many accountants work in business firms as managerial accountants, internal auditors, income tax specialists, systems experts, controllers, management consultants, financial vice presidents, and chief executives.

Business accounting is, therefore, a service to management, a special-purpose tool which must be used but not misused. Like any special-purpose tool, if it is neglected or not used it will surely go rusty and fail to

[1] Institute of Business and Management, Faculty of Business and Economics, University of Pecs, Hungary, Europe.
Business Address: No.80, Rakoczi Street, City of Pecs, H-7622, Hungary
Postal Address: No.58, Magaslati Street, City of Pecs, H-7625, Hungary
E-mail: bekej@ktk.pte.hu
*Received 8 January 2011; accepted 12 February 2011

provide the good service for which it was designed. However, all tools have their limitations and it is well to point out at this early stage some fundamental limitations inherent in any system of accounting.

The importance of business accounting within a company should not be underestimated. It provides the basic information by which managers and owners can judge whether the business is meeting its objectives. Its importance is shown by the high salaries that accountants can command and by the prevalence of accountants on the boards of directors of major public companies.

Business accounting is also different from other business functions in that it is not only a function but also an industry. The accounting industry sells accounting and other advisory services to other businesses and is itself a major employer of graduate labour. Accounting can be and is used within business to evaluate and shape alternative strategies such as making a component of buying it in from a supplier, thus shaping business plans and activities. At the same time it is itself a function of the type of activity that a business engages in and of the strategies a business adopts.

Management accountants focus on the planning and controlling functions in an enterprise and prepare internal management reports and related analyzes to meet the needs of management. Accounting has often been called the "language of business". The underlying purpose of accounting is to provide financial information about an economic entity. The financial information provided by an accounting system is needed by managerial decision makers to help then plan and control the activities of the economic entity.

Historically, standardization of the international accounting systems has tended to follow the integration of the markets served by the accounts. For example, the move to unified national accounting in the US in the early 20th century followed the integration of the national economy. Similarly the present impetus for global accounting standards follows the accelerating integration of the world economy. Without the common accounting standards the cross-border portfolio and direct investment my be distorted, the cross-border monitoring of management by shareholders obstructed, and the cross-border contracting inhibited and the cost of these activities may be needlessly inflated by complex translation

The purpose of the use of international accounting methods is that a single set of standards ensures similar transactions are treated the same by companies around the world, resulting in globally comparable financial statements. However, using the accounting standards consistently by firms we will find that they are changeable, because they are depend on the varying economic, political, and cultural conditions in one state. Accounting standard-setters and regulators around the globe are planning to harmonize accounting standards with the goal of creating one set of high-quality accounting rules to be applied around the world (Whittington, 2008).

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

International accounting standards create more transparency on the financial market. This provides investors more accurate information on company profiles. This way, even small investors (and not only professionals) will be able to get the information needed for their investment choices, thus they will be able to better compete on the market. More transparency will result in more international transactions that will have reduced costs because of the clear information provided by business reports. In case of consolidated accounts (when the company has foreign subsidiaries) bookkeeping will be facilitated and will also result in reduced transaction costs. No more adjustments will be needed in order to make financial reports of companies internationally comparable. Reduced costs will also result in more cross-listings and cross-border investments.

Accounting standards also provide information on company disclosure. Better transparency, by providing more information, and providing the accurate and understandable information will reduce the risk perceived by investors. The risk in question is the accounting risk that comes from the difficulties in understanding the accounting principles and standards applied by the business, and also the inability of investors to process the information provided. By reduced risk investors will get lower returns from their investments that will result in lower cost of capital as well. The businesses that are using IFRS face less earning management, more earnings and more value relevance of earnings. This can be due to the easier flow of capital, the less costs attributable to the difficulties of adjusting the reports of businesses from different accounting systems. Due to the decreasing costs of processing the information provided in financial reports the efficiency of stock markets will increase which will result in greater prices of stocks and thus greater capital income for enterprises. These all will provide space for more innovation on the financial markets because they could become more integrated, and more and new international transactions could be created. Due to accounting standards, the international flow of capital will be easier.

International accounting standards are also becoming more popular and tend towards integration as the global economy. The global standards have many benefits that are supported by many factors. However, there exist also some restraining factors. Due to the globalization of the markets, international investors need access to financial information of companies that is easier by harmonized accounting standards. Many economic choices are done when investors realise their activities. These economic factors mostly favour international harmonization. Clear information is needed in order to facilitate investments in all sectors.

Business management requires that resource consumption be measured, rated, assigned, and communicated between appropriate parties. Managers of businesses use accounting information to set goals for their organizations, to evaluate their progress toward those goals, and to take corrective action if necessary. Decisions based on accounting information may include which building and equipment to purchase, how much merchandise inventory to keep on hand, and how much cash to borrow, etc. Modern accounting renders its services to a wide variety of users: investors, government agencies, the public, and management of enterprises, to mention but a few. Many accountants work in business firms as managerial accountants, internal auditors, income tax specialists, systems experts, controllers, management consultants, financial vice presidents, and chief executives.

According to the business practice it is obvious that the usage of international accounting principles leads to a reduction of the information asymmetry between the owners and the managers. By this information asymmetry are growing the costs of equities and are less accurate the economical and financial forecasts. This requires the development and review of the national accounting rules, the separate validation of the tax and accounting regulation, the repeal of the subordinate role of accounting, issuing international standards with the help of practical and theoretical accounting experts.

This study examines the impact of the adoption of international accounting standards on the management performance of businesses listed on the Budapest Stock Exchange. The research work also seeks to identify the financial attributes of enterprises that national rules employed by the requirements of the Hungarian Financial Ministry.

PREVIOUS RELATED LITERATURE

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

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

One study (Meeks and Meeks, 2002) characterises of accounting amounts for businesses that adopted IFRS to a matched sample of companies that did not, and found that the former evidenced less earnings management, more timely loss recognition, and more value relevance of accounting amount than did the latter. They found, that IFRS adopters had a higher frequency of large negative net income and generally exhibited higher accounting quality in the post-adoption period than they did in the pre-adoption period. The results suggested an improvement in accounting quality associated with using IFRS.

Another study (Jermakowicz et al., 2007) found that first time mandatory adopters experience statistically significant increases in market liquidity and value after IFRS reporting becomes mandatory. The effects were found to range in magnitude from 3 % to 6 % for market liquidity and from 2 % to 4 % for businesses by market capitalization to the value of its assets by their replacement value.

HUNGARIAN ACCOUNTING STANDARDIZATION PRACTICE

Hungary has had more than 100 years experience in national accounting. A first attempt to define and compile the value of national income and national wealth in Hungary was made in 1855. The next important step in the development of national accounting in Hungary was the compilation of national accounts for the period of 1920-30. The new period of national accounting started in 1950. In accordance with a general reorganization of the state apparatus and the introduction of soviet-type central planning The theoretical basis of the new, official national accounts was the Marxian concept of "productive work' accounting to which only the production of material goods creates original income, a theory going back before Marx to Adam Smith and Ricardo.

In Hungary, accounting requirements are regulated by law from 1991. The Ministry of Finance is responsible for accounting and auditing regulation. For the operation of the market economy it is essential that objective information based on past data be available on the financial and earnings position of undertakings, non-profit organizations and other types of economic organizations, as well as on the development thereof, in order for the participants on the market to be able to make well-founded decisions based on the information made accessible.

This Act contains accounting rules which are in harmony with the relevant directives of the European Communities and with international accounting principles. It is based upon which reliable information providing an authentic and true overall picture is available in respect of the income producing capability, the development of the assets, the financial situation and the future plans.

The Financial Government is hereby authorized to decree:

a) the reporting and bookkeeping obligations of budgetary organizations, the special turnover related definitions used for their annual accounts and bookkeeping in line with the provisions laid down in the Act on the State Budget.

b) the special regulations concerning the annual accounts and bookkeeping obligations of the National Bank of Hungary, of credit institutions, financial firms, insurance companies, the stock exchange, clearing houses and other similar bodies providing clearing or settlement services, investment funds and other funds, following consultation with the national Bank of Hungary.

These regulations concerning the activities and the requirements of the body designated to maintain the register of providers of accounting services, the procedure for the admission into and removal from the register, the detailed regulations for keeping the register, compulsory professional training, and the legal remedies available.

The Act on Accounting includes very detailed accounting requirements based on the Fourth and Seventh EU Company Law Directives and IFRS. From 2005 these Standards will apply only to the legal entity financial statements of companies and to the consolidated financial statements of non-stock exchange listed companies that do not opt to present financial statements prepared in accordance with IFRS.

The Hungarian Accounting Standards Board has recently been established to take over the responsibility for setting Hungarian Accounting Standards (HAS) from the Ministry of Finance. The Board was established by Government Decree 2002 of 2003 under the authority of the Accounting Act. Its establishment reflects the desire of the Ministry of Finance for accounting standards to be developed by the accounting and auditing professions rather than by government.

The Hungarian Accounting Standards according to a 2004 World Bank assessment of accounting and auditing practices in Hungary, differ from the International Financial Reporting Standards, despite significant efforts at harmonization. Being a European Union member, Hungary complies with the European Commission (EC) Regulation No. 1606/2002, which requires the application of IFRSs in the preparation of consolidated financial statements of listed companies. The 2008 EC report on the implementation of Regulation No. 1606/2002 points out that Hungary permits application of IFRSs in consolidated accounts of all entities within the scope of the Act on Accounting, but not in the annual accounts. The use of IFRSs in the annual accounts is allowed for informal purposes only. In this regard, the 2004 World Bank assessment recommended adoption of IFRSs for all public interest entities in the country.

In June 2009, the World Bank conducted a review of accounting and auditing practices in Hungary in order to evaluate the weaknesses and strengths of the accounting and auditing requirements and to compare the reporting requirements with actual practices. International Financial Reporting Standards (IFRSs), formerly International Accounting Standards (IASs), and International Standards on Auditing (ISAs) were used as the benchmarks for assessing national standards. The Report on the Observance of Standards and Codes (ROSC) was published the same year, summarizing the results of the assessment and suggesting a reform agenda. The report noted that the Hungarian accounting framework is governed by the Act on Accounting, which is based on the EU 4th and 7th directives on the harmonization of accounting standards. The Act on Accounting lays down the Hungarian Accounting Standards and is supplemented by government decrees based on special requirements for banks, insurance companies, stockbrokers, investment funds, pension funds, and various non-profit institutions. As detailed in the ROSC, in addition to the Accounting Act, financial statements of banks must comply with Government Decree No. 250/2000 on Special Provisions Regarding the Annual Reporting and Bookkeeping Obligations of Credit Institutions and Financial Enterprises. For insurance companies, the Accounting Act is supplemented by the Government Decree No. 192/2000 on Reporting and Bookkeeping Requirements of Insurers. According to the description of the regulatory framework provided in the 2005 Chamber of Hungarian Auditors (MKVK) self-assessment, the securities market, banks, and insurance companies are regulated by the Hungarian Financial Supervisory Authority (PSZAF). All listed companies, banks, and insurance companies are required to prepare and publish quarterly financial statements, which are reviewed by the PSZAF. Sanctions for non-compliance include delisting from the stock exchange. With regard to banks and insurance companies, the PSZAF can also perform an on-site inspection when irregularities are observed. Further action can include the recall of the auditor and management. In addition to quarterly reporting, banks are also required to tender an overall supervisory report every two years.

Act on Accountancy is promulgating the Europe Agreement establishing an association between the Republic of Hungary and the European Communities and their Member States, signed on 16 December 1991 in Brussels, this Act contains regulations which may be fully approximated with the following legal regulations of the European Communities:

a) Fourth Council Directive of 28 July 1978 on the annual accounts of certain types of companies (78/660/EEC).

b) Seventh Council Directive of 13 June 1983 on consolidated accounts (83/349/EEC).

c) Directive 2001/65/EC of the European Parliament and of the Council of 27 September 2001 amending Directives 78/660/EEC, 83/349/EEC and 86/635/EEC as regards the valuation rules for the annual and consolidated accounts of certain types of companies as well as of banks and other financial institutions.

d) Regulation No. 1606/2002/EC of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

e) Eleventh Council Directive 89/666/EEC of 21 December 1989 concerning disclosure requirements in respect of branches opened in a Member State by certain types of company governed by the law of another State.

The detailed regulations, methods and procedures implemented to supplement the legal provisions which are necessary for the principle of true and fair view shall be prescribed in national accounting standards. These national accounting standards shall not contradict the objectives and principles of this Act, nor the process of harmonization of legal systems defined in Act I of 1994 promulgating the Europe Agreement establishing an association between the Republic of Hungary and the European Communities and their Member States, signed in Brussels.

THE FINANCIAL STATEMENTS' ROLE IN PERFORMANCE ASSESSMENT OF BUSINESS MANAGEMENT

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

METHODOLOGY

The purpose of this study was the measuring, valuing and analyzing the international methods and their effects on the business decisions. This survey contains information on how local, national accounting rules (GAAP) differs from international standards on incorporating recognition, measurement, and disclosure rules.

To analyze business adoption decision my sample consists of Budapest Exchange Trade (BET) companies who compulsory adopted international financial reporting standards from 2005. My final sample comprises 65 international standards adopting and 260 local (Hungarian) rules firms. It is included all local standards enterprises in this analysis. An alternative approach it to create a matched sample of local standards businesses based on criteria such as year and industry. It is chosen to incorporate all local standards firms due to methodological concerns about the matched-pairs research design. Financial data are from published accounting statements in BET and Hungarian Business Information database. In my sample the businesses are classified into those following international standards and those following national accounting rules. For the international standards used enterprises the adoption year is treated as event year 0.

The adoption decision models are expanded relying Nobes (2007) researches and test if the demand from internal performance evaluations is a factor in businesses decisions to adopt international accounting standards.

It is estimated in the following logistic regression model after the prior literature (Wu and Zhang, 2009):

$$Prob\ [Adopt = 1] = Logit\ (a_0 + a_1\ Close\_Held_0 + a_2\ Labor\_Prod_{-1} + a_3\ RET_{-1} + a_4\ ROA_{-1} + a_5\ Size_{-1} + a_6\ Lev_{.-1} + a_7\ Growth_{-1} + a_8\ Foreign\_Sales_{-1}).$$

<u>*Where*</u>:

Close_Held : Percentage of closely held shares at the end of event year 0
(event year *t* for the management turnover and employee layoffs analyses)

Labor_Prod: Labour productivity (sales per employee) minus the median labour productivity in the same industry group

RET: Annual raw stock return

ROA: Return on assets, accounting earnings is defined as net income before extraordinary items.

Size: Natural logarithm of market capitalization

Lev: Leverage, defined as long-term debt divided by total assets

Growth: Sales growth, current year's sales change divided by prior year's sales

Foreign Sales: Foreign sales divided by total sales.

The dependent variable *Adopt* is equal to 1 for adopting firms, and 0 otherwise. All the independent variables are measured around event year 0. This model includes year and industry dummy variables.

Hypothesis predicted that the businesses with lower labour productivity face a greater need for informative measures of firm performance to facilitate internal performance evaluation, therefore a higher probability of international standards adoption. It was expected that the coefficients on the percentage of closely held shares ($Close\_Held_{-1}$) and labour productivity (industry-adjusted sales per employee, $Labor\_Prod_{-1}$) variables to be negative, because prior researches (e.g. Barth et al., 2007) are established that these variables associated with disclosure incentives have predictive power for the adoption decision. It is included that lagged variables on businesses performance (RET_{-1} and ROA_{-}, firm size ($Size_{-1}$), leverage (Lev_{-1}), growth ($Growth_{-1}$) on the right-hand side of the regression model and expected that the coefficients on firm size, leverage, growth to be positive. The regression results are reported in Table 1, if international standards are adopted by businesses.

Table 1: Results of logistic analysis

Analysis	Estimate	Standard Error	Marginal Effects*
$Close\_Held_o$	-0.00445	0.0026**	-0.64%
$Labor\_Prod_{-1}$	-0.00005	0.0003 **	-1.08%
RET_{-1}	-0.1134	0.1447	-0.30%
ROA_{-1}	-0.5609	0.7148	-0.31%
$Size_{-1}$	0.2659	0.0461***	4.21%
Lev_{-1}	1.3004	0.4882***	1.12%
$Growth_{-1}$	-0.2883	0.2021	-0.50%
$Foreign\_Sales_{-1}$	1.2085	0.2301***	3.08%

,* Indicate that a coefficient is significantly different from zero at the 10 percent, 5 percent, 1 percent levels, respectively (one-sided tests for coefficients with predictions and two-sided tests for those without a prediction)

*Marginal effects measure the changes in the predicted probability from a one standard deviation increase from the mean for a continuous variable and form 0 to 1 for an indicator variable with the other variables measured at the mean.

In Table 1 the coefficients estimates, standard errors, and the marginal effects are reported in columns (1) to (3), respectively. The $Close\_Held_{-1}$ has a negative coefficient, -0.00445, and significant at the 0.05 level.

The marginal effect suggests that a one standard deviation increase in the percentage of closely held shares decreases the adoption likelihood by 0.64 percent or 5 percent of unconditional adoption probability of 20 percent (65/325). The coefficient on $Labor\_Prod_{-1}$ is -0.00005 negative as expected and significant as the 0.05 level. The marginal effect indicates that a one standard deviation increase in labour productivity reduces the likelihood of adoption by 1.08 percent.

The coefficient on RET_{-1} is -0.1134 and on ROA_{-1} is -0.5609 negative too. These returns index-numbers decreased the adoption-willingness of standards by 0.33 and 0.31 percent. Similar reduces is the coefficient on $Growth_{-1}$ (-0.2883) and its marginal effect -0.50 percent.

At the same time favourable affects are coefficients on $Size_{-1}$, Lev_{-1} and on $Foreign\_Sales_{-1}$ with increasing by 0.2659, 1.3004 and 1.2085 at the 1 percent significant level. Marginal effects of these index-numbers are positive also from 3.08 to 4.21 percent.

EMPIRICAL RESULTS

The results of applied regression model support that the greater demand for more informative and conservative accounting earnings due to performance evaluations at more widely held by businesses stimulating to adopt international accounting standards.

The businesses with lower labour productivity compared to their industry peers have greater incentives to adopt international accounting standards.

The control variables are suggested that larger businesses with higher leverage and more substantial foreign sales are more likely adopt international standards.

Analyzing the changes of labour productivity at the adopting businesses the tests did not show a significant decreasing in the productivity over the last 5 years (2004 – 2008). It could be that businesses labour productivity is persistently low, not necessarily deteriorating continuously, in the several years leading up to the adoption. Meanwhile, there is a significant increase in labour productivity over event years. The employed regression model has reasonable predictive power with Pseudo R^2 of 39 percent. Epstein (2009) obtains an R^2 of 40 percent in his adoption decision regression model, while Lere (2009) reports 25 percent to his study. The estimated results depend on the numbers of samples and the employed methods, furthermore the significant level of explanatory variables. For example, in researches of Meeks and Swann (2009) find a positive coefficient for ROA. Ali et al., (2000) document a positive role form firm size (*Size)*, whereas Doupnik and Perera (2007) find an insignificant coefficient for size.

So, accounting standards effects on business performance are positive and negative too. Some business practice index-number (e.g. market capitalization, leverage and sales growth) have positive tendency for the future decisions. Marginal effects suggest that the ability of standards adoptions for national enterprises is so weak in nowadays in Hungary.

CONCLUSION

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

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

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

REFERENCES

Ali,A., Hwang, L.S. and Trombley, M.A. (2000). Accruals and Future Stock Returns: Tests of the Naïve Investor Hypothesis. *Journal of Accounting, Auditing & Finance*, *15*(2), 45 – 63.

Ball, R. and Laksmann, S. (2005). Earnings quality in UK private firms. *Journal of Accounting and Economics*, *39*, 83-128.

Barth, E., Landsman, R. and Lang, H. (2007). *International Accounting Standards and Accounting Quality*. Research Paper, Stanford University Graduate School of Business.

Botsari,A. and Meeks,G. (2008). Do acquirers manage earnings prior to share for share bid?. *Journal of Business Finance and Accounting*, *35*, 633-670.

Bushmann, R. and Piotroski, J. (2006). Financial reporting incentives for conservative accounting: the influence of legal and political institutions. *International Journal of Business and Management, 27*, 148-161.

Daske, H. and Gebhardt, G. (2006). International Financial Reporting Standards and Experts. Perceptions of Disclosure Quality. *Abacus*, *42*(3/4).

Doupnik, T. and Perera, H. (2007). *International Accounting.* New York, NY: McGraw-Hill International Edition.

Easton, P. (2006). Use of forecasts of earnings to estimate and compare cot of capital across regimes. *Journal of Business Finance & Accounting Research*, *23*(2), 49-71.

Epstein, B.J. (2009). The Economic effects of IFRS Adoption. *The CPA Journal*, 03, 26-31.

Guenther, A. and Young,P. (2000). Financial Reporting Environments at International Capital Mobility. *Journal of Accounting Researches*, 08, 41-57.

Jermakovicz, K., Kinsey, P. and Wulf, I. (2007). The Value Relevance of Accounting Income Reported by DAX-30, German Companies. *Journal of International Financial Management & Accounting ,18* (3), 611-641.

Lere, J.C.(2009). Benchmarking Accounting Practices in a Global Economy. *The CPA Journal*, *10*(11), 10-12.

Leuz, C. and Verrecchia,R.E. (2000). The economic consequences of increased disclosure. *Journal of Accounting Research, 38*, 91-124.

Li,K. and Meeks,G. (2006). *The impairment of purchased goodwill: effects on market value*. Working Paper. Institute of Chartered Accountants in England and Wales. Centre for Business Performance.

Meeks, G. and Meeks, J. (2002). *Towards a Cost-Benefit Analysis of Accounting Regulation*. London. Centre of Business Performance.

Meeks, G. and Swann, P. (2009). Accounting standards and the economics of standards. *Accounting and Business Research, 39*(3), 191-210.

Nobes.G. (2007). *A Survey of National Accounting Rules Benchmarked Against International Accounting Standards,* 9th Edition. London.

Pincus, M., Rajgopal, S. and Venkatachalam, M. (2006). The Accrual Anomaly: International Evidence. *The Accounting Review*, 6, 89-111.

Shleifer, A. and Vishny, R. (2003). Stock market driven acquisitions. *Journal of Financial Economics, 70*, 295-311.

Whittington, G. (2008). Harmonization or discord? The critical role of IASB conceptual framework review. *Journal of Accounting and Public Policy*, *27*, 495-502.

Wu, S. and Zhang, P. (2009). International Accounting Standards and Internal Performance Evaluation. *The Accounting Review, 07*, 1283-1311.