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Codification of IFRS deriving from the experiences on US GAAP Codification modell

Doctoral thesis

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1. The objective of the research

The objective of my thesis is the study of the potential IFRS\(^1\) codification based on the experiences from a US GAAP\(^2\) codification model. Instead of studying the harmonisation of contents of IFRS to US GAAP – since the convergence of the two systems generates technical debates for long years – I studied how relevant would a restructuring of IFRS be similar to the restructuring occurred in the accounting system in the United States in 2009. In my thesis I analyse the formal aspects and application of the two systems, focusing specifically on the application of the differences deriving from the formal and structural issues, instead of studying the differences in the valuation, recognition and presentation criteria.

Recently, it has been anticipated that the IFRS became the global GAAP overtaking the US GAAP. Therefore, it is particularly important to consider the structural and formal differences, if the final outcome can result in a more transparent and simplified system for the users.

Matters before Codification:

Globally two significant accounting systems are present parallelly in the world, namely the US GAAP and the IFRS. Both approach the accounting and financial reporting issues in a somewhat different aspects. The systems of IFRS and of US GAAP were primarily structured as standard-based systems. In the accounting literature, the US GAAP is known as rules-based accounting, while the IFRS is introduced as principles-based accounting. The different context is however related to the ways specific valuation, presentation and disclosure issues are being discussed in US GAAP and IFRS.

The system of IFRS and, originally, the US GAAP were set up as a standards-based models. Since standards and interpretations focus on single, key topics with the aim to provide comprehensive answers for them, special attention must be paid to the interrelations between the standards. One may search key topics without reference to standards, while other can find topics with several references to

\(^1\) IFRS: International Financial Reporting Standards and its interpretations

\(^2\) US GAAP: Generally Accepted Accounting Principles in the United States,
standards. Therefore, standards should be considered in their interrelation to obtain the overall view within a key topic.

The complete accounting text issued in IFRS and in US GAAP is considerably vast in volume, and the sequential numbering of standards neither follows the structure of the financial statements, nor follows the logical flow of consecutive steps for preparing the financial statements. In order to answer a certain valuation, recognition matter, one needs to have significant systemizing and methodological skills, together with thorough knowledge relevant to that certain topic. To answer any question regarding the content of the financial statements, overall, context-based, up-to-date knowledge is required in both systems appreciating the interactions between standards is also required.

Prior to the Codification, the number of standards, statement of positions, and interpretations were over two thousand. To overview the US GAAP literature was a great challenge even for an experienced professional, not to mention less experienced persons where it was almost impossible. In respond to the problems experienced in the standard-based system, the FASB\(^3\) project team launched a survey among several companies and professionals. The result of the questionnaire based survey concluded that the pre-codification system needs to be re-structured. Consequently, the standard-based system was restructured, with the primary aim to simplify the access by codifying all authoritative standards in single platform, and ensure that the codified content fully represents all standards, and to create an up-to-date research system for the released results of the standard-setting activity.

Hence, as of 1 July 2009, significant changes were announced in the US accounting system by the introduction of the American Standard Codification system. For better application, the standard-based system was recodified to a topically-based model in a uniform structure, which resulted in a practical, simplified, user-friendly system for all users. The Codification did not change the existing content of the accounting conventions, but launched a methodology which eased the overview and application of accounting text easier for use.

\(^3\) FASB: Financial Accounting Standards Board, the standard-setter organisation of US GAAP
It is notable that the standards and rules of IFRS are not that extensively disintegrated, or split up as US GAAP standards when comparing current IFRS with US GAAP prior to Codification. In IFRS, the number of standard-setter bodies is lower, so as the number of standards issued\(^4\). Further difference comes from the history of American standard-setters with organisations operating over 50 years. Also, due to the continuous economic changes in the business environment, more and more new standards were issued, while modifying existing ones.

The number of standards in IFRS is lower than the number of standards existing in US GAAP prior to Codification. However the overview of the IFRS standards is already difficult in its current stage. The structure of IFRS, and the complex picture of the interrelation of standards led me to the conclusion, that it would be worthwhile to ask the same questions from IFRS users that were raised by the American standard-setters prior to Codification.

If the standard based approach was taken for best practice, a good solution would have been to reissue the former standards, reaching a number of two thousand, previously issued by several standard setters into a new set of standards in a single edition without further overlaps or conflicting information. If the standard-based approach was the best approach, the FASB would have considered to edit a new list of standards, similar to the IFRS, and consolidate the former standards into that edition given that the US GAAP traditionally represents concepts common in the UK GAAP and IFRS, where standards based accounting applies.

In my opinion, the events experienced of the US GAAP standards, namely the change in the system and the environment required a uniform, transparent and user-friendly platform. Based on this hypothesis I found it necessary to examine whether the IFRS would become a more transparent and user-friendly accounting system if it was restructured to a codified system similar to US GAAP?

\(^4\) In comparison to the American system, 40 standards and 27 interpretations are in force in IFRS. Comparing the number of pages, the US GAAP literature was estimated to be over 30,000 pages, while the IFRS content is approximately 3500 pages.
What were my particular objectives and problems to be solved during my research in order to perform the work?

1. The primary objective of my research was to examine if the situations and circumstances present in US GAAP prior to the restructuring of the US GAAP system, which led to the codified structure are present in IFRS. The objective was important to the extent that the codified IFRS system would support the application of IFRS and enhances its globalisation. The idea arise from the Central-European experience, where uniform structured based accounting systems are common, and standard-based practise are different, and, therefore, alligning with IFRS makes difficulties for the users.

2. Based on the favourable experience of the restructuring of the US standard-based system, rightly comes the question: would not it be worthwile to restructure the IFRS system based on the American structure? In my research I asked the question if the restructuring of the standard-based system would support the users in the recognition of accounting rules? The question was answered by my questionnaire-based research using the questions asked by the American standard-setters.

1.1. Research methodology

My research problem was formulated based on my experiences gained in the past decade. As a first step in the methodology, I processed the relevant literature then critically evaluated. Besides the 54 source-books, articles in the references I needed the up-to-date knowlege, which were represented by the following special professional materials:

- the releases issued by the American standard-setter board (FASB), the processing of the results of the American Codification and the of the results of the IFRS convergence,
• the results of the convergence negotiations released by the European standard-setter organisation (IASB\(^5\)) (from 2003 to date),

• the surveys, researches on the establishment of global accounting rules released by the American Stock Exchange (SEC\(^6\)),

• the Reports on the observance of standards and codes (ROSC) released by World Bank from 2006 to date on several countries, studying the accounting harmonisation,

• the releases of the American chamber of auditors (AICPA\(^7\)),

• personal interviews with the Technical Board of IASB (May 2012).

The other important methodological approach of my research was the questionnaire-based survey and the evaluation thereof. The questionnaire was set up based on the survey and questionnaire\(^8\), issued and published by the American standard-setter organisation (FASB). The questionnaire that led to the introduction of Codification after evaluation. Processing this questionnaire and with a small extension, I approached financial and accounting professionals in American and European listed multinational companies. The completed questionnaires assisted me in examining if my hypothesis was right. The primary objective of the research by questionnaires was to examine if the introduction of Codification was worth launching, and to explore if the conditions and circumstances present prior to Codification were present among the IFRS users, as well.

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\(^5\) International Accounting Standards Board  
\(^6\) Securities and Exchange Commission  
\(^7\) American Institute of Certified Public Accountants (AICPA)  
\(^8\) see Chapter 4.1.1.
The questionnaires were sent to two separate groups which were allocated by the following way:

**Group 1: the experience of listed company US GAAP users after the introduction of Codification**

The question I raised in examining Group 1 was to analyse and evaluate the experiences after the introduction of Codification among those companies which are listed on the American Stock Exchange. Some years after the launch of Codification the question is: if the introduction of Codification solved the problems and difficulties (published by FASB based on its questionnaire-based survey) present prior to the Codification? Are those problems and difficulties still present which were characterising the pre-Codification system?

In my research I asked the same questions which were asked by the FASB before the start of Codification (in order to be comparable) and I compared the results from my research with the pre-Codification results published by FASB. The number of participating companies was 100, which were primarily the US GAAP users from the Central European region (primarily from Hungary).

In the sample of the companies I had to consider the fact that only subsidiaries of those companies listed on the American Stock Exchange are obliged to prepare financial statements in accordance with US GAAP. However, I tried to cover my sample broadly for selection. One of the most important aspect of the selection from the Central European region was that the US GAAP users who are foreigners find the searching and the overview of the system more difficult than the American users. In the company selection, those 40 companies were chosen, who had the largest stockholders’ equity on a sliding scale among the US listed companies. After the selection of the companies, I approached entities that had a subsidiary in this region and I asked them to fill in the questionnaire.

The questionnaires were filled out by the financial and accounting colleagues of the subsidiaries (or its subsidiaries) of companies listed on the American Stock Exchange. In case of larger companies, it happened that Hungarian, Polish, Bulgarian subsidiaries filled out the questionnaires from the same group, such companies (subsidiaries) were accounted as separate participants by country.
The questions – rephrasing the original questions of the FASB – were placed on the current applicable system. The questionnaires were sent to colleagues of 100 European companies, however only 74 were acceptable for the evaluation of the survey.

**Group 2: Experiences of European listed companies on the application of IFRS**

The objective of the research was to examine to what extent the application of IFRS causes difficulties and whether the restructuring of IFRS – similar to the American Codification – would support the application among listed companies reporting under IFRS? The questionnaires contained the same questions used by the FASB in the American research.

The research sample comprised exclusively multinational companies, and questionnaires were sent exclusively to them. As in Hungary, and in the region primarily those companies report under IFRS that are either listed on the stock exchange or are subsidiaries of foreign mother companies listed on the stock exchange. The questionnaire was sent to the controllers, chief accountants, chief financial officers of 300 European multinational companies. From the questionnaires received 194 were acceptable for evaluation.
The following table summarises the most important aspects of the questionnaire based survey:

<table>
<thead>
<tr>
<th></th>
<th>US GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Companies interviewed</strong></td>
<td>companies listed on the US stock exchange</td>
<td>companies listed on a stock exchange in the European Union</td>
</tr>
<tr>
<td><strong>Primary objective of the questions</strong></td>
<td>the effect of the introduction of Codification, whether it was successful, has it solved the prior problems?</td>
<td>are those circumstances present which were present in the US prior to the Codification? Would it be an advantage to restructure the IFRS based on the US GAAP?</td>
</tr>
<tr>
<td><strong>Number of companies participating in the survey</strong></td>
<td>100</td>
<td>300</td>
</tr>
<tr>
<td><strong>Number of answers acceptable for evaluation</strong></td>
<td>74</td>
<td>194</td>
</tr>
</tbody>
</table>

Comparing the results of the two questionnaire-based survey, after critical evaluation I formulated my theses.
1.2. Theses

**Thesis 1: (Andor, Rózsa, 2013)**: as a result of restructuring of US GAAP standards and its interpretations, the overview and the application of the accounting system has significantly improved for the US GAAP users in the Central European region.

The thesis was formulated based primarily on the results of the questionnaire-based survey. The evaluation of the questionnaires sent to the first Group has proven the efficient introduction of the Codification (see Table 2 on Page 35), where the participants considered the restructuring of the standard-based accounting text to a codified text being is a significant improvement. 80% of the participants believed that the US GAAP was misleading prior to the Codification, but after the introduction of the Codification only 31% of the participants believed the same again. Note that the decrease was due exclusively to the change in the structure, while the content of the text did not change. The relative time to find the answer to a certain question also decreased significantly: from 85% to 38%, which I found important to support my thesis.

At the same time, it is worthwhile to mention that the Codification did not impact the content of US GAAP conventions, therefore, the understandibility of US GAAP has not changed or eased significantly according to the participants. Prior to the Codification 87% of the participants believed that the Codification made the accounting rules understandable, but after Codification only 81% believed the same again. Having experienced these results, I drew the conclusion that the contextual regulations of the system are still quite complex, however, the extent in percentages is high enough to state that the Codification made the accounting regulations more understandable in the new structure.

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9 Supported by publication in (Andor, Rózsa: „Should codification emerge in IFRS? Does form of regulation matter? ”, 2013, accepted for publication, Acta Polytechnica Hungarica)
Out of the remaining two questions, the first question examined if the search in the system has become easier than before? Interestingly, the improvement in percentages was not as significant as it was in case of question two. However, there is also a change, prior to Codification 96% of participants believed that the Codification would make searching easier, while after the Codification only 79% of them believed the same again. In my opinion, the small decrease is due to the fact, that the system is rather new, the participants started to use it actively only some years ago, and the acquisition of thorough knowledge of the system requires time. However, I considered the 79% as being favourable, because no illusions on anticipated, unknown system is present now, the 79% was received to a used, known system.

The fifth and last question ask the participants whether the Codification was for launching? Prior to the Codification 95% of the participants believed that the introduction of the system was a good step, while after the launch of Codification this opinion has decreased to 82%. I found the extent of the decrease favourable, since after the initial introduction process of a new system, significant extent of participants still thought that it was a good idea to launch the system.

**Thesis 2 (Rózsa, 2013):** The Central European accounting regulations in its attributes are unified, codified accounting rules. The application of standard based accounting is essentially unfamiliar, therefore its spread is more difficult in this accounting culture.

In the examined Central European countries, the application of IFRS is required explicitly from companies listed on the stock exchange, and from financial institutions such as banks and insurance companies in case of consolidated financial statements. Nevertheless, several countries provide the opportunity to opt for the preparation of the consolidated financial statements in accordance with the IFRS standards, along with (or instead of) the consolidated financial statements in accordance with statutory regulation. For standalone purposes, it is unlikely, that
the preparation of the financial statements in accordance with IFRS standards would be opted or accepted.

Note that, in the same time, the examined countries, together with the IASB – as a support for the 1606/2002. EU regulation – have started to set up standard-setter bodies. The objective of these bodies is to cooperate with the IASB and the establishment of the national standards. However, in the examined countries, it can clearly be noted that the standard-setter bodies have primarily an advisory function, and in the majority of countries the companies have to follow the statutory regulations, the national accounting laws.

In 2013, the IASB started to publish on its website the possibility for expected introduction of IFRS SME\(^{11}\) in these countries. Therefore, I wanted to see what the anticipated dates for introduction were proposed and, what kind of negotiations are in progress for the introduction. From the publication released by IASB, it is noted that none of the examined countries plan to introduce the IFRS SME, indicating in their answers that this possible introduction has not been examined by them so far. It should be underpinned, since the IFRS SME is a simplified requirement for those companies who does not have public accountability, who are not listed on the stock exchange. If the introduction of IFRS would be general in a given country, for the small and medium-sized entities, the application of this standard would be obviously easier. Consequently, this is also a sign that the overall, thorough introduction of IFRS in the examined countries are not anticipated soon.

The accounting regulations of the examined countries are summarised in Table 4, on page 43, where the details of 10 countries are shown, followed by the presentation of each countries’ standard-setter organisations.

The companies participating in the questionnaire-based survey from Group 2, are exclusively companies who are listed on the stock exchange, since certainly they are those, who understand and use the IFRSs. For those companies who participated in the survey, I examined their national accounting environment, and classified this statutory regulation as standard-based or uniform (codified) structure characterised accounting systems.

\(^{11}\) IFRS SME: IFRS for Small and Medium-Sized Entities, a simplified standard for those companies who do not have public accountability, e.g. are not listed on the stock exchange.
Analysing the above considerations, I determined that the accounting regulation in the Central European region was in its attributes not standard-based regulation but a uniform, codified structure of accounting laws in the majority of the countries. This form of structure – similarly to the American Codification – integrates the required accounting rules, its modifications, where timely accounting changes are updated within the system. Consequently, searching for the references, and monitoring of changes is more similar and closer to the current American accounting system, then any navigation in the IFRS standard-based system for the users in this region. During examining the statutory accounting regulations of each country, it was notable that in case of some countries there was a mandatory or recommended chart of accounts, or structure of accounts. For professionals, who are operating in these countries, the lack of this mandatory specification often resulted in a feeling of loosing the „hand-hold” they previously had, decreasing the level of comfort.

Several studies pointed out (Aisbitt & Nobes, 2001; Evans, 2003) that the acceptability of IFRS was worsened by the weak availability of the standards in national languages. The literature of IFRS is increasing, however the new, modified versions are available in foreign languages, and the continuous modifications, changes are barely monitored, and the exploration of interrelations between the standards are studied with difficulties.

In 1995, Guenther and Hussein (1995, p. 132) has already concluded that the main obstacle of the accounting globalisation is the tax regulation of each country. In several countries, the national accounting regulation is the basis for the national taxation systems, therefore there is significant opposition against the introduction of IFRS for standalone accounting purposes.
Thesis 3 (Andor, Rózsa, 2013): The current system of IFRS can be restructured to a uniform, codified structure-based system without significant contextual modifications. As a result of the restructuring, the existing redundancies, the inconsistencies can be eliminated, the relevant accounting interrelations can be revealed.

The IFRS comprise two authoritative components: (1) standards and related (2) interpretations. Additionally, the Framework for principles and definitions supplements the implementation of IFRSs. Along with the names of the topics covered, all standards and interpretations are coded by abbreviations that stand for “International Accounting Standards” or “International Financial Reporting Standards” or the name of the interpretation committee (SIC/IFRIC). Finally, each standard coding ends with a serial number referring to the chronological history of issue. Serial numbers are missing from the sequence if part of a standard has been superseded or reedited in a new standard because of significant changes in standards, other than simple modifications.

The IASB has implemented significant development to date and further projects are expected in order to make the IFRS a global standard of accounting. Therefore, a number of standards have been modified and/or superseded, and several new standards and interpretations were issued in the past years. In order to ensure an efficient conversion to IFRS, the professionals, users, auditors need to interpret the requirements and information disclosed in the same way, the regulation should secure a certain level of stability.

At the moment, the disintegration of the IFRS regulations is not as high as it was in the American standards, since the number of standard-setter bodies is lower and the number of issued standards is also fewer, however, it is not simple to obtain a comprehensive view on it in its current stage.

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12 Supported by publication in (Andor, Rózsa: „Should codification emerge in IFRS? Does form of regulation matter? “, 2013, accepted for publication, Acta Polytechnica Hungarica)
13 prior to Codification the following standard types were issued by several standard-setter bodies in the United States: SFAS (FASB Statements), FSP (FASB Staff Positions), AICPA Audit and Accounting Guide, AICPA Interpretations, APB Opinions, ARB (Accounting Research Bulletins), FASB Derivative Implementation Group Issues (DIG), EITF (Emerging Issues Task Force), FIN (FASB Interpretations), FTB (FASB Technical Bulletins), IR (SEC Interpretive Release), PB (AICPA Practice Bulletins), QA (FASB Staff Implementation Guides), SAB (SEC Staff Accounting Bulletin), SOP (AICPA Accounting Statement of Position), SX (SEC Regulation S-X), TIS (AICPA Technical Inquiry Service), CON (Concept Statements)
It is anticipated that when IFRS becomes the global standard, further new standards would be created, and in a short time it may become less and less transparent, such as the American accounting standards were prior to the Codification. Starting from the experiences of the conditions existing before the American Codification, I examined whether the current structure of IFRS can be overviewed without difficulties, whether IFRSs are complex or not. I prepared a relationship matrix that presents the references between the standards in force. In Table 3 and in Chart 1, the references between standards are summarised, and it clearly shows the exercise to perform in order to obtain a comprehensive view of the IFRSs. It is shown clearly, that the structure of the current standards, the interrelations between standards is very labyrinthistic, and therefore to obtain a comprehensive overview is a great challenge for an IFRS user. I illustrated it in my thesis that one should review at least eight standards and interpretation\(^\text{14}\) to answer a simple question about valuation of tangible assets, whereas such questions can be answered in US GAAP by a single reference.

I concluded that in IFRS the reference number of standard references is significant, however still manageable at this current stage. Although, the number of interrelations, references to other standards are very high, which may initiate the establishment of a new structure.

The system of American Codification after the restructuring is quite similar to the Central European national accounting systems (e.g. the Hungarian Accounting Law), therefore, its structure is more familiar than the standard-based IFRS.

\(^{14}\) not taking into account industry specific issues
I examined whether there is a need for an IFRS user in the Central European region for a uniform, codified system, namely, for the restructuring of the IFRS to a codified system. The questionnaires sent to the participants of Group 2 – where the listed companies using IFRS were in focus – raised questions on the transparency of the current IFRS system. Since the IFRS users generally are not familiar with the American Codification system, I enclosed a short summary about it, and the existing structure of Codification.

The result of the questionnaire is summarised on page 57, in Table 7. According to the results of the survey, significant part of the participants (77%) would welcome the codification of IFRS into a uniform, codified structure. It is not as high as it was the case in the United States prior to Codification – that was 95%. It can be explained by the conclusion I already made earlier: the disintegration of IFRS is not as deep as it was in the American accounting system. It has already been lightened that the current system of IFRS is manageable for the users, however, after summarising the answers of the participating companies, it is notable that a uniform, codified structure would ensure a significant improvement for them.

Based on the results of the questionnaire-based survey, using the structure of the American Codification, I linked the current IAS/IFRS standards and interpretations (SIC, IFRIC) to each Codification categories, classifications. In the structure I followed the existing structure of Codification, linking them to the IFRS standards and interpretations. It must be noted that it is not final, it should be harmonised and matched in the relevant parts.

In my opinion, the opposition of several countries against the introduction of IFRS can be weakened by codifying IFRS, since a more transparent and familiar structured regulation would be implemented instead of the current list of standards. Certainly, it would not eliminate the accounting dilemma on taxes, which is one of

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15 Supported by publication in (Andor, Rózsa: „Should codification emerge in IFRS? Does form of regulation matter? “, 2013, accepted for publication, Acta Polytechnica Hungarica)
the most important opposition against the launch of IFRS. The advantages and disadvantages of IFRS Codification are summarised in section 6.1. in this thesis.

It was important to examine, what were the causes of the need for a uniform, codified system among the IFRS users, since the disintegration, or „flow of standards” are not yet present in IFRS in comparison to the American standards, the standard-setting activity and the overview of standards is still manageable. In my opinion, the „loss” of the familiar structure in the accounting regulations is a definite problem for professionals in the examined countries, in this context the national accounting systems are not standard-based and statute is still to be used for standalone reporting.

Except for the companies listed on the stock exchange, several, significant number of countries have not accepted the IFRS regulations as national accounting regulations. The opposition is due to the differences coming from accounting valuations, from tax aspects and from the standard-based structure of the regulation.

1.3. The structure of the thesis

In section one of my thesis, I provide a systematic overview on the motivation of my objective of the thesis, and present the methodology and the theses concluded from my research. The paper continues with the review of key definitions in the section two, followed by the introduction of the thesis in section three. After the introductory parts, the paper is separated to three main sections.

In the section four, the history of the American Codification system is presented along with the reasons and motivations for its establishment. In the section, the main milestones of the establishment is reviewed, highlighting the main attributes of the current codified system. It is followed by the detailed presentation of the survey perform by FASB, what were the reasons to measure these questions, what were the results of this questionnaire-based survey.
In section four, the structure of the Codification is presented, including the way of application and its impact on the regulation. After the presentation of Codification, the questionnaire used by FASB in its survey – already presented in this section – is used again with the motivation to examine whether the introduction of Codification was successful for the US GAAP users. Proceeding the survey performed by FASB in 2007, I repeated the same questions for Group 1. By the repetition of the original questions, the objective was to examine whether the Codification achieved its goals, whether the prior problems diminished. The section is ended by the presentation and evaluation of the new questionnaire-based survey, together with conclusions drawn in the theses.

In section five – using the knowledge gained after the presentation of the American system – I discuss the current structure of IFRS, and the difficulties of its application from the aspect of a Central European IFRS user. In this section, the interrelations between standards are presented, by mapping the references crossing each other. Also in this section, the way of obtaining a comprehensive view of the standards is presented, how an IFRS user should approach the standards for searching purposes.

After the presentation of the interrelations of IFRS standards in section five, I examined the currently valid accounting regulation of some Central European countries. The purpose of the examination was to identify whether the country specified a standard-based or a uniform, codified accounting system. In the section, the accounting regulation of 10 countries were analysed by several aspects, by answering some questions on its accounting systems (e.g. is the application of IFRS mandatory in the given country for standalone financial statements?). The accounting regulation structures were examined for these countries, along with the standard-setting procedures (if any), and finally mapping the possible introduction of IFRS. In the section, it becomes obvious that the structure of IFRS is unfamiliar for the countries examined. At the end of the section, the opportunity for IFRS Codification has already come up as a possible answer to the problems.
Section six describes the possible Codification of IFRS standards. In the beginning of the section I illustrated how difficult it is to answer a simple accounting question by professionals in IFRS and in US GAAP, in comparison to one another.

By keeping an eye on the potential Codification of IFRS, together with the knowledge gained in previous sections, I performed a SWOT analysis to understand the strengths, weaknesses, opportunities and threats of IFRS Codification.

After the presentation of the research made so far, the results of the questionnaires sent to the current IFRS users are presented and evaluated. The same questions were raised to the IFRS users that were asked by FASB in 2007, however adopted to the potential problems in IFRS. By asking this segment of users, my objective was to identify whether the problems or potential threats are present, that generated the American Codification process and launched the Codification. The evaluation of the two questionnaire-based surveys has proven, that the IFRS Codification of IFRS may well be necessary and is welcome by the users.

Following the evaluation of the survey and conclusions, I challenged the currently valid IFRS standards and interpretations and linked them to the structure of American Codification system. As a result, a codified, more transparent system was created, that facilitated the comparison of the continental European accounting regulations to the American system.

The paper ends with the summary of conclusions.
2. Introduction

Two significant accounting frameworks exist simultaneously that outline accounting and financial reporting obligations with views more or less differing from one another: the Generally Accepted Accounting Principles of the United States (US GAAP\textsuperscript{16}) and the International Financial Reporting Standards and their Interpretations (IFRS). The IFRS\textsuperscript{17} has developed increasing emphasis in global accountancy and it is apparent that the IFRS may develop into global standards of accounting. According to the latest announcements of IASB and the releases of SEC, IFRS will become the global standard for companies listed on the stock exchange worldwide. Therefore, the comparison of IFRS and US GAAP is important in order to combine the best solutions in developing a single system.

The global convergence of the accounting standards is progressing at an increasing speed today. Approximately, 120 countries allow or require the application of the IFRS all over the world, and even more countries announce adoption of IFRS or adjust national accounting rules to IFRS. Therefore, the IASB has increasing legitimacy (Choi, Frost, & Meek, 2002; Herz, 2003; Meek & Thomas, 2004; Roberts, Weetman, & Gordon, 2002). The IASB\textsuperscript{18} and the FASB\textsuperscript{19}, in cooperation has published a working program\textsuperscript{20} in recent years with the purpose to progress by 2009 in a direction to achieve convergence between the IFRS and US GAAP. The aim is approached through mutual recognition, mapping and harmonizing differences between the two accounting frameworks.

Businesses may face a large number of accounting regulations and acts at national level, despite the fact that options for businesses on the stock markets in the world are limited. In addition to the development of the convergence program and the efforts for developing a global accounting system, the US GAAP underwent considerable changes in 2009 (O. Ford, Thomas, C., 2008., Pounder, 2008). Companies listed on the US stock exchange are expected to gradually report under

\textsuperscript{16} Generally Accepted Accounting Principles of United States
\textsuperscript{17} International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)
\textsuperscript{18} International Accounting Standards Board
\textsuperscript{19} Financial Accounting Standards Board
\textsuperscript{20} The so called convergence program
the IFRS commencing 2014-2015, thus turning the IFRS into global standards for accounting\textsuperscript{21}.

Nevertheless, the IFRS regulated financial statements of companies listed on the stock markets, many countries have not yet accepted the IFRS for national and mandatory accounting standards. The causes for any resistance are generally due to the different features of the accounting requirements, such as local taxation matters, as well as the architecture of the IFRS (i.e. framework structure) which is examined later in this thesis. Although approaches of the accounting standards in the UK, North-America and in continental Europe are different, one of the most considerable representatives of North-American accounting – the FASB – has introduced a structure very similar in concept to what has been traditionally reflected in the continental European view, the Codification (O. Ford, Thomas, C., 2008., Pounder, 2008).

The International Financial Reporting Standards (IFRS) is in the process of becoming globally recognised in stock exchanges alongside the Generally Accepted Accounting Principles in the United States (US GAAP). The IFRS and US GAAP have evolved based on the GAAP encompassed by the list of standards that constitute the structure of both accounting literatures. The structure that this thesis refers to as “standard-based” has been a traditional format for the IFRS and US GAAP in the past. Whereas the IFRS still maintains a standard-based literature structure, US GAAP standard setters of the Financial Accounting Standards Board (FASB) decided to depart from the standard-based tradition of editing accounting literature by redesigning the existing authoritative US GAAP literature into a single codified text, titled the Accounting Standards Codification (ASC).

This thesis focused on the structures of IFRS and US GAAP to understand whether the ASC enhances the application of US GAAP by professionals. The objective of this thesis was to determine whether the structure of the ASC offers an appropriate alternative to the standard-based structure of IFRS – making IFRS a user-friendly accounting literature in Central Europe. A survey was administered as a tool to foster discussion and to identify the features offered by the ASC, which is similar in structure to statutory accounting traditionally adopted in Central Europe.

\textsuperscript{21} http://www.sec.gov/spotlight/ifrsroadmap.htm
The implementation of the Accounting Standards Codification (hereinafter: „Codification”) in July 2009 resulted in significant changes to the structure of the US GAAP. The Codification collects all existing US GAAPs in a single codified structure, being conceptually different from previous standard-based accounting structures typical to the IFRS, and to accounting structures applied in the UK and Canada.

The thesis presents the structure of the Codification and compares it to the traditional continental statutory accounting systems. The results show that the continental accounting systems are similar to the Codification in structure and highlight a possible reason why these countries have difficulties in implementation of the standard-based IFRS regulations. It is demonstrated in the thesis that the links are difficult to traverse, resulting from the currently diversified standard-based structure of the IFRS.

This novel approach underlines this fact and supports it by a SWOT analysis on the possibility of codification of IFRS. Considering the merits and demerits of the analysis, the introduction of a codification approach similar to the Codification is proposed. The thesis discusses the reasons that resulted in difficulties to the US GAAP application and reasons that necessitated the Codification process in 2009 and why such progress is timely for the IFRSs as well. Both the IFRS and the US GAAP have evolved on a framework basis traditional to UK and North-American accounting systems (Alexander and Archer (2000), D’Arcy (2001) and Lewis and Salter (2006); Callao, S.; Ferrer, C.; Jarne, J.I. and Lainez, J.A. (2009).

The complete literature of the IFRS and the US GAAP are relatively exhausting, further, the sequential numbering of standards does not particularly refer to balance sheet line items or any sequence of task to be performed in the reporting process. Therefore, in addition to core technical knowledge on specific topics, advanced skills are required to be able to cover all relevant literature related to recognition and measurement issues, in the maze of available accounting references, within a limited time frame.
To a certain extent, it is true that within each standard the titles do refer to the financial statement component and accounting tasks. However, the relatively detailed table of contents still does not provide clear guidance as to whether standards cover a particular issue in question. Special attention has to be paid to interrelations between the standards because the standards and related interpretations deal with one or more key subjects with the objective to cover the scope comprehensively (topic approach). Therefore, both the IFRS and the US GAAP need thorough and advanced knowledge of standards in order to find answers to questions that relate to specific components of the financial statements.

The application of the framework structure triggers major resistance particularly in the Central European countries with typical Continental European accounting traditions. To be specific, within states where continental European accounting regulations develop accounting requirements under statutory rules in a consistent structure, and the users of the accounting rules in each country have become familiar with the logic and architecture over the past decades. Therefore, it is important to examine the difficulties Central European countries encounter with the introduction of the IFRS and find out their experience after becoming familiar with the framework features and what continental Europeans’ thoughts are about the possible future introduction of the IFRS.
3. Key definitions

In the thesis several terms are used, and the following terms are used with the meanings specified:

**Codification (Accounting Standards Codification, ASC):**

The current single source of United States Generally Accepted Accounting Principles (US GAAP). All other accounting literature not included in the Codification is nonauthorative. While the Codification did not change GAAP, it introduced a new structure - one that is organized in an easily accessible, user-friendly online research system. The FASB expected that the new system reduces the amount of time and effort required to research an accounting issue, mitigate the risk of noncompliance with standards through improved usability of the literature, provide accurate information with real-time updates as new standards are released, and assist the FASB with the research efforts required during the standard-setting process.

**Standard based accounting:**

It is a list of detailed standards that must be followed when preparing financial statements, such as the IFRS which is used as a conceptual basis for accountants. A simple set of key objectives are set out to ensure good reporting. Common examples are provided as guidance and explain the objectives. Although some rules are unavoidable, the guidelines or rules set are not meant to be used for every situation. In the thesis the standard based definition is used for the structure of the accounting system (e.g. list of individual, separate standards), not for the content. Therefore when speaking about standard based accounting the thesis does not mean principles based accounting.

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22 source: www.investopedia.com
**Rules based accounting:**

It is a list of detailed rules that must be followed when preparing financial statements. Many accountants favor the prospect of using rules-based standards, because in the absence of rules they could be brought to court if their judgments of the financial statements were incorrect. When there are strict rules that need to be followed, the possibility of lawsuits is diminished. Having a set of rules can increase accuracy and reduce the ambiguity that can trigger aggressive reporting decisions by management. The complexity of rules, however, can cause unnecessary complexity in the preparation of financial statements.23

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23 source: www.investopedia.com
4. The structure of US GAAP - the Accounting Standards Codification

4.1. The structure of US GAAP

The official US GAAP literature contained an extremely high amount of different standards, guidelines and interpretations. The number of references exceeded two thousand before the Codification took place. Only standards issued by the FASB amounted to 168, excluding opinions, statement of positions and guidelines, issued by other various standard setting bodies over the past fifty years or more. The statement of financial accounting standard (SFAS) 162 organized the existing network of authoritative US GAAP literature into a hierarchy forming four separate levels. Yet, most critics focused on the lack of consistency and concise approach in the framework based US GAAP.

In addition, the number of financial reporting guidelines have significantly increased in recent years and exceeded two-thousand in numbers, which caused even more difficulties to US GAAP users. Even prior to this, the public, together with the FASAC\(^{24}\), had indicated problems of confusion. In consequence, the FASB evaluated the emerging problems and deficiencies experienced in the framework, and in order to eliminate confusion, examined whether the existing authoritative US GAAP was worth simplifying and codifying as part of a separate project known as the Accounting Standards Codification.

\(^{24}\) Financial Accounting Standards Advisory Council
4.1.1 Development of the Accounting Standards Codification

The US GAAP authoritative literature includes a large number of publications issued over the past fifty years by various professional bodies. The publications, including standards, interpretations, position statements, and opinions, have been published in a relatively uncoordinated manner. Each professional body has applied a unique method for coding the publications, which are very much inconsistent from one another. By 2009, the literature comprised over 2,000 publications. The large amount of literature maintained under relative disintegration could not facilitate efficient research based on the publications. The FASB alone issued 168 standards, accompanied by further publications adding to the total. In addition, the standards themselves had features similar to those of the IFRS, such as extensive cross-references between standards; the coverage of a single topic by more than one standard; and a sequential numbering of standards based on chronological order rather than any order of financial statement components.

The US GAAP was essentially a standard based accounting system similar to the IAS/IFRS structures (speaking about its structure). When studying the topics, special attention had to be paid to the interrelations between the standards, as standards and related interpretations concentrate on one or more specific topics, with the objective to process specific topics comprehensively. This means that not every topic is covered by a single standard, while more than one standard can cover specific topics that constitute one unit of accounting matter.

Further, the sequential numbering of standards, similar to the IFRS, does not necessarily correspond to the sequence of financial statements; nor to the expected sequence of tasks in the financial reporting process. In many instances, the framework structure has confused new users of the US GAAP. However, the same can also be said for seasoned, experienced professionals.
As a result, criticism began to focus on the lack of a consistent and concise approach inherent to the standard-based US GAAP structure. Professional bodies believed that the US GAAP structure was unwieldy and difficult to follow (Herz, R. H., 2003). Criticism also noted risks associated with the structure, such as the possible incompleteness of research work given the wide range of relevant publications available for review.

Consequently, the existing standard-based structure was discouraging to professionals in maintaining timely knowledge in a cost-effective manner. In response, the FASB took action and announced its project to target the weaknesses identified above. To initiate the project, the FASB first surveyed the opinions of users of the US GAAP through questionnaires.

Recognizing the problems of the standard based accounting system, the FASB project team invited a representative sample of opinion poll companies and experts to survey users via questionnaires. Companies and practicing professionals were invited to the survey, representing a total of 1,400 participants who received questionnaires featuring the following questions (FASB, 2008. Accounting Standards Codification Notice to Constituents (v1.05)):

| Q-1: Do you find the current US GAAP literature confusing? |
| Q-2: Does research in the current system require considerable time? |
| Q-3: Would codification make the system more understandable? |
| Q-4: In your opinion, will codification make searching in the system easier? |
| Q-5: In your opinion, should FASB pursue codification? |

The results of the survey were favourable, and the Accounting Standards Codification project was launched with over 200 professionals from different entities being involved. The Codification structure intended to differ significantly from the existing standard-based US GAAP structure. The objective of the Codification project was to facilitate access to the complete authoritative US GAAP literature.
The Accounting Standards Codification project was announced on 15 January 2008 with the objective to bring the existing US GAAP literature based on various sources into a single codified reference source of standards, interpretations, opinions and other guidance. The Codification process was a result of a four-year work in total, and was carried out by a team of over two hundred experts from different organizations.

In order to simplify accounting research and monitoring activities for users, the FASB reedited the over two thousand existing US GAAPs, including a number of separate reference literature having caused difficulties in application.

The Codification did not change existing accounting principles but rearranged the existing and relevant publications into a user-friendly structure to facilitate consistency and completeness in accounting research. Ultimately, the existing authoritative literature was organised under approximately 90 different topics, each dedicated to separate areas of concentration, such as assets, liabilities, equity, expenses, and revenue accounts in financial statements. In this context, it is important to underline that the FASB moved toward a structure that was much different from what was previously known as a standard-based structure.

The Codification is a major restructuring of accounting and reporting standards designed to simplify user access to all authoritative US GAAP by providing the authoritative literature in a topically organized structure. The Codification was developed by disassembling and reassembling thousands of nongovernmental accounting pronouncements (including those of FASB, the Emerging Issues Task Force, and the AICPA) to organize them under approximately 90 topics and include all accounting standards issued by a standard setter within levels A - D of the current U.S. GAAP hierarchy.\(^\text{25}\)

\(^{25}\) [http://www.ifrs.com/updates/>.%5Cupdates%5Cfasb%5Ccodification.html]
The Codification also includes relevant portions of authoritative content issued by the SEC, as well as selected SEC staff interpretations and administrative guidance issued by the SEC; however, the Codification is not the official source of SEC guidance and does not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. Moreover, the Codification does not include governmental accounting standards.

The topical structure of the Codification correlates closely to standards issued by the International Accounting Standards Board (IASB). Codification topics reside in four main areas; including presentation, financial statement accounts, broad transactions, and industries. Within each topic are sections, which also correlate very closely with sections of individual international accounting standards.

The structure of the Codification differs significantly from the former US GAAP arrangement. The primary purpose of the FASB was to simplify access to all authoritative literature in the US GAAP hierarchy. Therefore, all existing standards relevant to predefined topics had to be collected into a unique reference covering each specific topic; hence developing a concise, easy to review structure. The Codification did not result in new GAAPs. Instead, the Codification developed a new edition of existing GAAPs organized under approximately 90 different topics.

The Accounting Standards Codification was effective on June 30, 2009 as the single authoritative US GAAP literature, and former publications were no longer authoritative subsequent to that date. Review and update processes take place within the Codification platform on an annual basis. Any change or revision is documented and announced in the Accounting Standards Updates (ASU), which is the exclusive forum used to communicate amendments to the Codification.

Following the Codification no further standards are to be issued, instead, the Codification remains subject to revision through Accounting Standards Updates (ASUs) including appropriate explanations for any changes in the Codification. That is, the ASUs represent the single channel for communication of changes in the Codification.
The newly issued standards will have the following time system codes: Accounting Standards Update 20YY-XX, where “YY” represent the year of issue and “XX” the code of the new standard. The new standards will include the relevant guidance in a consistent structure with ASC requirements.

4.1.2 The architecture Accounting Standards Codification

“Codifying the vast amount of previous standards was a combination of art and science.”

The primary purpose of the Codification is to locate earlier very different standards into a codified structure, to harmonize any contradiction and to eliminate repetition of information. After the revision, all standards were assigned to a lead structure easy to comprehend and navigate in a consistent manner.

<table>
<thead>
<tr>
<th>General Principles</th>
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<tr>
<td>Presentation</td>
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<tr>
<td>Assets</td>
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<td>Liabilities</td>
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<td>Equity</td>
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<td>Revenue</td>
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<td>Expenses</td>
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<tr>
<td>Broad Transactions</td>
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<tr>
<td>Industry</td>
</tr>
</tbody>
</table>

Table 1: Lead structure of Codification

The ASC uses the above structure by subject to build up the references. Consequently, the new reference numbers have become completely independent from the reference numbers of the former standards.

27 Source: www.asc.fasb.org
Apparently, the references of the former US GAAP literature have been completely transformed. Each topic is structured in the following model:

\[
\text{XXX-YY-ZZ}, \text{ where XXX = topic, YY = subtopic, ZZ = section, PP = subsection}
\]

Accordingly, the new references take the following pattern: FASB ASC XXX-YY-ZZ-PP. In the instance of FASB ASC 740, the topic of income taxes superseding standard is No. SFAS 109. It considerably simplifies the search process and monitoring of changes and references because every aspect is grouped into sections and subsections subordinated to a topic or subtopic. Therefore, users are able to unambiguously locate standards dealing with a particular area, for example, any reference concerning property, plant and equipments is assigned subtopic “Property, plant and equipments”.

### 3.1. Experience in Europe after inception of Accounting Standards Codification

In a research, the results of the FASB survey has been reviewed three years after the Codification was implemented (Andor, Rózsa, Acta Polytechnica Hungarica, 2013, accepted). We were interested in determining whether the Codification provided effective solutions to previous difficulties and whether the properties of the former standard-based structure still remain. The initial survey was reissued to compare how users feel about the Codification three years after. 100 US GAAP users were invited, including practicing professionals with considerable experience, from several European countries: Austria, Bulgaria, the Czech Republic, France, Germany, Hungary, Poland, Romania, Slovakia, Slovenia, and Spain.

The sample was composed of 100 individual European entities that are subsidiary undertakings of companies headquartered and listed in the United States. The 100 companies were selected randomly, which were accessible through our connections. The companies under survey are continuously involved in the preparation of quarterly and annual financial reporting in compliance with SEC requirements. Such requirements include the filing of form 10-Q and 10-K reports quarterly and at year end, respectively. In a group structure, subsidiaries deliver the
quarterly and annual reports to the headquarters for consolidation purposes at the group level. In the sample, we avoided selecting foreign security issuers and overseas companies that are directly listed in the US because such companies are subject to annual reporting only. The SEC requires foreign companies to submit form 20-F once at year end, and it may be prepared in accordance with the IFRS. Since 2008, the SEC has no longer required foreign companies to reconcile their local financial statements to US GAAP accounts. Foreign companies, therefore, would not have been representative of the sample because such companies exhibit limited use of the US GAAP.

We achieved a 74 percent survey response rate, i.e., 74 questionnaires out of 100 were accepted as complete for evaluation purposes. The number of responses by country were as follows: 7 from Austria, 9 from Bulgaria, 8 from the Czech Republic, 5 from France, 11 from Germany, 16 from Hungary, 8 from Poland, 4 from Romania, 2 from Slovakia, 1 from Slovenia, and 3 from Spain.

The questions we designed for our survey were based on the questions initially posed by the FASB:\textsuperscript{28}

\begin{table}[h!]
\centering
\begin{tabular}{|p{0.4\textwidth}|}
\hline
\textbf{Q-1:} Do you find the current US GAAP literature confusing? \\
\textbf{Q-2:} Does research in the current system require considerable time? \\
\textbf{Q-3:} In your opinion, \textit{has the Codification made} the literature more understandable? \\
\textbf{Q-4:} In your opinion, \textit{has the Codification made} research in the literature easier? \\
\textbf{Q-5:} In your opinion, \textit{was the Codification worth} launching? \\
\hline
\end{tabular}
\end{table}

Table 2 compares the results of our survey with those of the previous FASB survey conducted in 2008.

\textsuperscript{28} the changes from the original questions are marked by bold.
By analyzing the results of the survey, it can be noted that the users of the Codification find the current regulation much less confusing than it was found before Codification – in 2008, 80% of users believed the system to be confusing while it has been decreased to 31% by 2012. Additionally, significant decrease can be noted in the searching time: before Codification 85% of users found the search to be considerably time-consuming, by 2012 it has been decreased to 38%.

It should be underpinned that the Codification has not changed the content but the structure of the US GAAP literature. Therefore, it is not surprising that the understanding of US GAAP has not changed significantly from the original system, since the regulation itself is the same.

The searching in the system has also been easier than in the pre-Codification time, however, it is surprising that it is not such a significant extent as expected. This leads to the consequence, that the system of Codification is still relatively new to users, and needs more time to be accustomed to. Finally, the launch of Codification can be regarded as a success, after its introduction 82% of users are satisfied with its launch, meaning that it was worth implementing it.

Table 2
Survey of demand for US GAAP codification (by FASB; N=1400; source: Finance Accounting Foundation 2008) and experiences with US GAAP codification (N=74)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Believe the current system of US GAAP regulation is confusing</td>
<td>80%</td>
<td>31%</td>
</tr>
<tr>
<td>Believe searching the current system requires considerable time</td>
<td>85%</td>
<td>38%</td>
</tr>
<tr>
<td>Believe codification makes / has made the US GAAP more understandable</td>
<td>87%</td>
<td>81%</td>
</tr>
<tr>
<td>Believe codification will make / has made searching in the system easier</td>
<td>96%</td>
<td>79%</td>
</tr>
<tr>
<td>Believe it would be / was worth launching codification</td>
<td>95%</td>
<td>82%</td>
</tr>
</tbody>
</table>
It should be noted that the population surveyed by the FASB was different from the population we surveyed, and the sample we selected was not statistical. Nevertheless, the sampling technique was sufficient to understand whether users welcomed the Codification overall. It appears that Europeans working in legislative accounting environments could identify with the structure outlined in the Codification because of its direct relationship to financial statement accounts represented by areas of concentration, as mentioned earlier. The survey results indicate that the Codification made the US GAAP transparent and clear to follow for European users.

Having reviewed the codification efforts made with US GAAP standards, the following paragraphs will describe the existing features and structure of another considerable representative of global accountancy, the IFRS.

5. The structure of the IFRS literature

4.1. Existing IFRS structure

The following section will focus on the existing structure and properties that characterise the IFRS as the other significant representative of accounting literature on a global level along with the US GAAP. The IFRS includes three parts: the Framework, Standards, and Interpretations. Readers of the IFRS must continuously consider the interrelations between standards and interpretations that cover a number of accounting topics that reference one another across different standards and interpretations.

The IFRS comprise two authoritative components: (1) standards and related (2) interpretations. Additionally, the Framework for principles and definitions supplements the implementation of IFRSs. Along with the names of the topics covered, all standards and interpretations are coded by abbreviations that stand for “International Accounting Standards” or “International Financial Reporting Standards” or the name of the interpretation committee (SIC/IFRIC).
Finally, each standard coding ends with a serial number referring to the chronological history of issue. Serial numbers are missing from the sequence if part of a standard has been superseded or reedited in a new standard because of significant changes in standards, other than simple modifications.

The IFRS literature contains the above listed text in a separate, individual form, all standards and interpretations are listed independently from each other and the user has to establish an overall understanding of topics by finding the inter-relation between these individual standards and interpretations.

Table 3 presents a summary of the cross-references between standards effective on January 1, 2012. The table indicates that the standard number of cross-references is 6 on average. Common or mandatory standards such as IAS 1, IAS 12, and IAS 16 indicate a greater number of cross-references, whereas industry-specific standards such as IAS 29 and IFRS 6 indicate fewer cross-references relative to the average. From a statistical point of view, the standard deviation of references from one particular standard towards other standards is 6.13, whereas the standard deviation of references towards one particular standard from other standards is 3.84. Considering solely cross-references between standards and omitting other references to interpretations and limitations in scope, the total number of cross-references is 6 on average based on the number of effective standards in place.
Table 3 illustrates the complexity of cross-references in a network of interrelations between standards. The network excludes cross-references between interpretations and limitations in scope for simplicity. Still, the diagram indicates that the network of interrelations between standards is extensive and topics are difficult to follow. In this section, Chart 1 shows the positive correlation between standards. It is clear that the number of references between standards is significant, and to study a topic requires comprehensive knowledge of all standards.

The continuous revisions of existing standards and issuances of new standards may further complicate the IFRS literature in future. Under these conditions, the opportunity to evaluate the viability of a possible codification of the IFRS has been welcome. Codification efforts should therefore commence in due course to implement a structure that provides a user-friendly approach to readers of the IFRS.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Its references</th>
<th>References to it</th>
<th>Exceptions</th>
<th>Standard</th>
<th>Its references</th>
<th>References to it</th>
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<td>2</td>
<td>IFRS 6</td>
<td>6</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>IAS 27</td>
<td>4</td>
<td>7</td>
<td>1</td>
<td>IFRS 7</td>
<td>4</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>IAS 28</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>IFRS 8</td>
<td>2</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>IAS 29</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>109</td>
<td>113</td>
<td>34</td>
<td></td>
<td>114</td>
<td>110</td>
<td>83</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>223</td>
<td>223</td>
<td>117</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Standard deviation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6,13</td>
<td>3,84</td>
<td>3,52</td>
</tr>
</tbody>
</table>

Table 3
Relationships among IFRS standards (Only includes standards in force as of January 1, 2012.)
Again, the interrelations between standards are important because the standards and related interpretations may focus on several key topics, with the objective to process topics in a comprehensive manner. Still, standards are not developed for each topic separately under the IFRS either. The standards draw attention to the interrelations between corresponding standards in two ways. One the one hand, standards define the scope of each standard and references in the interpretations. On the other hand, standards further refer to specific topics dealt with by other standards.

The IASB has implemented significant development to date and further projects are expected in order to make the IFRS a global standard of accounting. Therefore, a number of standards have been modified and/or superseded, and several new standards and interpretations were issued in the past years. However, standards should not change as frequently in order to facilitate successful adoption of IFRSs and allow users, such as auditors and other finance professionals to interpret the requirements and information on a consistent basis (Soderstrom, Jialin Sun, 2007).

Clearly the level of diversity of IFRSs is not as high as that of US GAAPs as the number of standard setters is lower by tradition resulting in lower number of IASs/IFRSs in issue. Despite the lower amount of IASB standards compared to the US GAAPs, the IFRS is still difficult to overview in its current stage given the continuous revisions and wide range of cross references between standards and related interpretations. The above conditions give reason to assess whether the codification of the IFRS is worth the effort in light of the US GAAP experience prior to Codification, especially if further IFRSs are expected to be issued in future.

In order to assess the complexity of the reference structure the following diagram illustrates the network of cross references between the IASB standards. For simplicity and clarity, the diagram excludes references related to limitation in scope and any cross reference to related interpretations.

---

The chart contains all standards in force and the positive correlation between standards only. It is clear that the number of references between standards is significant and to study a topic requires a comprehensive knowledge of all standards.

In summary, the number of references by standard is relatively high, although still manageable in its current stage. Nevertheless, the continuous revision of standards and issue of new standards may shift the system into a confusing direction in the forthcoming years. Therefore, it is imperative that codification efforts take place as early as possible, as today the current preventive structure would allow a more rational implementation of a codification than in future years.
The standards, being in force as of 1 January 2012 have been included in the network of relations, i.e. the IFRS 9 effective after 1 January 2015 is not included.
4.1.1. IFRS presence in Europe

The extent to which the IFRS is applied in Europe varies by country. In some European countries, the application of the IFRS is optional under certain conditions. For example, in Hungary, companies may opt to use the IFRS in preparing consolidated financial statements. Additionally, the mandatory use of the IFRS may vary by industry sector. Financial institutions must issue annual consolidated financial statements in compliance with the IFRS. Private companies are free to use the IFRS, whereas publicly listed companies in the European Union must report under the IFRS on a consolidated basis (Street, D.L. and R.K. Larson, 2004.).

Because local accounting regulations are mandatory by statute, businesses within the scope of the IFRS must comply with both accounting requirements in turn. Additionally, there are certain countries where the IFRS has replaced local accounting legislations in a specific manner. Such inconsistent expectations regarding when and how the IFRS should be applied makes financial reporting difficult to compare between industries (Haller, A., 2002.).
Table 4:

<table>
<thead>
<tr>
<th></th>
<th>Austria</th>
<th>Bulgaria</th>
<th>Czech Republic</th>
<th>France</th>
<th>Germany</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>Slovakia</th>
<th>Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is the use of IFRS obligatory in standalone statements?</td>
<td>No</td>
<td>Yes (except for SME-s)</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Is the use of IFRS obligatory in consolidated statements?</td>
<td>No</td>
<td>Yes (except for SME-s)</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Can the use of IFRS be chosen for standalone statements?</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Can the use of IFRS be chosen for consolidated statements?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

a) Except for financial institutions, insurance companies, asset managers, and large enterprises (which exceed 2 from 3 indicators in two successive years: assets of 150 million EUR, annual revenue of 150 million EUR, and a staff size of 2000); b) Except for financial institutions and insurance companies; c) Except for financial institutions; d) Except for companies listed on the stock market and companies with a parent company abroad; e) Yes, but the domestic accounting report cannot be chosen for 5 years after decision; f) Austrian Commercial Code (UGB); g) SG 4/15.01.1991, but already standards today; h) Accounting Directives Law (Act No. 563/1991); i) Hungarian Accounting Law (Act No. C); j) Act of 29 September 1994 on Accounting (“AA”); k) Accountancy Law No.82/1991; l) Accounting Act No. 431/2002, as amended by Act no. 562/2003 Coll. and Act no. 561/2004 Coll.; m) Slovenian Accounting Standards, Source: (IFRS Foundation, 2011); o) Bilanzrechtsmodernisierungsgesetz (German Act on the Modernisation of Accounting Law), p) Plan Comptable Général (PCG)
From the survey, the case in Slovenia and Bulgaria has to be highlighted, where the IFRS has been imposed for all types of financial statements, including stand-alone statements of private companies. Special attention was paid to Bulgaria to study the effects of IFRS application. Despite the fact that the IFRS superseded the former accounting law in Bulgaria, resulting in the general requirement of the IFRS in financial reporting, there has been criticism regarding the completeness and consistency of IFRS application in Bulgaria. In 2008, the World Bank reported that Bulgaria has in fact not adapted the IFRS in its complete form. World Bank analysis indicate that there were significant inconsistencies regarding the scope of IFRS application in Bulgaria compared to the scope of EU adoption. The World Bank reviewed 15 company reports and revealed 9 companies whose consolidated financial statements were not in compliance with the IFRS in full. The conclusion drawn by the World Bank required Bulgaria to extend the scope of the IFRS in local accounting regulations (World Bank, 2008. Report on the Observance of Standards and Codes (ROSC) Bulgaria).

The overall results of our survey with respect to IFRS presence in Europe indicate in Table 4 that financial reporting in most countries is still subject to statutory legislation.

The countries listed in Table 4 are analysed in more details in the followings31:

**Austria**

In Austria AFRAC (Austrian Financial Reporting and Auditing Committee) is the responsible privately organized standard-setting body for financial reporting and auditing standards. Its principal responsibility is the continuing development of national and international financial reporting standards. The AFRAC is advisory body because the authority to set accounting standards in Austria rests with the government.

Regarding the application of IFRS, all companies whose debt or equity securities trade in a regulated market, are required to use IFRSs for the consolidated financial statements. For separate company financial statements the Austrian GAAP is required, the IFRS is not permitted.

The country does not adopted the IFRSs for SMEs.  

**Bulgaria**

The official standard-setting body in Bulgaria is the Council of Ministers/Ministry of Finance. The Institute of Certified Public Accountants in Bulgaria is the professional accountancy body in Bulgaria. It advises the government regarding adoption of accounting standards and provides guidance and enforcement for standards that have been adopted at the government level.

IFRSs as adopted by the EU are required in both the consolidated and separate company accounts of all companies whose securities do not trade in a public market except SMEs that do not have share capital and entities in liquidation and insolvency. SMEs that do not have share capital are permitted to use IFRSs but if they chose to use IFRSs they must do so in both their consolidated and separate company financial statements. It must be noted that the choice to use IFRSs as adopted by the EU is irrevocable.

The country does not adopted the IFRSs for SMEs.

**Czech Republic**

The Ministry of Finance of the Czech Republic is the official standard-setting body in respect of the Czech accounting standards.

Regarding the application of IFRS, all companies whose debt or equity securities trade in a regulated market, are required to use IFRSs for the consolidated financial statements. IFRSs are permitted in the consolidated financial statements of companies whose securities do not trade in a public market. IFRSs are permitted in the separate company financial statements of a company whose securities do not trade in a public market if it is a subsidiary of a parent company uses IFRSs for the preparation of its consolidated financial statements.

The country does not adopted the IFRSs for SMEs.

---

32 SME: Small and medium-sized entities
France

The Autorité des Normes Comptables (ANC) is the responsible privately organized standard-setting body for financial reporting. Its principal responsibility is the continuing development of national and international financial reporting standards. The ANC is advisory body because the authority to set accounting standards in France rests with the government.

Regarding the application of IFRS, all companies whose debt or equity securities trade in a regulated market, are required to use IFRSs for the consolidated financial statements. For separate company financial statements the French Plan Comptable Général is required, the IFRS is not permitted.

The country does not adopted the IFRSs for SMEs.

Germany

The Deutsches Rechnungslegungs Standards Committee (DRSC) is the responsible body for financial reporting.

Regarding the application of IFRS, all companies whose debt or equity securities trade in a regulated market, are required to use IFRSs for the consolidated financial statements. For separate company financial statements the Handelsgesetzbuch is required, the IFRS is not permitted.

The country does not adopted the IFRSs for SMEs.

Romania

The Ministry of Economics and Finance (MEF) has statutory responsibility to issue Romanian Accounting Standards.

Regarding the application of IFRS, all companies whose debt or equity securities trade in a regulated market, are required to use IFRSs for the consolidated financial statements. For separate company financial statements the Romania Accounting law is required, the IFRS is not permitted.

The country does not adopted the IFRSs for SMEs.
**Slovakia**

In Slovakia SKAU (Slovak Chamber of Auditors) is the responsible privately organized standard-setting body for financial reporting and auditing standards. Its principal responsibility is the continuing development of national and international financial reporting standards. The authority to set accounting standards and regulations rests with the Slovak Parliament and the Ministry of Finance. The accounting law No. 431/2002. provides key principles for measurement of assets and liabilities, and the decrees of the Ministry of Finance provide application guidance, including a prescribed uniform chart of accounts.

Regarding the application of IFRS, all companies whose debt or equity securities trade in a regulated market, are required to use IFRSs for the consolidated financial statements. For separate company financial statements the use of IFRS is permitted. The country does not adopt the IFRSs for SMEs.

It can be noted that mainly all countries made steps towards the establishment of standard-setting bodies and to launch the standard-setting activity. Despite this fact, most of the countries still require the national accounting regulations to be followed for separate financial statements.
6. Should codification emerge in IFRS? Does form of regulation matter?

In an effort to globalise the IFRS, the IASB amended or superseded a number of standards and issued new standards in recent years. In addition, the IASB is looking forward to issuing further standards in the future. Nevertheless, the IFRS literature included fewer publications than the US GAAP prior to the codification due to the history and organisational background of the IASB. The IASB is a younger organisation than the FASB and its surrounding organisations but is also the ultimate body governing the IFRS.

In contrast, various professional bodies contributed to the US GAAP, leading to a number of different publications before the codification. In this context, opinions were discovered indicating that the IFRS is currently in a stage where the US GAAP was 30 years ago in terms of exhibiting a standard-based structure. Even if there are fewer IFRS publications than pre-codified US GAAP publications, the existing structure of the IFRS is alien to users working in legislative accounting environments. The extensive cross-references between standards and specific editing matters make the IFRS difficult to oversee. Additionally, the numbering of IFRS publications is based on chronological order rather than any particular sequence of financial statement components, similarly to the US GAAP prior to codification.

In light of the existing IFRS structure, which shares much in common with the pre-codified US GAAP, it may be worth considering whether the codification of the IFRS would lead to favourable results similar to those observed for the codification of the US GAAP. The International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles in the United States (US GAAP) have played a significant role in improving financial reporting information on an international scale.

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), which are the standard setters of the IFRS and US GAAP, respectively, have made important efforts to converge the respective accounting literatures with the objective of reducing the existing differences between the IFRS and US GAAP. As part of this convergence
endeavour, the IFRS has gradually achieved global recognition along with the US GAAP. For example, approximately 120 countries encourage or require the application of the IFRS. Other countries have adopted the IFRS by drafting local accounting legislation in line with IFRS, resulting in further acceptance of the IASB by the international community (Choi, F.D.S., C.A. Frost and G.K. Meek, 2002). In particular, the European Union has imposed the application of the IFRS by public companies.

This progress provides an exciting opportunity to compare recent developments in the way the IFRS and US GAAP are being communicated to the public. Both the IFRS and US GAAP have evolved based on generally accepted accounting principles embodied in thoroughly documented conceptual statements that provide solid ground in developing accounting standards. The standard-based approach to accounting is common and traditional to the IFRS and US GAAP. Under a standard-based approach, the structure of the accounting literature refers to the chronological sequence of standards issued over time. The reference numbers of the standards do not particularly refer to the sequence of financial statement components or name any particular financial statement components. For example, intangible assets are listed among the first lines in the balance sheet, whereas the reference number of the relevant standard is IAS 38. Additionally, the standard titled “Construction contracts” does not refer to any particular financial statement line item. Some countries in Europe apply standard-based accounting principles, for example, the UK, where the structure of the accounting literature is very similar to that of the IFRS or US GAAP prior to Codification.

Chart 1 in the previous section indicated that despite the exclusion of certain cross references, the number of cross references between the standards is still significant. In consequence, the assessment, as to whether the development of an IFRS codification is worth the effort, has won support.

In order to illustrate the difficulty of the IFRS users to get an understanding of a topic, I take a relatively simple question: **How can you measure the fixed assets under the related (IFRS/ US GAAP) regulation**\(^{33}\)?

\(^{33}\) taken that the asset is not used for a special activity (e.g. extraction activity)
If we want to answer this question for an IFRS user the following standards need to be overviewed:
IAS 16: Property, plant and equipments
IAS 17: Leases
IAS 20: Government grants
IAS 23: Borrowing costs
IAS 36: Impairment of assets
IAS 40: Investment properties
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
IFRIC 18: Transfers of Assets from Customers

Opposite to this, if it is to be answered by a US GAAP user, the only part we have to point to is:

Topic 360: Property, plant and equipment

where all related issues are discussed regarding this topic.

In most of Europe, however, accounting is subject to legislation, where accounting conventions are driven by statute and enacted by law. The structure of legislative accounting literature has a different approach to the documentation of accounting rules. If the IFRS and US GAAP can be considered “standard-based”, then legislative accounting documentation can be referred to as being “analog” instead. In Hungary, for example, accounting law holds that the rules be listed in a sequence consistent with the sequence of financial statement line items as they appear on balance sheets and income statements. That is, if intangible assets appear in line 1 of a balance sheet, then the first paragraph will refer to the accounting treatment of intangibles in the section regarding balance sheet regulations.

Because of the differences experienced in the way standard-based and legislative accounting structures are designed, most European entities encounter severe difficulties in applying the IFRS or US GAAP prior to codification. Professionals who are not confident in handling standard-based accounting structures will need further knowledge to perform advanced searches of the IFRS or US GAAP to find answers to particular accounting issues. The extensive cross-referencing between accounting standards create further difficulties for professionals used to the
legislative structure in ensuring whether all items in a subject are adequately covered when performing a search of the IFRS or US GAAP prior to codification.

As a result, experience shows that as requirements to adopt the IFRS have become more widespread in Europe, significant resistance has been triggered at the same time by entities in countries where accounting rules adopt a legislative structure. The analog structures of accounting legislation in most European countries provide a lean approach to obtaining a comprehensive overview of accounting regulation. In addition to the structural differences experienced in standard-based accounting literatures, the language and the approach used have made companies reluctant to adopt the IFRS. In the paper, the difficulties are considered that most countries in Europe encounter in the process of becoming familiar with the standard-based approach to accounting structure with the introduction of the IFRS.

In the course of events, the FASB implemented a substantive change in the structure of the US GAAP with the objective of gathering all relevant existing GAAP literatures into a uniform structure, known today as the Accounting Standards Codification (or the Codification). Because the new structure of the Codification (discussed in section 2) agrees with the analog approach of most legislative accounting structures, the Codification gave an inspiration to challenge the existing structure of the IFRS. The purpose of this thesis was to examine the implications of the Codification to understand whether users enjoy the benefits of the new US GAAP structure and determine whether users would welcome a similar change to the IFRS structure.
6.1 The possibility of codifying IFRS

In the Central European region, each country applies an accounting law edited in a consistent and correlated structure. As such, in these countries, the standard based IFRS represents an overall challenge for the accounting profession to overcome the differences. The Accounting Standards Codification challenges considering the viability of a codified structure, instead of consolidating all the existing standards into a new set of cleared-out standards. If the standard based approach was taken for best practice, a good solution would have been to reissue the former standards, reaching a number of two thousand, previously issued by several standard setters into a new set of standards in a single edition without further overlaps or conflicting information. If the standard-based approach was the best approach, the FASB would have considered to edit a new list of standards, similar to the IFRS, and consolidate the former standards into that edition given that the US GAAP traditionally represents concepts common in the UK GAAP and IFRS, where standards based accounting applies. Based on the US GAAP experience, it is clear that changes in the system and in the environment necessitated a codified accounting system suitable for easy review and maintenance of existing accounting standards.

Following the IFRS Codification, a decline is expected in opponents against IFRS implementation as a transparent and familiar structure replaces the existing list of IFRSs which is explained in the SWOT analysis later. Obviously, the Codification would not dissolve the dilemma of a taxation-based accounting, because for the countries, taxation is one of the most significant arguments against the introduction of IFRS.
The analysis below presents the strength, weaknesses, opportunities and threats related to the transformation of IFRS into a codified structure:

<table>
<thead>
<tr>
<th><strong>Strengths:</strong></th>
<th><strong>Weaknesses:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>easier to compare with other systems (US GAAP or other national rules)</td>
<td>resistance to transition from the standards common to the UK and North-America systems</td>
</tr>
<tr>
<td>consistent systems are common</td>
<td>inflexible structure built on existing standards</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>increased transparency</td>
<td></td>
</tr>
<tr>
<td>easier review of changes in the accounting rules</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Opportunities:</strong></th>
<th><strong>Threats:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>instead of uniform world standards: uniform global accounting law</td>
<td>reaction to changes in the world is less flexible in a fixed structure (e.g. accounting of new types of revenues) after getting accustomed</td>
</tr>
<tr>
<td>global system of references</td>
<td></td>
</tr>
<tr>
<td>support to the American transition</td>
<td></td>
</tr>
</tbody>
</table>

Table 5: SWOT analysis of the IFRS Codification

**Strengths**

The codified structure is traditionally accepted, known and used in the continental Europe. By having a codified structure, countries can easily compare, link and reconcile national accounting systems to the global, codified regulations. The codified structure enables transparency of systems and underpins the users and regulators in the maintenance of the system.
Weaknesses

The codified structure is a cultural and tradition-oriented question. Despite the fact that continental European countries prefer codified structures, the Anglo-Saxon accounting systems are standard-based systems, which would be reluctant to change it to a codified one. Another weakness may be to freeze a structure for a long term. Being inflexible with the changes of the accounting environment, if the structure is “frozen”, relevant issues may be left out or simply not dealt with.

Opportunities

The world is converging to create one global accounting manual, global standards. Instead of global standards, the content can be codified into global, generally accepted structure, to set up the global codified accounting regulation. The global accounting regulation enables worldwide references, reconciliations to national systems, a common language for accountants. Additionally, the conversion from in the U.S. from US GAAP to IFRS is supported by a known, and generally accepted structure (which is not equal to the Codification structure).

Threats

Setting up a codified structure may risk the inflexibility and comfort. The world is changing rapidly, so the accounting transactions and issues. The codified structure must be challenged regularly, to react on issues in time.

In the continental European region, accounting regulation has never been standard based. Accounting laws of consistent structure have always been issued with the well-proven practice of comprehensive overview. Reviews and updates of the accounting regulations, as well as, the changes in rules have been integrated within consistent legislative systems, such as accounting laws in fashion similar to the current practice applied by the Accounting Standards Codification. Performing research, reference and monitoring procedures is much easier for users in a legislative or codified environment than performing the same in a standard based accounting system.
The accounting laws in a number of countries define the structure of the chart of accounts, a subject outside the scope of IFRS (see e.g. Jaruga, Szychta, 1997). Therefore, lifting any mandatory requirements would lead to a lack of reference, adversely affecting the comfort of local professionals.

The system of the Accounting Standards Codification in its structure is closer in concept to the continental European national accounting systems, for example, the Hungarian accounting law (Andor, Tóth, 2006). Therefore, the ASC is deemed to be more acceptable than the framework based IFRS.

Because statutory financial statements prepared in compliance with national accounting laws serve taxation purposes, some countries oppose the introduction of the IFRS, as pointed out by several researchers in earlier studies (Haller, 2002; Hoogerendoorn, 1996; Holeckova, 1996; Lamb, Nobes, & Roberts, 1998). In 1995, Guenther and Hussein (1995, p. 132) drew attention to the national tax systems expected to being the primary obstacle against any IFRS adoption efforts in the accounting systems.

The popularity of IFRS professional trainings indicate mixed views in the countries, as training in accounting, in general, has no history in any of the countries. For example, obtaining a basic accounting technician certificate requires no preliminary IFRS knowledge (Ormos, Veress, 2011).

On the basis of the example in the US, the initiation of the IFRS codification is a timely matter. Considering the merits and demerits of codifying IFRS, the introduction of a codification approach similar to the ASC should be taken into account.
5.2.1. Survey of the demand for IFRS codification

In order to assess the viability of IFRS codification, a survey similar to that initiated by the FASB prior to the codification of the US GAAP should be administered to IFRS users as well. As a start, 300 questionnaires were submitted to practicing professionals in different multinational companies, of which 218 responses were received, representing a 73% response rate. Not all responses were complete; incomplete responses were considered inadequate for processing. 194 responses were considered appropriate for evaluation. The questionnaire addressed the following questions, which are consistent with the questions designed by the FASB in preparation of the ASC project:

| Q-1: Do you find the current IFRS literature confusing? |
| Q-2: Does research in the current IFRS require considerable time? |
| Q-3: Would IFRS codification make the system more understandable? |
| Q-4: In your opinion, will IFRS codification make searching the system easier? |
| Q-5: In your opinion, should the IASB pursue IFRS codification? |

5.2.1.1. Sample selected

For the sample, multinational companies were selected because of the predominant use of the IFRS in this sector in Europe due to public listings or foreign ownerships. Table 6 is a summary of the 194 companies evaluated in the survey, by sector; the number of companies publicly listed is indicated in a separate column. It was considered important to include publicly listed companies in the survey sample as well because such companies must prepare financial statements under the IFRS.

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containing CFOs, chief accountants and controllers
5.2.1.2. Methodology and evaluation of the survey

The responses to the five questions listed above are summarised in Table 7. The results indicate that the codification of IFRS might be a possible alternative to the current system.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of responses</th>
<th>Listed on stock exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy and services</td>
<td>31</td>
<td>18</td>
</tr>
<tr>
<td>Building industry</td>
<td>18</td>
<td>11</td>
</tr>
<tr>
<td>Automobile industry</td>
<td>29</td>
<td>20</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Pharmaceutical industry</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>Media</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Merchandising</td>
<td>28</td>
<td>13</td>
</tr>
<tr>
<td>Transportation and delivery</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Bank and insurance</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>194</strong></td>
<td><strong>140</strong></td>
</tr>
</tbody>
</table>

Table 6
Number of respondents and listed companies by sector

The result of the IFRS survey was compared to the survey originally conducted by FASB in 2008, in order to examine if the conditions before the Codification are present in the IFRS user environment.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Believe the system of the US GAAP / the IFRS regulation is confusing</td>
<td>80%</td>
<td>39%</td>
</tr>
<tr>
<td>Believe searching the current system requires considerable time</td>
<td>85%</td>
<td>73%</td>
</tr>
<tr>
<td>Believe codification would make the US GAAP / the IFRS more understandable</td>
<td>87%</td>
<td>69%</td>
</tr>
<tr>
<td>Believe codification will make searching in the system easier</td>
<td>96%</td>
<td>71%</td>
</tr>
<tr>
<td>Believe it would be worth launching codification</td>
<td>95%</td>
<td>77%</td>
</tr>
</tbody>
</table>

Table 7
Survey of demand for US GAAP codification (by FASB; N=1400; source: FASB 2008) and demand for IFRS codification (N=194)
To draw a fair conclusion from the results of the survey, the following three factors were identified for consideration.

First, it is important to note that the sample surveyed regarding IFRS codification consisted users unlike those initially surveyed by the FASB with respect to US GAAP codification. Although both groups of users are involved in accounting, the environment in which they practice and the challenges they encounter are inherently different. The background and structure of the US GAAP before codification and the existing IFRS literature exhibit different features, which may have affected the ways in which the participants in the two groups interpreted the questions in the surveys.

The second factor considered is the sizes of the samples selected by the FASB and by us for the purpose of this paper. The FASB survey results were gathered from 1,400 questionnaires, as opposed to the results of our survey, which were gathered from 300 questionnaires. It is acknowledged that the scope of our survey may appear limited compared with the scope of the FASB survey. To compensate for any possible adverse effects the relative sample size may have had on the results, we focused on the composition of the companies invited to the survey (Table 5). It was expected that the variety of sectors presented in our sample would, to a favourable extent, offset the shortcomings attributable to the sample size.

Third, the different approaches applied in carrying out the surveys may have also caused deviations in interpreting the percentages presented in Table 7. The results of the US GAAP survey were used in this paper as readily available source of data. We had no background details available regarding the methodology applied by the FASB in deriving the results of its survey. Therefore, it cannot be concluded whether our approach for evaluating the results of our survey was in any way identical to that employed by the FASB.

In the approach, the participants were asked to answer the questions on a scale of 10, where 1 represented the lowest satisfaction and 10 the highest satisfaction in response to the questions. Then an average was calculated, the average score of the responses and weighted the average based on the scale. Finally, we related the weighted averages to the total number of responses received, by question, to calculate the percentages.
The percentages, therefore, are considered to represent the relative expectations and attitudes of the participants towards the five issues addressed by the questions.

The evaluation of the survey results is sensitive to the factors described above. The results derived from our survey are affirmative to the extent that we acknowledge possible differences between the features of the two groups of samples; the way they have been selected; and the approach used to evaluate the responses gathered from the participants. Although the percentages regarding the demand for IFRS codification seem less promising than those indicated by the FASB survey, our results remain above marginal, indicating that IFRS codification may be a timely proposal for a certain group of professionals. However, regarding the question whether the codification of the IFRS would represent an important contribution to the profession, we considered further conditions, as discussed in previous sections.

5.2.2. Further considerations regarding IFRS in Europe

The objective of this section is to consider others factors that explain why most countries in Europe may be unwilling to adopt the IFRS in its existing form unless codification of the IFRS literature takes place.

Previous assessments mentioned in this article indicate that traditionally accounting is subject to statutory legislation in most of Europe, where users are familiar with the content of accounting laws and favour the customary approach to structuring rules and regulations. Today, the Accounting Standards Codification in the United States shares many aspects in common with legislations favoured in Europe in terms of structuring accounting literature. The ASC proposed a consistent approach to editing and updating accounting requirements oriented toward areas of concentration, including individual financial statement components – a very similar approach observed in legislative environments in Europe. In contrast to the ASC, the IFRS structure is driven by a list of standards that do not accommodate users in legislative environments to conduct research easily.
In most European countries, entities must comply with charts of accounts predefined in local accounting legislations. The IFRS, in turn, does not outline such distinct procedures (Jaruga, A.A. and A. Szychta, 1997). If local legislations were to remove mandatory requirements similarly to the chart of accounts, then practicing professionals would lose reference and comfort in the application (Nobes, C, 2011).

Despite the successful distribution of IFRS publications, the IFRS has been released in a limited number of languages. As a consequence, a number of studies have concluded that the lack of available languages in which the IFRS is published (IFRS Foundation, 2011) and the lack of timely revisions of IFRS publications issued in languages other than English make it difficult for users to follow the relevant literature (Aisbitt, S. and C. Nobes, 2001.; Evans, L., 2003.).


Continuing professional development is another area of controversy (Christensen, HB, 2012.). Professional IFRS training courses vary in timing and quality by country. Because IFRS knowledge is not a prerequisite to obtaining local accounting certificates, candidates do not appreciate such courses.

Having reviewed the structures of the ASC and IFRS, as well as the characteristics of local legislations, we believe that the structures attributable to national accounting legislations have conceptually more in common with the Codification than with the standard-based IFRS. Therefore, we anticipate that the structure of the Codification is a suitable reference to use for the possible codification of the IFRS. In the following section, we discuss a possible alternative to IFRS codification based on the existing ASC structure.
6.3 Possible way to codify IFRS

Following the discussions with respect to the difficulties users encounter in applying the IFRS in Europe, in this section, it encouraged the initiative to rearrange the IFRS to overcome this obstacle. The primary difficulty with the existing structure of the IFRS is that many practicing professionals in Europe find it unusual compared to the structures followed by local legislations. Therefore, I recommend a structure very similar to what was developed under the ASC in the United States. The codification approach should lead to a structure with which users will be able to more easily identify, in contrast to any possible revised versions of the standard-based approach to the IFRS.

Having observed the codification process in the United States, it can be seen that traditional standard-based structures are not necessarily practical in the long term. Therefore, the time to initiate the codification of the IFRS may well be now. I expect the codified structure to ease the review of standards and the monitoring of amendments to standards in the IFRS literature. Additionally, it is expected that the large number of IFRS opponents will be assuaged once a codified structure replaces the existing standard-based structure. Certainly, a codification of the IFRS will not overcome the conflict with the various taxation regimes in Europe governing local accounting rules. To date, taxation has been considered one of the strongest arguments against IFRS introduction. In evaluating the merits and possible demerits of IFRS codification, I propose to carry forward and initiate a codification structure based on the ASC implemented in the United States. That is, all standards and interpretations effective to date will be rearranged into a new codified structure to enable readers to follow IFRS literature in a user-friendly form. Finally, the codified IFRS should represent the sole authoritative reference for practicing professionals.

As a result of the discussions above, I have prepared the possible codified structure of IFRS. All standards and interpretations are classified to the appropriate line in the structure of the official Accounting Standards Codification. Certainly, some standards have links to other lines of the structure which needs the elimination of the redundancies and inconsistencies between standards. Table 8 demonstrates the way IFRS can be codified.
<table>
<thead>
<tr>
<th>US GAAP codification structure</th>
<th>Classification of IFRS standards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Principles</strong></td>
<td>Framework, IAS 1</td>
</tr>
<tr>
<td><strong>Presentation</strong></td>
<td></td>
</tr>
<tr>
<td>205-Presentation of Financial Statements</td>
<td>IAS 1, IAS 34, IFRS 1, IFRS 8</td>
</tr>
<tr>
<td>210-Balance Sheet</td>
<td>IAS 1</td>
</tr>
<tr>
<td>215-Statement of Shareholder Equity</td>
<td>IAS 1</td>
</tr>
<tr>
<td>220-Comprehensive Income</td>
<td>IAS 1</td>
</tr>
<tr>
<td>225-Income Statement</td>
<td>IAS 1</td>
</tr>
<tr>
<td>230-Statement of Cash Flows</td>
<td>IAS 1, IAS 7</td>
</tr>
<tr>
<td>235-Notes to Financial Statements</td>
<td>IAS 1, IAS 34</td>
</tr>
<tr>
<td>250-Accounting Changes and Error Corrections</td>
<td>IAS 8, IFRS 1, Framework</td>
</tr>
<tr>
<td>255-Changes in Accounting Policies</td>
<td>IAS 21, IAS 29, IFRIC 7, SIC 7</td>
</tr>
<tr>
<td>260-Interim Reporting</td>
<td>IAS 34, IFRIC 10</td>
</tr>
<tr>
<td>275-Risks and Uncertainties</td>
<td>IAS 8, IAS 10, IAS 37</td>
</tr>
<tr>
<td>280-Segment Reporting</td>
<td>IFRS 8</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>305-Cash and Cash Equivalents</td>
<td>IAS 7, IAS 32, IAS 39, IFRS 7</td>
</tr>
<tr>
<td>310-Receivables</td>
<td>IAS 11, IAS 18, IAS 32, IAS 39, IFRS 7, IFRIC 13, SIC 31</td>
</tr>
<tr>
<td>32X-Investments</td>
<td>IAS 27, IAS 28, IAS 31, IAS 32, IAS 39, IFRS 7, IFRIC 12, IFRIC 16, IFRIC 17, SIC 29</td>
</tr>
<tr>
<td>330-Inventory</td>
<td>IAS 2, IAS 11, IFRIC 15</td>
</tr>
<tr>
<td>340-Deferred Costs and Other Assets</td>
<td>IAS 23, IAS 32, IAS 39</td>
</tr>
<tr>
<td>350-Intangibles-Goodwill and Other</td>
<td>IAS 38, IFRS 3, IFRIC 12, SIC 29, SIC 32</td>
</tr>
<tr>
<td>360-Property, Plant and Equipment</td>
<td>IAS 16, IAS 17, IAS 20, IAS 23, IAS 36, IAS 40, IFRS 5, IFRIC 18</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>405-Liabilities</td>
<td>IAS 32, IAS 37, IAS 39, IFRIC 4, IFRIC 14</td>
</tr>
<tr>
<td>410-Asset Retirement and Environmental Obligations</td>
<td>IAS 16, IAS 37, IFRIC 1, IFRIC 5</td>
</tr>
<tr>
<td>420-Exit or Disposal Cost Obligations</td>
<td>IAS 37, IFRS 5, IFRIC 1, IFRIC 5</td>
</tr>
<tr>
<td>430-Deferred Revenue</td>
<td>IAS 11, IAS 18, IAS 37, IFRIC 15, SIC 10</td>
</tr>
<tr>
<td>440-Commitments</td>
<td>IAS 10, IAS 37, IFRIC 14</td>
</tr>
<tr>
<td>450-Contingencies</td>
<td>IAS 10, IAS 37</td>
</tr>
<tr>
<td>460-Guarantees</td>
<td>IAS 10, IAS 37</td>
</tr>
<tr>
<td>470-Debt</td>
<td>IAS 32, IAS 39, IFRS 7</td>
</tr>
<tr>
<td>480-Distinguishing Liabilities from Equity</td>
<td>IAS 32, IFRS 2, IFRIC 2, IFRIC 19</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>IAS 11, IAS 18, IFRIC 12, IFRIC 13, IFRIC 15, SIC 31</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>705-Cost of Sales and Services</td>
<td>IAS 2, IAS 11</td>
</tr>
<tr>
<td>71X-Compensation</td>
<td>IAS 19, IFRS 2</td>
</tr>
<tr>
<td>720-Other Expenses</td>
<td>IAS 16, IAS 20, IAS 26, IAS 36, IAS 37, IAS 39, SIC 15</td>
</tr>
<tr>
<td>730-Research and Development</td>
<td>IAS 38</td>
</tr>
<tr>
<td>740-Income Taxes</td>
<td>IAS 12, SIC 21, SIC 25</td>
</tr>
<tr>
<td><strong>Broad Transactions</strong></td>
<td></td>
</tr>
<tr>
<td>805-Business Combinations</td>
<td>IFRS 3</td>
</tr>
<tr>
<td>810-Consolidation</td>
<td>IAS 27, IAS 28, IAS 31, IFRS 3, SIC 12, SIC 13</td>
</tr>
<tr>
<td>820-Fair Value Measurements and Disclosures</td>
<td>IAS 32, IAS 39, IFRS 7, IFRIC 9</td>
</tr>
<tr>
<td>825-Financial Instruments</td>
<td>IAS 32, IAS 39, IFRIC 7, IFRIC 9</td>
</tr>
<tr>
<td>830-Foreign Currency Matters</td>
<td>IAS 21, IAS 29, IAS 32, IAS 39, IFRS 7</td>
</tr>
<tr>
<td>835-Interest</td>
<td>IAS 32, IAS 39, IFRS 7</td>
</tr>
<tr>
<td>840-Leases</td>
<td>IAS 17, IAS 32, IAS 39, IFRIC 4, SIC 15, SIC 27</td>
</tr>
<tr>
<td>845-Nonmonetary Transactions</td>
<td>IAS 21, SIC 10</td>
</tr>
</tbody>
</table>
7. Conclusions

Today’s accounting environment is in an inevitable result of globalisation. The standard setters of the IFRS and US GAAP have significant influence over financial reporting requirements at the international level. Current trends indicate that the IFRS will take a leading position in global accounting in the near future. The developments in this area inspired me to investigate and examine the merits and possible demerits of, as well as the arguments for and against, the IFRS. In the thesis I focused primarily on the differences between the ways in which the IFRS and US GAAP are structured, rather than discussing differences in accounting conventions that have already converged in recent years.

Prior to the American Standards Codification, the number of standards, statement of positions, and interpretations were over two thousand. The result of the questionnaire based survey carried out by FASB concluded that the pre-codification system needs to be re-structured. Consequently, the standard-based system was restructured, with the primary aim to simplify the access by codifying all authoritative standards in single platform. For better application, the standard-based system was recodified to a topically-based model in a uniform structure, which resulted in a practical, simplified, user-friendly system for all users.

If the standard based approach was taken for best practice, a good solution would have been to reissue the former standards, reaching a number of two thousand, previously issued by several standard setters into a new set of standards in a single edition without further overlaps or conflicting information. If the standard-based approach was the best approach, the FASB would have considered the possibility to edit a new list of standards, similarly to the IFRS, and consolidate its former standards into that edition.

Consequently, I have challenged the current standard-based structure of the IFRS using the well-received Codification in the United States. I found it necessary to examine whether the IFRS would become a more transparent and user-friendly accounting system if it was restructured to a codified system similar to US GAAP?
In order to support my hypothesis, I sent out questionnaires to two different groups of companies. Besides the questions on the impacts of the Codification in the US, one of the primary objectives was to examine if the situations and circumstances leading to the codified structure in the United States are present in IFRS. Based on the favourable experience of the restructuring of the US standard-based system, I asked the question: would not it be worthwhile to restructure the IFRS system based on the American structure?

The results were based on two samples of entities surveyed and analysed through questionnaires. The entities represented operational ASC and IFRS users. From the US GAAP perspective, I analysed the results of the FASB survey initially designed to assess the practical need for codification. Next, questions were addressed, consistent with those previously formulated by the FASB, to a sample of ASC users (post-implementation) with the objective of determining the success of codification. Later, a sample of IFRS users was selected to determine whether codification of the IFRS literature would be rational in the future. A considerable number of respondents favoured IFRS codification.

I examined 10 countries in Central Europe for the attributes of their accounting regulations and I found that their national accounting environment, is rather classified as a uniform (codified) structure than as standard-based accounting system. Analysing these considerations, I determined that the accounting regulation in the Central European region was not standard-based regulation but a uniform, codified structure of accounting laws in the majority of the countries. Therefore, it can be concluded that the Central European accounting regulations in its attributes are unified, codified accounting rules.

Consequently, the current system of IFRS can be restructured to a uniform, codified structure-based system without significant contextual modifications. As a result of the restructuring, the existing redundancies, the inconsistencies can be eliminated, the relevant accounting interrelations can be revealed.
Starting from the experiences of the conditions existing before the American Codification, I examined whether the current structure of IFRS can be overviewed without difficulties, whether IFRSs are complex or not. I prepared a relationship matrix that presents the references between the standards in force. The references between standards were summarized in a chart that clearly showed the exercise to perform in order to obtain a comprehensive view of the IFRSs.

It was shown clearly, that the structure of the current standards, the interrelations between standards was very labyrinthistic, and therefore to obtain a comprehensive overview was a great challenge for an IFRS user. I illustrated it in my thesis that one should review at least eight standards and interpretations to answer a simple question about valuation of tangible assets, whereas such questions could be answered in US GAAP by a single reference.

I concluded that the current system of IFRS is still manageable for the Central European regional users, however the establishment of a uniform structure would ensure a significant ease for them.

According to the results of my survey, significant part of the participants (77%) would welcome the codification of IFRS into a uniform, codified structure. Because users appeared to welcome the idea of IFRS codification, I directly proposed a codified structure of the IFRS similar to the ASC implemented in the United States. Based on the results of the questionnaire-based survey, using the structure of the American Codification, I linked the current IAS/IFRS standards and interpretations (SIC, IFRIC) to each Codification categories, classifications. In the structure I followed the existing structure of Codification, linking them to the IFRS standards and interpretations. It must be noted that it was not final, it should be harmonised and matched in the relevant parts.

Because the ASC has proved to function, I have not considered any further alternative to the future structure of the IFRS other than codification. The proposed method for codification is based on the principles applied in the United States during the ASC project.
In my opinion, the opposition of several countries against the introduction of IFRS can be weakened by codifying IFRS, since a more transparent and familiar structured regulation would be implemented instead of the current list of standards. Certainly, it would not eliminate the accounting dilemma on taxes, which is one of the most important opposition against the launch of IFRS.

The globalisation of financial reporting has been spectacular for the accounting profession. The IFRS is foreseen as becoming a global accounting standard, and listed companies in the United States will be expected to convert financial reporting from the US GAAP to the IFRS. I believe that the codification of the existing IFRS structure may further contribute to its globalisation, as users will most likely be more willing to accept the IFRS literature in a codified structure, which is consistent with ASC or other European legislations, than in its current standard-based format.
8. References


