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## EDITORIAL

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There seems to be a growing consensus regarding the need for global accounting standards. The G20 meeting of 20 nations at their Pittsburgh Summit (September 24-25, 2009), the Financial Crisis Advisory Group of FASB (Financial Accounting Standards Board) and IASB (International Accounting Standards Board), and other stakeholders, express strong support for a single set of high quality global standards. The FASB and IASB reaffirm in a joint statement (November 5, 2009) their commitment to the 2006 Memorandum of Understanding, updated in 2008. Actions are taken in Mexico, Canada and the United States toward adopting International Financial Reporting Standards (IFRSs), and so on. And, as a consequence of a changing accounting environment, international accounting as an academic subject is changing orientation. The title of this text book – *International Financial Reporting Standards Address New Market and Institutional Developments – From a Student Perspective* – alludes to the dual nature of accounting standard-setting, considering the impact of an institutional framework and of the business world. Setting out from this dual nature of standards for business financial statements, this editorial will briefly discuss three interrelated topics: (1) IFRS in Europe, (2) Academic research in IFRS, and (3) Student-Centred Learning in the field of accounting in general, and in particular in IFRS accounting.

Some observations regarding IFRS in Europe: as mentioned, the FASB and IASB reaffirmed their commitment to improving International Financial Reporting Standards (IFRS) and US generally accepted accounting principles (US GAAP) and achieving their convergence. According to the standard-setters, developing high quality international standards is demanding because of differences in the culture, laws and capital market needs of the various countries that apply them. In a study of the market reaction to the adoption of IFRS in Europe, Armstrong et al. (2008, p. 30) conclude that investors in European entities consider IFRS adoption to generate “net benefits associated with increases in information quality, decreases in information asymmetry, more rigorous enforcement of the standards, and convergence.”

The expected consequences of IFRS adoption, according to Raffournier (2008), was that information asymmetry should decrease, earnings management should decrease, accounting data should be more value relevant, and the cost of capital should decrease. Raffournier concludes, after a literature review, that no clear conclusion can be drawn from the literature since the evidence is mixed, many studies were conducted in a single country (singling out Germany), and most studies deal with voluntary adoption.

Pijper (2009, p. 6) raises the question whether the adoption of IFRS accounting has made the finance statements of non-financial entities within the EU easier to compare and more useful from a credit analysis perspective. The findings of the study, conducted by Moody's, which investigated how the financial statements of the 30 largest rated entities changed when they were restated from local GAAP indicates that some of the restatements were significant, and many of the changes brought about by IFRS are helpful, but there are still some significant shortcomings. Due to the abolition of goodwill amortization, the capitalization of certain operating expenses and the split of others into “interest” and “operating” components, and the ability to account for pension deficits as a reduction in equity, net income (after minorities) increased by 25 per cent or

€23 billion. On the other hand, the overall ratio of net debt to equity rose from 59 per cent to 69 per cent (ibid). According to Pijper (2009, p. 6), the best feature of IFRS is that it generally requires more comprehensive reporting, and IFRS better represents the underlying economic reality in many instances. The list of improvements include: cash flow statements are now mandatory, pension obligations are more comprehensively disclosed, more information must be provided about leased assets, financing is more likely to be reported on balance sheet, put options held by minorities are now reported as financial liabilities, distortions caused by overly prudent accounting are less likely, and certain revenues are no longer recognized upfront.

The study concludes, from a credit analysis point of view, that under IFRS, financial statements include a lack of standardization, apparently inconsistent interpretations, undue complexity and false volatility; in particular, alternative accounting treatments are still permitted, cash flow statements are not directly comparable, accounting principles can be difficult to implement in practice, and the treatment of derivatives can make the statements harder to understand. Notwithstanding the many benefits of IFRS accounting, a weakness is that significant accounting expertise is often required in order to prepare financial statements (ibid.)

Interesting in this respect, in an address to the US Senate on 25 October 2007, Sir David Tweedie, Chairman of IASB, claimed that good principle-based standard must pass four tests: (i) Is the standard written in plain English? (This is also important to allow easy translation of our standards); (ii) Can the standard be explained simply in a matter of a minute or so? If not, why does it take longer? (Put another way, can only specialists understand it or can most accountants use it?); (iii) Does it make intuitive sense?; and (iv) Do managements believe that it helps them to understand and describe the underlying economic activity?

Regarding the next point, academic research in IFRS, the IASB, and the FASB, frequently call for policy-relevant academic research and other forms of academic input into the standard-setting process (c.f. Shortridge and Smith, 2009). Based on a review of extant literature, Fülbier et al. (2009, p. 456) conclude that there exists a broad consensus that research is potentially relevant to standard setters, but, as they add, “its exact implications seem difficult to pinpoint.” The question is, what is policy-relevant academic research? Drawing on Schipper (1994) and Leisenring and Johnson (1994), the authors claim that both *ex ante* or *ex post* research, can be described in terms of *immediacy*, *comprehensiveness*, *conclusiveness*, and is directed at *answering an outspoken question*, and *understandability* (ibid. pp. 456-7). Schipper (1994, pp 63-7) refers *immediacy* to topicality, that is, research needs to address a topic on the standard-setter’s agenda while there is still time to exert an influence on the issue. *Comprehensiveness* implies that the policy-relevant academic research covers all aspects of the standard-setting project in point, while *conclusiveness* indicates that the research findings lend themselves to clear interpretation. The fourth and last criterion, *emphasis on the answer to the question*, indicates that the research findings should be succinctly presented and the research should make clear recommendations. That is, how the findings of the research are presented is of great importance. Leisenring and Johnson (1994) emphasize that *understandability* is a necessary condition for academic research to be useful to the standard-setter.

Fülbier et al. (2009, p. 469) distinguish three broad categories of standard-setting projects, of which the first category covers projects related to the framework and overriding accounting principles, and the second includes projects focusing on recognition and measurement issues.

Table 1. Formal steps in the IASB due process and researchers' opportunities to contribute (source: Fülbier et al., 2009, p. 480)

Project stage	Opportunity for researchers to contribute
<b>Research agenda</b> (informal and optional 'pre-active- phase')	Point out potential unregulated and problematic issues to the IASB or IFRIC; provide literature overviews; conduct <i>ex post</i> research to identify problems with the status quo; provide 'thought pieces'; conduct broad <i>ex ante</i> research.
<b>Project initiation</b> (status as 'active project')	Provide a systematic outline of issues and alternatives, grounded in accounting theory.
<b>Information and other preparation</b>	Provide analyses of and generalize from relevant prior research; generate pertinent original research findings by conducting <i>ex ante</i> research.
<b>Discussion Document, analysis and internal debate</b>	Comment on the Discussion Document by providing analyses of and drawing pertinent conclusions from relevant prior research to assess the different alternatives.
<b>Exposure Draft, analysis and internal debate</b>	Comment on the Exposure Draft by providing analyses of and drawing pertinent conclusions from relevant prior research to assess the proposed rule. At a later stage, provide analyses and summaries of comment letters and research findings mentioned therein.
<b>International Financial Reporting Standard (IFRS)</b>	Explain and criticize the IFRS; conduct <i>ex post</i> research in order to identify areas for improvement.
<b>Post-implementation review</b>	Compile <i>ex post</i> evidence and confront it with <i>ex ante</i> expectations; conduct assessments of the standard's effectiveness; indicate implications for potential revisions of further guidance.

Standard-setting projects relate to (1) disclosure; that is, projects aiming at answering the question whether a particular piece of accounting information is potentially useful, and, if so, how much information should be reported and how it should be disaggregated; (2) presentation;

that is, projects aiming at answering the question about location and display in the financial statements; and (3) standard-setting projects covering disclosure and presentation issues are considered as being category three projects. Furthermore, Fülbier et al. (2009, p. 480) relate formal steps in the IASB due process and the alleged options for academic research to contribute to the due process.

It is well worth remembering that Table 1 only gives suggestions as to feasible academic research given different project stages. Notwithstanding, good research always requires good reasoning; the table can give some indications that might be subservient to future research efforts.

As to the last issue on our list, Student-Centred Learning in the field of accounting in general and in IFRS-accounting in particular, the discussion will be more empirically oriented. Then, what is Student-Centred Learning? References to Student-Centred Learning abound in the literature, but there seems to be different interpretations as to what this didactic method of learning stands for (Sparrow et al., 2000). Gibbs (1992, p. 23) describes Student-Centred Learning in terms of "...gives students greater autonomy and control over choice of subject matter, learning methods and pace of study." Hence, according to Gibbs (1992), students should, compared with traditional pedagogy, exert more influence on what is learned, how it is learned, and when it is learned (c.f. Sparrow et al. 2000). After reviewing the literature, Motschnig-Pitrik and Holzinger (2002, p. 161) claim that there exists empirical evidence providing that the pedagogy Student-Centred Learning has a positive effect on students' ability to achieve higher academic results. Furthermore, the authors suggest that students experience an increase in personal values, such as flexibility, self-confidence and social skills (ibid. p. 161). Rogers (1983, p. 3) suggests that Student-Centred Learning aims at:

- A climate of trust in which curiosity and the natural desire to learn can be nourished and enhanced;
- A participatory mode of decision-making in all aspects of learning in which students, lecturers, and administrators have their part;
- Helping students to achieve results they appreciate and consider worthwhile, to build their self-esteem and confidence;
- Uncovering the excitement in intellectual and emotional discovery, which leads students to become life-long learners;
- Developing in lecturers the attitudes that research has shown to be most effective in facilitating learning;
- Helping lecturers to grow as persons finding rich satisfaction in their interactions with learners.

Significant learning occurs, in the view of Rogers (1961), more readily in relation to situations perceived and recognized as problems by the students. Students who are in contact with real problems are inclined to learn and grow as persons, as indeed they do on finding solutions to problems. One implication of this observation is that the lecturer should permit students to be in real contact with problems they consider relevant (c.f. Motschnig-Pitrik and Holzinger, 2002, p.162). Taking this observation to the subject matter of international accounting and the alleged complexity and the observable rapid development of IFRS standards, Student-Centred Learning may help the students to cope with this complexity, with the speedy setting of new standards and the amendment of existing accounting standards. Complexity indicates a need to focus on one due process project at a time and rapid development indicates a need to follow each due process over time. For that reason, students in the course International Accounting at Masters level are

given the assignment to write a book over a five-week period about active projects on IASB's agenda. This is a challenging task.

Observations made over a period of several years at different universities indicate that by giving the students an active teaching and partaking role the students promote their own learning as well as the learning of their fellow students. A motivating factor behind the increased effort put into the learning process might be that students do not want to lose face in front of their fellow students. That is something they really want to steer clear of by putting a lot of effort into the learning process. Another factor might be, as mentioned by Motschnig-Pitrik and Holzinger (2002), given that students deal with real-world problems they find this kind of assignment to be very stimulating and rewarding which further spurs the students to increase their learning effort. A third motivating factor might be that students are offered the possibility to participate in an effort that might result in something that is lasting (in this context, something that can be put on the bookshelf).

The students are given the assignment to write a chapter in a projected accounting textbook about an accounting theme that is related to the Work Plan for IFRSs in such a way that the contents of the chapter are readily understood by other students. Each chapter should include references, an extensive summary and a discussion section. Questions that cover the essence of the reviewed accounting theme should conclude the chapter. These questions should be useful, for example, in class discussions, or as suggestions for thesis subjects. Since each new class is writing about accounting themes on the Work Plan for IFRSs, students (and others) can more easily follow the ongoing development of new or amended accounting standards.

On a more practical level, first, the students are divided into teams consisting of three or four students. Second, each team may choose an accounting theme, related to the Work Plan for IFRSs, that is of great interest to them. Third, the students, as a class, should organize the academic writing and the internal review process in such a way that it, eventually, results in a publishable text book format. The faculty assists this process in its entirety. Fourth, each team has to present their findings to the rest of the class. Fifth, the chapters that meet reasonable academic standards set by the faculty will be published in the text book. Focusing on one theme (project) at one point in time and at the same time following the due process (how the theme changes over time) in due course promotes the students' learning of complex accounting phenomena.

This leads us to the contents of the textbook at hand titled *International Financial Reporting Standards Address New Market and Institutional Developments – From a Student Perspective*. The contents of this textbook have been organized into three sections according to the categorization by Fülbier et al. (2009) of standard-setting projects. Section 1 covers accounting themes (chapters) related to framework and standard-philosophy questions (Category 1), whereas Section 2 encompasses accounting themes (chapters) linked to recognition and measurement questions (Category 2). Section 3 embraces accounting themes (chapters) associated with presentation and disclosure questions (Category 3). A Fourth Section and a Fifth Section have been added in order to account for issues related to both Category 2 and Category 3 questions, and to those environmental and society related accounting issues that have not been covered in full by any of the previous sections. *International Financial Reporting Standards Address New Market and Institutional Developments – From a Student Perspective* consist of 12 chapters organized in five sections.

**Section 1 covers chapters related to framework and standard-philosophy accounting issues**  
Chapter 1, Conceptual Framework for Financial Reporting, is written by Carin Carlson, Sofie Gustavsson, Sandra Svensson and Christian Söderström. Summary: The Conceptual Framework

project's overall objective is to create a common ground for future accounting standards that are principles-based, internally consistent and internationally converged. The conclusion of this chapter is that all the changes put forward by the Conceptual Framework project do not increase the quality of financial reporting.

Chapter 2, *IFRS for SMEs – The Institutional Framework*, is written by Rebecca Bhatia, Joel Färllin and Sandra Svensson. Summary: During summer 2009, after five years of deliberations, IFRS for SMEs was released. This was meant to be a framework building on the same basis as full IFRS but for small- and medium-sized entities being simpler to use and to be a part of the accounting integration process. The critics have both blessed the framework to have changed after input being given, but at the same time holding up the negative short term effects. As more countries are considering and adapting to IFRS for SMEs, the choice to stand outside will be growingly expensive.

### **Section 2 covers chapters linked to recognition and measurement accounting issues**

Chapter 3, *Fair Value Measurement*, is written by Sofia Flå, Isabella Jonsson, Olof Klingberg and Josef Mogyoro. Summary: The IASB has issued an Exposure draft which aims to increase the guidance on measuring fair value in IFRS and to increase the convergence with FASB. The chapter discusses the new Exposure draft and the reasons why the IASB consider a new definition of fair value to be appropriate. The new standard uses SFAS 157 as a starting point for its guidance which is a step away from the principle-based system IASB uses. The standard is not issued yet but two positive aspects are to increase convergence and to create a single definition of fair value.

Chapter 4, *Financial Instruments – IAS 39 Replacement*, is written by Maria Kindberg, Charlotte Kristiansson and Lizzie Nichols. Summary: This chapter reviews the IASB's ongoing project aiming at reducing complexity in reporting financial instruments. The objective of this project is to improve the decision-usefulness of financial statements for users by simplifying the classification and measurement requirements for financial instruments. The project will ultimately replace IAS 39 Financial Instruments: Recognition and Measurement by a new standard IFRS 9: Financial Instruments.

### **Section 3 covers chapters associated with presentation and disclosure accounting issues**

Chapter 5, *Financial Instruments - Classification of Equity and Liabilities*, is written by Filip Christoffersson, Ulrika Hollmer, Maria Nilsson and Ida Skagerdal. Summary: It is important to determine what constitutes a liability or equity, since it affects the financial statements. This report presents and discusses three approaches, which are published in a report from FASB, to use in the classification. In the choice of approach the provided benefits must be weighed against the cost to perform it. The choice has to be done to reach a higher comparability between companies and to present a fair view when the new standards do not contain accounting alternatives.

### **Section 4 covers chapters related to integrated accounting issues**

Chapter 6, *Consolidation*, is written by Mila Aruhn Pedersen, Sara Dabiri, Marcus Svan and Linus Wiremark. Summary: The new IFRS is supposed to replace the existing standards on consolidation; IAS 27 and SIC-12. The overall objectives are to revise the definition of control so that it could be applied on all entities, and to have more enhanced disclosures about consolidated

and unconsolidated entities. There is criticism about the standard setting boards deviating from the Memorandum of Understanding, and the general opinion is that IASB and FASB should proceed with this project jointly. Overall, parties seem to think that this new standard should not be a “quick fix” because of being a financial crisis’ project.

Chapter 7, *Goodwill - Definition and Treatment in Different Accounting Systems*, is written by Sara Eklund, Catrin Höglund, Johanna Lindström and Malin Lundqvist. Summary: This chapter focuses on the differences between the different accounting systems, the IFRS accounting, the U.S. GAAP and the Japanese GAAP, from a goodwill perspective. Overall it seems like there are some dissimilarities but that the main intentions of goodwill are still the same. This can be referred to the ongoing integration of accounting standards. Goodwill is only one of many aspects causing difficulties when comparing financial reports.

Chapter 8, *Accounting for Internally Generated Intangible Assets*, is written by Emilie Andersson, Anna Erlandsson and Louise Johansson. Summary: The IASB is contemplating undertaking an active project on identifiable intangible assets (that is, excluding goodwill) jointly with the FASB. Capitalization of internally generated intangible assets is treated differently in IFRS and SFAS. IAS 38 states that capitalization is allowed for development costs that comply with certain criteria. According to SFAS 86, on the contrary, capitalization is allowed for computer software development costs. The IASB works for convergence of accounting standard setting. Though, there is no project in progress to develop or reconstruct the standards for intangible assets. However, it is an ongoing discussion about this subject and there is no disagreement that a change is necessary.

Chapter 9, *Comparison of Full IFRS with IFRS for SMEs*, written by Sandra Berg, Emil Myrberg, Andreas Pergefors and Rebecca Wannes. Summary: This chapter reviews the differences between IFRS for SMEs and ‘full IFRS’ and what the advantages and disadvantages might be with a simplified IFRS for SMEs. The comparison shows that IFRS for SMEs includes fewer details. This might, in some cases, be a disadvantage because of the lacking details and explanatory examples. The simplifications made may also have an impact on the qualitative characteristics; understandability, relevance and reliability, that is a fundamental part of the framework.

Chapter 10, *Management Commentary*, is written by Sandra Andersson, Victoria Ecer, Susanne Härner and Caroline Svartström. Summary: In 2002 IASB started a project to develop an international standard for management commentary (MC). An MC provides a context within which the management is given the opportunity to explain what has happened during the year and it provides shareholders with important information for making decisions. This is a step towards integration of accounting standards and it would be easier for shareholders to compare entities from different countries.

## **Section 5 covers chapters associated with environmental and society related accounting issues**

Chapter 11, *Emissions Trading Schemes*, is written by Olof Klarin, Henrik Lindgren, Johan Sandell and Mathias Tingvall. Summary: The introduction of emission allowances has led to a couple of new accounting problems. Most people of the trade probably agree that emission allowances can be considered immaterial assets but when it comes to the accounting methods

there are quite different views. Our study especially points at the differences in accounting between the Swedish paper- and energy industries. Such differences could probably be avoided with an accounting statement from the IASB but it is also necessary that these recommendations are well-made and follow general accounting principles. The publication of an IFRS is scheduled for the first half of 2011.

Chapter 12, Corporate Social Responsibility, is written by Ida Hjertberg, Robin Furuhammar and Sanna Pettersson. Summary: An increasing number of European companies are promoting their corporate social responsibility (CSR) strategies and CSR reporting has increased during the last years, probably as a consequence of the increased threat to the environment but also as a financial motive. What means Corporate Social Responsibility and how do companies and the society benefits from CSR and how do they report their work with CSR.

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