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Development of Intermediate Accounting Teaching Materials: Financial Accounting and Accounting Standards

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ABSTRACT

This study aims to develop effective teaching materials for teaching intermediated accounting, with a focus on financial accounting and accounting standards. Good and thoroughly structured teaching materials are very important in preparing students to understand and apply complex concepts in financial accounting and follow relevant accounting standards. This research method is a study of literature, analysis of learning needs, development of teaching materials, and evaluation of the effectiveness of teaching materials developed. A literature study will be conducted to gather information about the latest developments in the field of financial accounting and accounting standards, as well as to study existing teaching materials. The results of making teaching materials show the importance of accounting standards in ensuring the accuracy, relevance, and reliability of financial statements. These standards play an important role in ensuring that financial reports comply with legal obligations and instilling trust among investors and other stakeholders involved in the decision-making process.

Keywords: Teaching Materials, Intermediate Accounting, Financial Accounting, Accounting Standards

INTRODUCTION

Accounting, as a universal language for business activities, plays a very important role in providing relevant and reliable information about the finances of a business entity. Accurate and regular recording of business activities in accounting is a vital basis for decision-making, performance evaluation, and internal control (Renaldo, Sudarno, et al., 2021), as well as fulfilling tax obligations and reporting to interested parties.

The importance of accounting as a system of recording and reporting cannot be denied. Every business activity, from multinational corporations to small and medium enterprises, generates financial transactions that must be recorded and processed in an accounting system (Renaldo et al., 2021). In an effort to ensure uniformity, accuracy, and legibility of financial information (Chandra et al., 2018), universally applicable accounting methods and standards are crucial.

Applicable accounting methods and standards are a set of rules, principles, and procedures governing the measurement, recognition, and reporting of financial transactions. These standards, developed and published by professional organizations and standardizing bodies such as the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP), provide clear guidelines for accounting practitioners in preparing financial statements that can be understood and compared internationally.

In the era of globalization and growing business complexity, it is important for business entities to follow the applicable accounting methods and standards (Junaedi et al., 2023). This enables performance comparisons between companies, better investment, transparency in financial reporting, and compliance with applicable legal and regulatory obligations.

In this context, research on the development of intermediated accounting teaching materials with a focus on financial accounting and accounting standards is becoming increasingly relevant. This effort aims to prepare students with a solid understanding of the basic principles of accounting, measurement, recognition of financial transactions, and the application of relevant accounting standards. By obtaining a strong foundation in accounting, students will be able to better deal with the complexities of the business world and be able to prepare financial reports that are accurate, transparent, and reliable.

In a broader context, this research is expected to contribute to the development of teaching methods and a better understanding of financial accounting and accounting standards. As such, this research has the potential to enhance students' understanding and academic qualifications as well as assist accounting professionals in dealing with the challenges faced in the ever-changing and complex business world.

This study aims to develop effective teaching materials for teaching intermediated accounting, with a focus on financial accounting and accounting standards. Good and thoroughly structured teaching materials are very important in preparing students to understand and apply complex concepts in financial accounting and follow relevant accounting standards.

This research is expected to contribute to the development of better teaching materials in teaching intermediated accounting. With effective teaching materials, students are anticipated to enhance their comprehension of financial accounting and accounting standards, so that they are ready to face the complex challenges of the business world.

LITERATURE REVIEW

Teaching Materials

Teaching materials are all materials or resources used in the learning process to help students gain knowledge, skills, and understanding of a particular subject. Teaching materials can be in the form of textbooks, modules, multimedia presentations, learning videos, worksheets, practice questions, and various other types of material or media that can be used in the teaching and learning process (Swai et al., 2022).

The main function of teaching materials is as a guide or tool that helps students understand the concepts being taught, organizes information, and facilitates an effective learning process. Good and well-structured teaching materials can facilitate better understanding, increase student engagement, and motivate them in learning.

In the context of financial accounting and accounting standards, good teaching materials must pay attention to the complexity of the subject and present information in a way that is easily understood by students. These teaching materials must include explanations of basic concepts, relevant examples, practice questions to test understanding, as well as additional references that can be used as further sources of information.

Intermediate Accounting

Intermediated accounting is a level or level in accounting teaching and understanding that is between basic or introductory accounting and a higher level, such as advanced accounting. At the intermediated accounting level, students or individuals who study accounting have acquired a basic understanding of accounting concepts, such as the basics of bookkeeping, measurement of assets and liabilities, and the basic principles of financial reporting (Kieso, Weygandt, Warfield, et al., 2019).

At the intermediated accounting level, the focus of learning shifts to more complex and in-depth topics in financial accounting. This involves a deeper understanding of more complex accounting principles, revenue recognition, inventory valuation, measurement of financial instruments, analysis of financial statements, and more specific disclosure of financial information.

The development of intermediated accounting teaching materials is important in providing the material that is relevant, structured, and can facilitate good understanding for students or individuals studying accounting at this level. Intermediate accounting materials should include clear explanations, relevant examples, case studies, and exercises designed to test understanding and applying complex accounting concepts.

METHODOLOGY

This research method is a literature study (Sekaran & Bougie, 2016), analysis of learning needs, development of teaching materials, and evaluation of the effectiveness of the developed teaching materials. A literature study will be conducted to gather information about the latest developments in the field of financial accounting and accounting standards, as well as to study existing teaching materials.

Analysis of learning needs will involve identifying challenges and difficulties faced by students in understanding intermediated accounting concepts. In this stage, data will be collected through surveys and interviews with students and experienced teachers. This data will be used as a basis for developing teaching materials that are relevant and in accordance with student needs.

The development of teaching materials will be carried out by taking into account the principles of effective instructional design, including the use of multimedia, logical organization of material, and presentation of clear and easy-to-understand information. The teaching materials developed will include subject matter, practice questions, case studies, and relevant reference sources.

After development, the teaching materials that have been developed will be evaluated for their effectiveness. The evaluation will involve collecting data from students who use the teaching materials. This data will be analyzed qualitatively and quantitatively to evaluate the effectiveness of teaching materials in increasing students' understanding of financial accounting and accounting standards.

RESULTS AND DISCUSSION

Structure of Instructional Materials

After studying this chapter on financial accounting and accounting standards, students are expected to be able to:

1. Describe the conditions and factors that exist in the realm of financial reporting.
2. Identify the primary entities responsible for establishing policies and their respective functions in the standard-setting process.
3. Explain the definition of Generally Accepted Accounting Principles (GAAP) and the importance of Codification in relation to GAAP.
4. Outline the main difficulties faced in the financial reporting landscape.

The following is the development of teaching materials cited from several sources (Gordon et al., 2019; Kieso et al., 2016, 2020; Kieso, Weygandt, & Warfield, 2019; Spiceland et al., 2020):

Financial Reporting Environment

Learning Objective 1: Describe the financial reporting environment

The financial reporting environment includes all the processes involved in creating financial reports, from data collection to reporting issuance. An important component in the financial reporting environment is internal control, which ensures that financial reports are prepared in accordance with established accounting standards.

Accounting covers important aspects such as identifying, measuring, and communicating financial information about economic entities to relevant stakeholders. The financial accounting process ends with the creation of financial reports that serve both internal and external purposes. These financial reports are received by various parties, including investors, creditors, managers, labor unions, and government agencies. In contrast, managerial accounting involves identifying, measuring, analyzing, and communicating financial information specifically intended to assist management in planning, controlling, and evaluating the operations of a company efficiently.

Financial reports serve as the main medium through which companies communicate their financial information to external parties. This report displays the company's performance and financial position using monetary values. Typical financial statements include a balance sheet, income statement, cash flow statement, and owner's or shareholder's equity statement. In addition, the inclusion of disclosures is an important component of every financial report, providing additional detail and context.

Certain financial information may be more effectively communicated or may only be available through means other than formal financial reports. These can include items such as presidential letters or supplementary schedules in annual reports, prospectuses, reports submitted to regulatory bodies, press releases, management projections, and statements regarding social or environmental impacts. The provision of this information by a company may be required due to regulatory mandates, authoritative guidelines, or customary practices. Alternatively, companies may voluntarily choose to disclose such information based on their own management preferences.

In this text, our primary focus is on establishing two categories of financial information: (1) fundamental financial statements and (2) accompanying disclosures.

Accounting and Capital Allocation

Accounting and capital allocation are processes that govern how capital is allocated for different purposes such as investment, payment of obligations, and other expenditures. This involves implementing internal controls, supervision, and other processes to ensure that available capital is used effectively and efficiently.

Due to the scarcity of resources, individuals strive to conserve and optimize their utilization. Efficient resource allocation plays a vital role in business success. Consequently, the accounting profession bears significant responsibility in this regard.

Accurate and fair measurement of performance by accountants is essential to attract investment capital to the right managers and companies in a timely manner. Reliable financial information enables investors and creditors to analyze and compare the earnings and assets of companies such as Nike, McDonald's, Microsoft, and Berkshire Hathaway. By assessing the relative returns and risks associated with different investment opportunities, these users can allocate their resources in a more effective manner. Figure 1 provides a visual representation of how this process of capital allocation functions.

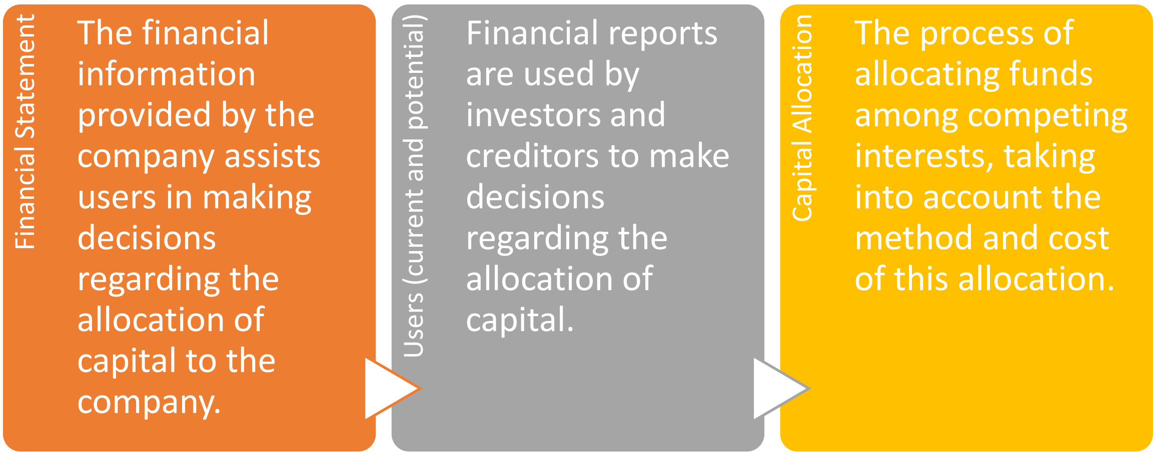

Figure 1. Capital Allocation Process

A well-functioning economy depends on an efficient allocation of capital. This process boosts productivity, encourages innovation, and facilitates a liquid market for securities trading and credit transactions. Inaccurate and insignificant information results in an ineffective allocation of capital, which has a negative impact on the securities market.

Purpose of Financial Reporting

The purpose of financial reporting is to provide stakeholders with relevant and reliable information, enabling them to make informed decisions. This information can be in the form of financial reports, cash flow statements, income statements, and various other reports.

The primary objective of general-purpose financial reporting is to provide financial information about the reporting entity. This information is valuable in assisting potential equity investors, lenders, and other creditors in their decision-making processes regarding providing resources to the entity. Such decisions may involve actions such as buying, selling, or holding equity and debt instruments, and providing or settling loans and other types of credit. Although the information sought by providers of capital (investors) is very important, this information is also useful for other users of financial statements who may not fall into the category of investors. Let's now explore each component of this goal in more detail:

1. General Purpose Financial Reports

   General-purpose financial reports provide financial reporting information to a wide variety of users. For example, when The Hershey Company issues its financial statements, these statements help shareholders, creditors, suppliers, employees, and regulators better understand its financial position and related performance. Hershey users need this type of information to make effective decisions. General-purpose financial reports are the most suitable way to provide cost-effective information. In simpler terms, these reports offer the most valuable information at the lowest cost.

2. Equity Investors and Creditors

   The main users of general-purpose financial reports are investors and creditors, as the objectives of financial reporting emphasize. This ensures that financial reporting meets the most significant and immediate information needs. In Hershey's case, when preparing its financial statements, the main focus was on meeting the information needs of investors and creditors. These stakeholders rely on financial information to evaluate Hershey's ability to generate positive cash inflows and to assess management's effectiveness in maintaining and enhancing the company's assets, which ultimately contribute to future cash inflows. As a result, the primary user group of financial reporting does not include management, regulators, or other non-investor entities.

3. Entity Perspective

   General purpose financial reporting adopts an entity perspective as part of its objectives, treating companies as distinct entities separate from their current shareholders. Take Hershey's as an example, where its assets are recognized as corporate assets, not those of specific creditors or shareholders. Instead, investors hold a claim on these assets through liabilities or equity. This entity perspective is in line with the prevailing business environment, where companies engaged in financial reporting often have different characteristics and operations from their investors, including shareholders and creditors. As a result, the notion that financial reporting should exclusively meet the needs of shareholders, referred to as the ownership perspective, is considered inappropriate within this framework.

4. Decision-Usability

   Investors are attracted to financial reporting because it provides them with valuable information for decision-making, adhering to a decision-usefulness approach. When investors make investment decisions, they aim to evaluate two main aspects: (1) a company's ability to generate positive cash flows and (2) management's competency in using invested capital effectively. Consequently, financial reporting plays an important role in assisting investors in assessing potential cash inflows from dividends, interest, and the sale, redemption, or maturity of securities or loans. It is very important for investors to have a comprehensive understanding of a company's economic resources, related liabilities, and any relevant changes in these factors in order to make an informed assessment. Financial reports, accompanied by relevant explanations, must be the main source of this important information for investors.

The emphasis on assessing the prospects for cash flows shows no favoritism towards cash basis accounting on the accrual basis. Utilizing accrual accounting, the information obtained offers a more holistic picture of a company's current and future ability to generate profitable cash flows, going beyond insights derived solely from cash receipts and payments.

In accounting, the accrual basis serves to accurately reflect events in a company's financial statements during the period in which they occur, regardless of the timing of cash flows. Through the use of accrual-based accounting, companies recognize revenue when they provide goods or services, not when they receive payment. Similarly, expenses are recognized when they are incurred, not when they are paid. This approach allows companies to match income with the appropriate economic activity in the relevant period. In the long term, analyzing income and expenditure trends offers more significant insights than trends in cash receipts and payments.

The Need to Develop Standards

Accounting standards provide conformity in financial reporting and allow data to be compared between companies and different types of businesses. The need to develop accounting standards is growing dynamically with changing laws and regulations, as well as changes in technology and the business environment.

The central debate in setting accounting standards revolves around determining the appropriate rules and their sources. This is a complex question with no straight answer. Financial report users have diverse and sometimes conflicting information requirements. In response to this need and to fulfill management's duty to provide transparent financial reporting, companies produce general-purpose financial reports. Users anticipate that these statements will present an accurate, transparent, and comprehensive picture of the company's financial activities.

The accounting profession has strived to establish a set of standards that are widely accepted and thoroughly followed. Without such a standard, each company would have to create its own unique set of rules and practices. In addition, users of financial reports need to become familiar with the specific accounting and reporting methods used by each company. This will make it very difficult to compile and compare financial statements that provide consistent and comparable information. The basic concept is that following accepted accounting standards enhances the comparability of accounting information.

The set of standard principles and procedures followed in accounting is referred to as generally accepted accounting principles (GAAP). The term "generally accepted" means that the competent accounting regulatory body has established reporting principles in a particular area, or that certain practices have become as widely accepted as they deserve because of their wide application. While these principles and practices are still subject to debate and criticism, the majority of professionals in the financial industry recognize them as established standards that have demonstrated their usefulness over time.

Parties Involved in Standard Setting

Learning Objective 2: Identify the main policy-making bodies and their role in the standards-setting process

Securities and Exchange Commission (SEC)

External financial reporting and auditing developed in parallel with the growth of the industrial economy and its capital markets. However, after the stock market crash of 1929 and the subsequent Great Depression, there were calls for increased regulation of government entities, especially financial institutions, and the stock market.

In response to these circumstances, the federal government established the Securities and Exchange Commission (SEC) with the aim of regulating and standardizing the disclosure of financial information to shareholders. The SEC serves as the federal agency responsible for enforcing the Securities Exchange Act of 1934 and other relevant acts. Companies that are publicly traded and listed on stock exchanges are usually required to submit audited financial statements to the SEC. The SEC has broad powers to define and prescribe the accounting practices and standards that companies within its jurisdiction must comply with. Currently, the SEC oversees the financial reporting of more than 12,000 companies listed on major exchanges such as the New York Stock Exchange and Nasdaq.

American Institute of Certified Public Accountants (AICPA)

The American Institute of Certified Public Accountants (AICPA), the principal professional organization for Certified Public Accountants (CPAs), has significantly influenced the formation of GAAP. Over the years, the various committees and boards established by the AICPA have actively participated in advancing GAAP.

Financial Accounting Standards Board (FASB)

The recommendations put forward by the Grain Committee resulted in the establishment of a revised framework for setting accounting standards, which is made up of three entities: the Financial Accounting Foundation (FAF), the Financial Accounting Standards Board (FASB), and the Financial Accounting Standards Advisory Board (FASAC). The Financial Accounting Foundation has the responsibility of appointing members of the FASB and the Advisory Board, allocating funds for their functions, and overseeing the overall activities of the FASB.

The FASB, as a key component of the three-part structure, has primary responsibility for setting and improving accounting and financial reporting standards. The main objective is to formulate and improve these standards to offer guidance and educate the public, including preparers of financial statements, auditors, and users of financial information. The FASB's success and support depend on several important differences between the FASB and its predecessor, the APB:

1. Smaller membership. The FASB, in contrast to the larger 18-member APB, consists of seven members.
2. Full-time and paid membership. FASB members are appointed on a full-time basis and receive generous compensation. They serve for a renewable term of five years. In contrast, APB members serve voluntarily and dedicate part-time hours to their responsibilities.
3. Greater autonomy. The APB serves as the principal committee of the AICPA, whereas the FASB operates independently without affiliation with any professional organization. The FASB is appointed by and is fully responsible to the Financial Accounting Foundation.
4. Increased independence. APB members are permitted to maintain their personal affiliations with companies or institutions, whereas FASB members are required to sever all such connections.
5. Wider representation. While all APB members must hold CPA credentials and be members of the AICPA, the FASB does not require its members to be CPAs.

Generally Accepted Accounting Principles

Learning Objective 3: Explain the meaning of generally accepted accounting principles (GAAP) and the role of GAAP Codification

There is strong authoritative support for generally accepted accounting principles (GAAP). The AICPA Code of Professional Ethics mandates that its members comply with GAAP when preparing financial reports. Pursuant to Rule 203 of this Code, members are explicitly prohibited from giving an unqualified opinion on financial statements that substantially deviate from the principles outlined by GAAP.

Generally Accepted Accounting Principles (GAAP) includes a comprehensive collection of more than 2,000 documents that have been formulated over a span of approximately 70 years. These documents comprise the APB Opinion, FASB Standards, and the AICPA Research Bulletin. In addition, the FASB has issued FASB Staff Interpretations and Positions, which aim to modify or enhance existing standards. The APB also offers an interpretation of the APB Opinion. Both types of interpretation have authoritative significance in determining GAAP.

FASB Codification

The FASB codifies financial accounting standards and regulates issues specific to financial reporting in the US. The FASB Codification provides a centralized code for the financial accounting standards set by the FASB.

In the past, the components that comprise GAAP have shown variations in their format, comprehensiveness, and structure. These inconsistencies make it difficult to interpret and apply these documents effectively. Consequently, individuals who are responsible for preparing financial statements are often unsure whether they are complying with proper GAAP. Distinguishing between authoritative and non-authoritative sources also becomes a tricky task in such circumstances.

To address this problem, the FASB developed the Codification of Accounting Standards, also known as the "Codification," with the primary goal of consolidating all of the authoritative literature relating to a particular accounting topic. This consolidation effort is intended to simplify user access to generally accepted accounting principles (GAAP) in the United States. The codification serves as a comprehensive guide outlining how GAAP is documented, presented, and updated. It clarifies the nature of GAAP by eliminating redundant document summaries, grounds for conclusion sections, and unnecessary historical content. In essence, Codification aligns and synthesizes existing GAAP rather than introducing new principles. This establishes one level of authoritative GAAP, with all other accounting literature considered non-authoritative.

For the convenience of users, the FASB has created a Codification Research System (CRS) as a means to easily access Codifications. CRS is an online database that provides instant access to Codifications in real-time. By using a numerical index system, Codification and CRS offer a well-structured topic framework consisting of topics, subtopics, sections, and paragraphs.

If there are situations where the Codification does not cover certain transactions or events, it is necessary to refer to other accounting literature. This may include the FASB's Statement of Concepts, international financial reporting standards, and other professional literature. However, it is important to recognize that such circumstances are not expected to be uncommon.

Upon its introduction, there were high hopes for Codification. It was anticipated that Codification would enhance users' understanding of GAAP, thereby reducing time spent on accounting research and reducing the risk of non-compliance with GAAP, often to a significant extent. In addition, the Web-based format makes it easy to upgrade, which helps users stay on track with GAAP. Most agree that the Codification fulfilled its promise.

Codification is an invaluable resource for individuals seeking to understand GAAP. This increases the clarity and coherence of GAAP definitions, leading to improved accounting and financial reporting practices. In this text, we refer to Codifications using a numbering system, denoted by parentheses with a number such as [1]. You can find these references in the section of the chapter called FASB Codification References, which is located at the end of the chapter.

Main Challenges in Financial Reporting

Learning Objective 4: Describe the main challenges in the financial reporting environment.

GAAP in the Political Environment

User groups hold significant influence over the formulation of GAAP, making them a powerful force in shaping accounting rules. Similar to lobbyists in state and national politics, user groups actively advocate for their interests and preferences. GAAP is not solely derived from logical reasoning or empirical research but is also a result of political dynamics. User groups strive to influence the recording and reporting of specific economic events according to their preferences, and they employ various strategies to achieve their objectives. Active participation in the rule-making process and attempts to influence or persuade those drafting the rules are the most effective means for user groups to impact GAAP.

The FASB is often targeted by this particular user group, as they exert pressure to revise existing rules and create new ones. In fact, the intensity of this pressure has doubled. Several influential groups are calling for the accounting profession to take quicker and firmer action in tackling this problem. Conversely, other groups resist the measures, preferring slower implementation of changes or even rejecting them altogether.

Is it appropriate to incorporate politics into establishing GAAP for financial accounting and reporting? Why or why not? Politics permeates many aspects of our lives, including our homes, schools, organizations, workplaces, and religious institutions. Politics is a force that is everywhere. GAAP, as an integral part of the real world, cannot escape the influence of politics and the stress it creates.

Political involvement in shaping GAAP is not inherently negative. Given the economic impact of various accounting regulations, special interest groups have naturally expressed their opinions and concerns regarding the proposed regulations. However, it is important for the Council to refrain from making statements that are primarily politically motivated. While the Board takes into account feedback from stakeholders, it must ensure that GAAP is built on a rigorous research and conceptual framework that reflects economic realities.

Expectations Gap

The Sarbanes-Oxley Act was enacted in response to a series of accounting scandals at companies such as Enron, Cendant, Sunbeam, Rite-Aid, Xerox, and WorldCom, as mentioned in the introductory story. This legislation aims to increase the resources of the Securities and Exchange Commission (SEC) in fighting fraud and preventing inadequate reporting practices. The SEC also intensified its oversight efforts by implementing new regulations on auditor independence and materiality guidelines for financial reporting. Furthermore, the Sarbanes-Oxley Act brought significant changes to the structural framework of the accounting profession. The following are some of the main provisions introduced by the law.

- Established is The Public Company Accounting Oversight Board (PCAOB), a supervisory entity tasked with overseeing accounting practices. The PCAOB has oversight, enforcement, and standard and regulatory duties relating to auditing, quality control, and independence.
- Enforce stricter independence regulations for auditors, such as mandatory audit partner rotation every five years and prohibitions on certain consulting services for corporate clients.
- Enforce the requirement for CEOs and CFOs to personally certify the accuracy and completeness of financial reports and disclosures, and enforce provisions specifying the forfeiture of bonuses and profits in the case of accounting restatements.
- Requires the presence of an independent and financially knowledgeable member of the audit committee.
- Mandates the application of a code of ethics for senior financial officers.

In addition, Section 404 of the Sarbanes-Oxley Act requires public companies to demonstrate the effectiveness of their internal controls regarding financial reporting. Internal control refers to a set of measures implemented to prevent and detect fraud and errors. While most companies have these systems in place, a large number of them struggle to adequately document them. The documentation process is considered expensive, but potentially necessary, by companies.

While the advantages and disadvantages of Sarbanes-Oxley (particularly for small businesses) continue to be the subject of debate, research conducted during its implementation indicates that there is still significant room for improvement. One study, for example, documented 424 companies exhibiting weaknesses in internal controls. These issues primarily revolve around areas such as financial closing procedures, accurate revenue recognition, account reconciliation, and inventory management. An illustration of this challenge can be seen in the case of SunTrust Bank, which laid off three of its executives after discovering errors in their methodology for calculating bad debt allowances. Similarly, Dan Visteon, a supplier of auto parts, reported difficulties recording and managing receivables from its main client, Ford Motor.

Will this transformation be enough? Bridging the expectations gap, which refers to the difference between the public's perception of what accountants should achieve and what accountants believe they can achieve, is a formidable challenge. The prevalence of many cases of fraud reporting has led some individuals to question the adequacy of the profession. While it is true that accountants cannot be held accountable for every financial disaster, the profession must continue to strive to meet the needs of society. However, efforts to meet these demands will impose greater costs on society. Building a highly transparent, clear, and reliable system will require significant resources.

Financial Reporting Issues

While our existing reporting model effectively captures and organizes financial information in a valuable and reliable manner, there is significant scope for further improvement. To illustrate, if we project ourselves to the year 2030 and retrospectively examine today's financial statements, we may encounter the following scenario.

- The financial statements ignore the aggregation of significant performance indicators used by management, commonly referred to as non-financial measures. These measures cover important aspects such as the customer satisfaction index, inventory data, purchase rejection rate, and results related to the company's sustainability initiatives.
- The financial reports lack the forward-looking information that is important to existing and potential investors and creditors. One individual highlighted that the 2020 financial statements could be denoted by the phrase "Once upon a time" to emphasize their reliance on historical cost and a reflection of past events.
- Soft assets. Financial reports primarily emphasize tangible assets such as inventory and plant assets, but often lack substantial information about a company's intangible assets. However, it is important to note that some of the most valuable assets held by companies are intangible. Examples such as Microsoft's expertise and market dominance, Wal-Mart's prowess in supply chain management, and Procter & Gamble's strong brand reputation are all illustrations of the intangible assets that have played a critical role in their achievements.
- Punctuality. The company exclusively prepares quarterly financial reports and provides audited financial statements once a year. There is little or no availability of real-time financial reporting information.
- Understandable. Investors and market regulators voice apprehensions regarding the intricacy and constraints associated with comprehending financial reports.

We strongly believe that tackling each of these challenges is of utmost importance for the accounting profession to deliver the essential information needed for an efficient capital allocation process. What is encouraging, we have confidence that change is imminent, as shown by the following positive indicators:

- An increasing number of companies are taking proactive steps to disclose information that is considered valuable to investors, extending beyond financial aspects. For instance, banking companies now provide data regarding loan growth, credit quality, fee income, operational efficiency, capital management, and management strategy. Furthermore, there is a growing trend among companies to report on their sustainability initiatives, sharing information on topics such as water usage and conservation, carbon footprint, and labor practices. Some companies even present "integrated reports" that combine sustainability reports with traditional annual reports, resulting in calls for standardized sustainability reporting requirements.
- Initially, companies utilized the Internet to share a restricted amount of financial information. However, in the present day, the majority of companies publish their annual reports in diverse formats on the Internet. Particularly innovative companies offer sections of their annual reports in a user-friendly format that allows for easy manipulation, such as an electronic spreadsheet format. In addition, companies are adopting the eXtensible Business Reporting Language (XBRL) to format their financial reports, enabling faster and cost-effective access to company financial information.
- The inclusion or disclosure of fair-value information is now mandated by a growing number of accounting standards. This means that companies must record investments in stocks, bonds, debt obligations, and derivatives at their fair value, or disclose relevant fair value information in the footnotes of financial statements. The FASB (Financial Accounting Standards Board) and IASB (International Accounting Standards Board) have collaborated to align their standards on fair value measures. This collaboration enhances the effectiveness and usefulness of fair value measures in financial reporting.
- Currently, the FASB (Financial Accounting Standards Board) is engaged in various initiatives aimed at enhancing disclosure effectiveness, developing reporting frameworks for non-public companies, and streamlining accounting processes. These projects have significant potential in addressing the subtleties and completeness of information in financial reports. The goal is to achieve more effective and efficient reporting that can be tailored to investors' needs and reduce complexity.

This shift in approach will increase the significance of financial reporting and provide valuable information to readers of financial reports.

International Accounting Standards

Lawrence Summers, former Secretary of the Treasury, stressed that the concept of generally accepted accounting principles (GAAP) was the most significant innovation in shaping capital markets. He further stated the need for a comparable international framework.

Accurate and dependable financial information plays a vital role in a thriving capital market. However, companies operating outside the United States frequently adhere to accounting standards that differ from US GAAP (Generally Accepted Accounting Principles). Consequently, international companies like Coca-Cola, Microsoft, and IBM have encountered the necessity to prepare financial reports using diverse approaches. Despite the added expenses incurred by these companies, users of financial reports often require familiarity with at least two sets of accounting standards, which can be challenging given the complexity of just one set. Therefore, it comes as no surprise that there is an increasing demand for a set of globally recognized international standards that are of high quality.

Ethics in the Financial Accounting Environment

Robert Sack, a prominent expert in the field of accounting ethics, observes, “In my experience, recent graduates tend to be idealistic. . . thank goodness for that! It is still very dangerous to think that your armor is ready and say to yourself, 'I will never give up on that.' The pressure doesn't explode on us; they build, and we often don't recognize them until they have us.”

This observation applies to individuals entering the business world. Ethical dilemmas are not uncommon in accounting, as well as in other business areas. While some of these dilemmas may have straightforward solutions, many of them present complex challenges that demand difficult decisions among available alternatives.

Accountants working in companies that prioritize "maximizing profits," "managing competitive pressures," and "emphasizing short-term results" often find themselves in environments marked by conflict and stress. In such circumstances, fundamental questions such as evaluating the appropriateness of communicating financial information or determining the appropriate course of action may not have direct answers based solely on GAAP or professional rules. Making ethical decisions requires more than technical prowess.

Acting according to ethical principles is not always straightforward or obvious. The pressure to “break the rules”, “play the game”, or “just ignore it” can be overwhelming. For example, "Are my decisions negatively affecting my job performance?" "Will my boss be angry?" and "Are my colleagues unhappy with me?" is often a question faced by business people in making difficult ethical decisions. The absence of a comprehensive ethical system makes decision-making more challenging due to the lack of a clear guiding framework.

Time constraints, job demands, client expectations, personal factors, and peer pressure can add complexity to the process of ethical awareness and decision-making when faced with multiple alternatives. We have presented ethical considerations in this text to raise awareness about the various scenarios you might face while carrying out your professional duties.

Why are Accounting Standards Important?

Accounting standards are important because they provide a consistent standard for measuring company performance and help decision-makers to make informed decisions. Accounting standards also help investors assess company performance and make the right investment decisions. Accounting standards also help in identifying financial problems and identifying potential risks. This helps ensure that the financial reports presented are accurate and reliable, allowing decision-makers to make informed decisions.

How Are Accounting Standards Applied?

Accounting standards are applied using a principle-based or procedure-based approach. The principles-based approach focuses on the accounting principles behind financial statements. The procedure-based approach focuses on the procedures that must be followed to prepare financial reports.

The principles-based approach allows companies to use creativity and flexibility in presenting financial reports. A procedure-based approach allows companies to present accurate and reliable financial reports but may be less flexible than a principles-based approach.

How Are Accounting Standards Used?

Accounting standards are used to enforce the accuracy and reliability of financial reports. They are also employed to ensure the relevance and reliability of the financial information presented. Furthermore, accounting standards serve the purpose of ensuring transparency in financial reports.

Accounting standards are also used to ensure that the financial statements presented comply with legal requirements. Accounting standards are also used to ensure that the financial reports presented are reliable and can be trusted by investors and other decision-makers.

CONCLUSION

Conclusion

Accounting standards play an important role in ensuring the accuracy, relevance, and reliability of financial reports. They also serve as an important mechanism for ensuring compliance with legal obligations and instilling confidence in financial reports among investors and other stakeholders involved in the decision-making process.

Accounting standards are set by different independent regulatory bodies for different types of companies. Accounting standards are applied using a principle-based or procedure-based approach. Accounting standards change due to new rules and regulations issued by regulatory bodies.

Implication

The FASB should prioritize three key factors when engaging in rule-making activities: (1) improve financial reporting, (2) simplify accounting literature and the rule-making process, and (3) promote international convergence. These objectives are critical, and the Council has made commendable strides across all three dimensions. The Board has demonstrated leadership in addressing a variety of issues, such as off-balance sheet financing, fair value measurement, improving revenue recognition criteria, and accounting for stock options. Consequently, improvements in financial reporting are expected to follow.

The Board has taken steps to increase the clarity of Generally Accepted Accounting Principles (GAAP). Previously, GAAP was spread over many documents, making it difficult to access and understand universally accepted principles. However, as previously mentioned, Codification now serves as the framework governing all existing GAAP, regardless of their source (such as FASB Statements, APB Opinions, etc.). Codified standards are recognized as authoritative and representative of GAAP, while the rest of the literature is considered unofficial.

Limitation

The limitation of this research is the lack of a suitable reference for setting accounting standards in Indonesia. Subsequent research may apply the latest standards.

Recommendation

Global collaboration in setting international standards continues, resulting in the successful completion of various projects and the resolution of non-conformities. This profession faces many challenges but has been met with prompt, thorough, and efficient responses. As a good accountant educator, it is better to determine teaching materials that are more up-to-date to improve the quality of knowledge.

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