

Businesses exchange information, therefore companies must have **broad-scale uniformity** in their records. Information must stay **consistent**.

U.S.A.

Generally Accepted Accounting Principles (GAAP)

In the USA, the Financial Accounting Standards Board (**FASB**) has a system. It's called Generally Accepted Accounting Principles (GAAP). GAAP is a **rules-based approach**. It creates rules for **disclosure**.

EUROPE

International Accounting Standards Board (IASB)

In Europe, there is another **governing body**. It's called the International Accounting Standards Board (**IASB**). It uses a **principles-based approach**. It describes general accounting principles. Accountants use these as a guide. It shows them how to record financial transactions and include proper disclosure in financial statements.

Companies can decide which approach to use. Many choose both.

Get Ready!

1 Before you read the passage, talk about these questions.

- 1 What are some rules that accountants have to follow?
- 2 How do accounting rules change in different parts of the world?

Reading

2 Read the magazine article. Then, mark the following statements as true (T) or false (F).

- 1 ___ Europe and the United States have different accounting standards.
- 2 ___ The FASB creates standardized rules for the governing bodies.
- 3 ___ IASB accounting standards follow a principles-based approach.

Vocabulary

3 Write a word that is similar in meaning to the underlined part.

- 1 The company follows both the FASB and the European body that sets accounting standards.
_ _ _ _ _
- 2 FASB is the governing body that establishes American accounting standards. _ _ _ _ _
- 3 Accounting records must be the same across numerous samples. _ _ n _ s _ _ _ t
- 4 American accounting standards include rules for giving out financial information.
_ i _ c _ _ s _ _ _

- 4 Fill in the blanks with the correct words or phrases from the word bank.

Word BANK

rules-based approach broad-scale uniformity FASB
 principles-based approach governing bodies

- GAAP is a _____.
- _____ design accounting standards.
- Most European companies follow a _____.
- _____ is the organization that makes accounting rules in America.
- Accounting standards provide _____ among organizations.

- 5 Listen and read the article again. Which standard do the majority of companies use?

Listening

- 6 Listen to a conversation between two accountants. Choose the correct answers.

- What is the dialogue mostly about?
 - A the flexibility of IASB
 - B advantages of using GAAP
 - C which accounting standards to use
 - D businesses in Europe and the USA
- The accountants use both standards because they
 - A have clients in Europe and the USA.
 - B want to determine which is better.
 - C don't want to be inconsistent.
 - D have clients that requested it.

- 7 Listen again and complete the conversation.

Accountant 1: Did you read the 1 _____ this morning?
Accountant 2: You mean the one that says we have to follow both GAAP and IASB?
Accountant 1: Yes. Why do we have to follow both?
Accountant 2: Well, both have 2 _____ and disadvantages.
Accountant 1: Like what?
Accountant 2: GAAP has 3 _____ instructions. But it is restrictive. IASB is 4 _____. But it can be inconsistent.
Accountant 1: Why not just pick one 5 _____ to use?
Accountant 2: Well, we have clients in both the USA and Europe. It's better to use both 6 _____ that they are familiar with.

Speaking

- 8 With a partner, act out the roles below based on Task 7. Then switch roles.

USE LANGUAGE SUCH AS:

*Did you read the ...?
 Why do we have to ...?
 GAAP has ... But it's also ...*

Student A: You are an accountant. Talk to Student B about:

- accounting standards
- advantages of each
- disadvantages of each

Student B: You are an accountant. Answer Student A's questions.

Writing

- 9 Use the conversation from Task 8 to fill out the accountant's notes.

Accounting Standards



	GAAP	IASB
Advantages		
Disadvantages		
Primarily used in		



worldwide trend

strategic decisions

adopted

Should Accounting Rules be Globalized?

by Harold Mays

The world is shrinking. Due to the **worldwide trend** of globalization, companies all over the world are interacting and doing business with one another. This has led many to suggest that there is a need for **globalized standards** in accounting. A few organizations, like the International Accounting Standards Committee (IASC) and the **International Accounting Standards Committee (IASC)**, have already begun to design such rules. Many businesses have voluntarily **adopted** these guidelines. Should these or other rules be **applied globally**?

Globalized accounting rules would carry certain advantages. Since this transition is probably **inevitable**, businesses must engage the global market if they wish to maximize their prospects. Indeed, globalization allows for the **free circulation** of capital as well as ideas and innovations. Furthermore, with standardized accounting, companies would be better able to make **strategic decisions** within the global economy.

However, globalization may carry certain disadvantages as well. It may be relatively easy and profitable for large corporations to adjust to globalized standards. But the adjustment would be more difficult for **mid-sized** and small businesses. They have fewer resources than the larger companies. Changing to a new standardized accounting system could be very costly for them. It would require new staff as well as training for existing staff.

...

Get ready!

1 Before you read the passage, talk about these questions.

- 1 What is globalization?
- 2 How does globalization affect accounting in your country?

Reading

2 Read this article from an accounting journal. Then, mark the following statements as true (T) or false (F) according to the passage.

- 1 ___ Adjusting to global standards would be difficult for large businesses
- 2 ___ Globalization may lead to the free exchange of ideas between countries.
- 3 ___ Many businesses are already required to use the new global rules.

Vocabulary

3 Match the words or phrases (1-5) with the definitions (A-E).

- | | |
|------------------------|---------------------------|
| 1 ___ inevitable | 4 ___ mid-sized |
| 2 ___ applied globally | 5 ___ strategic decisions |
| 3 ___ worldwide trend | |

- A choices made to improve one's situation
 B between large and small
 C certain to happen
 D used all over the world
 E a pattern of behavior that happens everywhere

4 Fill in the blanks with the correct words or phrases: *free circulation, International Accounting Standards Committee (IASC), adopt, globalized standards.*

- 1 The _____ has designed global accounting rules.
- 2 Many people want _____ instead of regional rules.
- 3 Globalization encourages _____ of ideas.
- 4 Businesses choose whether or not to _____ new rules.

5 Listen and read the article again. What would be the main benefit of global accounting rules?

Listening

6 Listen to a conversation between two accountants. Choose the correct answers.

- 1 What is the dialogue mostly about?
 - A training methods around the world
 - B global business regulations and licenses
 - C the cost of regulating a global economy
 - D advantages and disadvantages of global standards
- 2 The woman thinks globalized standards will
 - A be implemented very quickly.
 - B encourage international business.
 - C cause growth in larger businesses.
 - D block the financing of small businesses.

7 Listen again and complete the conversation.

- A1:** What? Are you kidding? It would be so much easier to work with companies from all over the world!
- A1:** Yes, you're right that it would help large companies expand. But it would hurt smaller businesses.
- A1:** I'm not sure what you mean.
- A1:** Well, a new standardized accounting system would **1** _____ and probably new employees.
- A2:** Yeah, it might cost a little to **2** _____. So what?
- A1:** So small companies don't have as much money, **3** _____.
- A2:** OK. **4** _____, but I still think it would be good for business. It might take time for everyone to catch up.
- A1:** Yeah, and some might never catch up.
- A2:** You know, it **5** _____ what we think anyway.
- A1:** What do you mean?
- A2:** **6** _____. I think it's inevitable.

Speaking

8 With a partner, act out the roles below based on Task 7. Then switch roles.

USE LANGUAGE SUCH AS:

It would be ...
It might cost a little ...
I see your point ...

Student A: You are an accountant. Talk to Student B about:

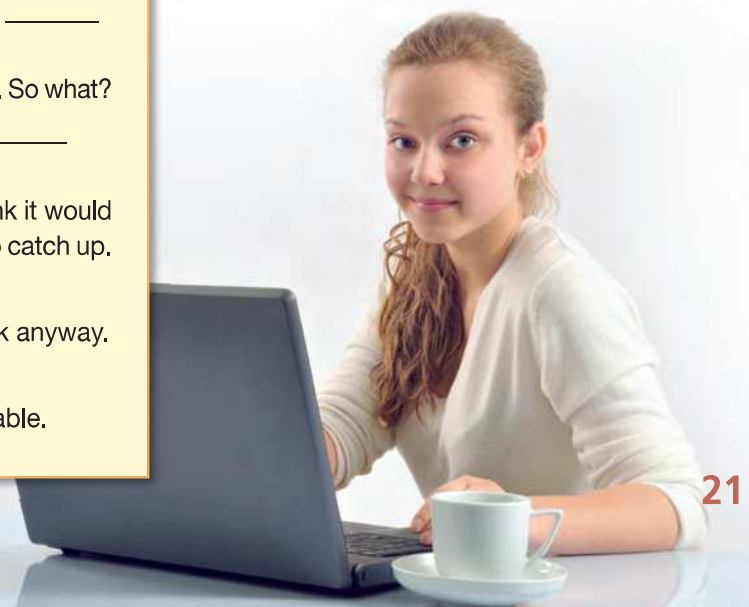
- the idea of global accounting standards
- advantages and disadvantages of global standards

Student B: You are an accountant. Answer Student A's questions.

Writing

9 You are an accountant. Use the article and the conversation from Task 8 to write a brief letter to the editor of an accounting journal. Talk about:

- a recent article saying globalized accounting standards are a good idea
- your opinion agreeing or disagreeing with the article



Glossary

printer [N-COUNT-U4] A **printer** is a machine that transfers documents from computer files to paper.

proceeds [N-UNCOUNT-U9] **Proceeds** are monies received from sales.

property tax [N-COUNT-U14] A **property tax** is a fee that local governments charge for owning real estate.

purchase invoice [N-COUNT-U5] A **purchase invoice** is a document requesting that payment be made for a purchase.

recover [V-I-U10] To **recover** is to achieve a normal level after a decrease.

recovery period [N-COUNT-U15] A **recovery period** is the length of time during which an asset is depreciated.

return on equity [N-UNCOUNT-U11] **Return on equity** is a comparison of net income to owner's equity.

return on sales [N-UNCOUNT-U11] **Return on sales** is a comparison of net income to sales revenue.

rules-based approach [N-COUNT-U6] A **rules-based approach** is a method of setting accounting standards based on non-negotiable rules.

sales price [N-COUNT-U13] A **sales price** is the amount of money that someone requires in exchange for an item.

sales revenue [N-COUNT-U7] **Sales revenue** is the amount of money that is received from selling goods or services.

sales tax [N-COUNT-U14] A **sales tax** is a fee that the government charges for selling a product or service.

salvage value [N-COUNT-U15] **Salvage value** is what an asset is worth after being depreciated across its recovery period.

sell below cost [V-PHRASE-U13] To **sell below cost** is to sell something for less money than it took to purchase, manufacture or produce it.

selling [N-UNCOUNT-U7] **Selling** is the act of exchanging goods or services for money.

sharply [ADV-U10] To do something **sharply** is to do it rapidly.

slightly [ADV-U10] To do something **slightly** means to do it to a small degree.

source document [N-COUNT-U5] A **source document** is one of the various types of records of financial transactions.

specialize [V-T-U14] To **specialize** in something is to acquire a high level of knowledge and experience with it.

stabilize [V-I-U10] To **stabilize** is to achieve and maintain a steady level.

stapler [N-COUNT-U3] A **stapler** is a device that fastens together sheets of paper by piercing them with staples.

steadily [ADV-U10] To do something **steadily** means to do it at a constant, stable rate.

stockholder [N-COUNT-U9] A **stockholder** is a person who has purchased a percentage of ownership of a company.

straight-line depreciation [N-UNCOUNT-U15] **Straight-line depreciation** is a depreciation schedule in which an asset's value is deducted at a steady rate.

subtract [V-T-U2] To **subtract** a number is to remove that quantity from another number.

sue [V-T-U13] To **sue** someone is to initiate legal proceedings against them.

sum [N-COUNT-U8] A **sum** is the result of adding two or more numbers.

tangible asset [N-COUNT-U15] A **tangible asset** is any piece of physical property that bears value.