This study investigated accounting students’ ability to identify the appropriate accounting standards for the United States and other major regions and to gauge their perceptions regarding several aspects of U.S. and International Accounting Standards. Students’ answers were close to the neutral range for four perception items: (a) the acceptability of U.S. GAAP for Asian and European countries, (b) the requirement of reporting to the SEC, (c) the conservatism of U.S. GAAP, and (d) the growing compatibility between U.S. GAAP and International Accounting Standards. Students perceived knowledge about international accounting standards as somewhat important for business careers.

INTRODUCTION

Awareness of and knowledge about differences and similarities in accounting standards utilized in countries across the globe are essential for the well-rounded business and accounting professional. A trend towards globalization and harmonization of accounting standards is under way, in which the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) play major roles. Globalization has not yet been achieved, and country-specific accounting standards are prevalent.
International Accounting Standards (IAS) are gaining ever-increasing importance. The European Commission ruled that starting in 2005, companies that are listed on European exchanges must conform to IAS. In addition, the FASB and the IASB are working together toward the goal of global accounting standards and have agreed to work toward finding common solutions to certain differences in U.S. and International GAAP (FASB, 2002).

Knowledge of the importance of IAS is very important. Current students are and/or will be working in the global workforce that requires knowledge of the applicability of U.S. Generally Accepted Accounting Principles (GAAP) and IAS. What is the level of accounting students’ fundamental knowledge of the international differences in accounting standards?

**LITERATURE REVIEW**

This section address U.S. GAAP and IAS as well as the approaches taken by postsecondary institutions to internationalize accounting curriculum.

**U.S. GAAP and IAS**

U.S. GAAP is currently promulgated by the Financial Accounting Standards Board (FASB), which was established on July 1, 1973, as an independent seven member organization, in response to recommendations set forth in the report of the *Wheat Committee* (Wolk, Tearney, & Dodd, 2001). The Securities and Exchange Commission (SEC) was granted legal authority to establish accounting standards by the U.S. Congress; however, it delegated its authority to FASB. In addition to the 145 Statements of Financial Accounting Standards (SFAS) currently in effect, FASB has issued seven Statements of Financial Accounting Concepts (SFAC) that are intended to provide a conceptual framework for FASB, financial statement users, and preparers. One of the most pervasive constraints of U.S. GAAP is that it is conservative.
U.S. and International Accounting Standards 3

U.S. GAAP has influenced accounting standards in many countries. However, each country or geographic region has developed its own accounting standards. Thus, while U.S. GAAP has influenced accounting standards in other countries, including those in Asia and Europe, it is not generally acceptable for financial reporting in those countries.

Country-specific accounting standards continue to persist and impact financial results. To illustrate, according to an analysis presented in *International Financial Accounting* (Roberts, Weetman, & Gordon, 2002), the rate of return achieved by a specific company varied between 18.2 and 27% depending on which accounting standards were applied; the highest return was achieved when U.K. accounting standards were applied. The lowest return was achieved when Spanish accounting standards were applied.

The IASB currently promulgates IAS, which are gaining importance globally. These standards tend to be broad and are particularly influential in Europe. Many European countries also have issued country-specific GAAP, which frequently consists of statutory law (e.g., in Germany; see Institut der Wirtschaftspruefer in Deutschland e.V., 1992). IAS is becoming more globally influential, particularly in countries that are members of the IASB. Currently, accounting organizations from more than 90 different countries are members of the IASB (Evans, 2003). In many European countries (e.g., Switzerland) IAS already can be used for cross-border reporting, and many countries are attempting to harmonize their standards with the IAS. These efforts have gained momentum, since the European Commission (EC) ruled that companies listed on any European exchange conform to IAS standards by 2005 (European Commission, 2002).

Some developing countries that do not have well-formulated accounting standards tend to look toward the IASB standards for guidance. Even U.S. GAAP has been influenced in recent years by IAS standards. For example, when SFAS 128, “Earnings Per Share,” (FASB, 1997) was issued,
the changes from the previous authoritative standard were such that near conformity with IAS No. 33, “Earnings Per Share,” (IASB, 1997) was reached.

The SEC requires that financial statements filed with the Commission be prepared in accordance with U.S. GAAP. Non-U.S. companies listed on U.S. security exchanges that prepared financial statements utilizing non-U.S. GAAP must reconcile their financial statements to U.S. GAAP when filing with the SEC. U.S. GAAP is generally considered more conservative than the IAS.

Approaches for Internationalizing Accounting Curriculum

Albrecht and Sack (2000) identified globalization as one of the three major drivers of change impacting the business environment. Consumers and preparers of financial information who live and work in a globally influenced world must have some knowledge of international accounting standards and of differences that exist between different countries. Educators have increased coverage of basic international issues and topics, and accounting principles classes now tend to include at least some limited reference to international standards. Such coverage may help to combat the statement about accounting curriculum (Albrecht & Sack, 2000) that, “We are not exposing students in the right ways to highly relevant concepts such as globalization, technology, and ethics.” (p. 43).

Adhikari, Flanigan, and Tondkar (1999) surveyed 194 U.S. postsecondary schools and 70 non-U.S. postsecondary schools to determine approaches taken to internationalizing accounting curriculum. The integration approach, rather than a separate course, was used by 61% of U.S. institutions and by 60.3% of non-U.S. institutions.

Zeliff, Herbers, Meyers, and Sly (1999) identified 80 international business education competencies critical for business success. Among them was, “Identify and compare domestic and
global generally accepted accounting practices (GAAP)” (p. 196), which was taught by 75% of the survey respondents in the Zeliff et. al. (1999) study.

A review of pertinent literature yielded no study that investigated U.S. accounting students’ knowledge of basic differences of international financial reporting rules. Hence this study attempted to fill some of the gap in the literature.

RESEARCH DESIGN

Three research objectives were posed about the knowledge and perceptions of international financial reporting of students enrolled in managerial accounting courses regarding:

1. Their ability to identify primary organizations currently promulgating U.S. GAAP and IAS.
2. Their perceptions concerning the acceptability of U.S. GAAP for financial reporting in non-U.S. countries, the requirements for financial reporting in the U.S., and the comparative characteristics of U.S. GAAP and IAS.
3. Their perceptions of the importance of knowledge about IAS.

Methods of Research

A questionnaire was developed by the researchers to capture information regarding the participants’ demographics, prior accounting coursework, their experience with living and traveling abroad, facility with languages other than English, and two objective questions about accounting regulatory organizations. In addition, six questions were included asking students to report their perceptions (utilizing a 5-point Likert scale) regarding characteristics and acceptability of U.S. GAAP, requirements for financial reporting in the U.S., and the comparability of U.S. GAAP and IAS. The instrument was reviewed by two colleagues and an accounting student for face validity.
The questionnaire was administered during the Spring 2002 term in five sections of Managerial Accounting offered by a public university located in the Western United States. This junior-level collegiate course is required of students majoring in every undergraduate degree program offered in the College of Business and Economics.

Data were input into Microsoft Excel and imported into the Statistical Package for the Social Sciences (SPSS) version 10.0 for analysis. All results were evaluated at the 0.05 alpha level. The questionnaire was completed by 157 students.

Demographics

This section presents information concerning the demographics of the study participants including gender, age group, ethnic identity, major, academic standing, working status, highest level of accounting courses completed, the type of institution at which students completed principles of accounting, residency and travel abroad, and the ability to speak a language other than English.

Of the 157 study participants, 51% were female, and 49% were male. The age-distribution was that 13% were less than 21 years old; 41% were between 21-25 years old; 26% were between 26-30 years old; 11% were between 31-35 years old; and 9% were older than 35.

The ethnicity breakdown was 3% African-American, 56% Asian, 8% Caucasian, 24% Hispanic, and 9% Other. These percentages are representative of the ethnic composition of students enrolled in the business school.

The participants were asked to indicate their academic major and academic standing. The researchers classified the responses to this question dichotomously. Based on these classifications, 23% of the participants were accounting majors, and 77% were non-accounting business majors. Ten percent of the participants indicated that they were sophomores, 49% indicated that they were juniors, 33% indicated that they were seniors, and 8% indicated that they were graduate students. A
total of 62% of the participants indicated that they currently worked.

Since the accounting program permits flexibility in timing the completion of Managerial Accounting, some of the participants may already have enrolled in or completed Intermediate Financial Accounting, which would increase their exposure to issues addressed in this questionnaire. The researchers classified the responses to the accounting course question as lower-level accounting course or as higher-level accounting course. Based on this stratification, 83% had completed Principles of Accounting as their highest level accounting class, and 17% had completed at least one intermediate-level financial accounting class.

The students were asked to indicate whether they had completed principles of accounting at the university they were currently attending, at a community college, or at another institution. This question was included to identify any differences in preparation between different institutions of higher education. Based on the students’ responses, 52% of the students had completed Principles of Accounting at the university they were currently attending, 43% had completed the course at a community college, and 5% had completed the course elsewhere.

Sixty-one percent of the participants had lived abroad, 72% had traveled abroad, and 90% spoke a language other than English. Travel, residency, and proficiency of foreign languages may contribute to students’ knowledge and interest in international differences and similarities, including those related to financial accounting and reporting.

RESULTS

This section details the findings concerning accounting students’ performance on identifying the organizations that currently issue accounting standards and their perceptions regarding characteristics and acceptability of U.S. GAAP, requirements for financial reporting in the U.S., and the comparability of U.S. GAAP and IAS.
To assess accounting students’ knowledge of the organizations that set accounting standards, they were asked to identify the organizations that promulgate U.S. GAAP and IAS. Results were disappointing. Only 32% of the students were able to identify FASB as the organization currently promulgating U.S. GAAP, and 48% were able to identify the IASB as the organization currently promulgating IAS. The higher percentage of students who identified the IASB correctly may be attributable to the descriptive nature of the organization’s acronym. Further analysis of the incorrect responses showed that the most frequent incorrect answer was “AICPA” for both questions. Specifically, 44% of the students who were unable to identify FASB as the organization that promulgates U.S. GAAP and 29% of those were unable to identify the IASB as the organization that promulgates IAS chose the “AICPA.” Since seven choices were available for both questions, these percentages are significantly higher than would be expected if the participants randomly had chosen an answer. The popularity of the AICPA for the students’ answers suggests strong name-recognition of the American Institute of Certified Public Accountants. The questions posed and the correct solutions for the objective questions are presented in Table 1.

<table>
<thead>
<tr>
<th>Organization that promulgates</th>
<th>Solution</th>
<th>Percentage Correct</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. GAAP</td>
<td>FASB</td>
<td>32</td>
<td>47</td>
</tr>
<tr>
<td>IAS</td>
<td>IASB</td>
<td>48</td>
<td>50</td>
</tr>
</tbody>
</table>
Responses to the Perception Items

The study participants were asked to indicate their agreement with six questions based on a 5-point Likert scale, where “5” represented “strong agreement,” “4” represented “agreement,” “3” represented “neutral,” “2” represented “disagreement,” and “1” represented “strong disagreement.” Suggested ratings, which are based on currently accepted assessments or rules for the first five statements along with the mean correct answers, ratings, and associated standard deviations, are presented in Table 2.

Table 2
Perception Items (n=157)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Suggested Rating</th>
<th>Mean Rating</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. GAAP acceptable for financial reporting in Asian countries</td>
<td>close to 1</td>
<td>2.86</td>
<td>1.09</td>
</tr>
<tr>
<td>U.S. GAAP acceptable for financial reporting in European countries</td>
<td>close to 1</td>
<td>3.10</td>
<td>1.05</td>
</tr>
<tr>
<td>Choose U.S. or IAS for reporting to SEC</td>
<td>close to 1</td>
<td>2.86</td>
<td>1.25</td>
</tr>
<tr>
<td>IAS is more conservative than U.S. GAAP</td>
<td>close to 1</td>
<td>3.12</td>
<td>1.01</td>
</tr>
<tr>
<td>U.S. GAAP and IAS more compatible</td>
<td>close to 5</td>
<td>3.56</td>
<td>0.83</td>
</tr>
<tr>
<td>Knowledge of IAS important to Bus. Career</td>
<td>individual choice</td>
<td>3.92</td>
<td>1.09</td>
</tr>
</tbody>
</table>
Acceptability of U.S. GAAP. The participants were asked to indicate their agreement or disagreement with the statement that U.S. GAAP was acceptable for financial reporting in Asian countries. The mean rating for this question was 2.86. The participants were also asked to indicate their agreement with the statement that U.S. GAAP was acceptable for financial reporting in European countries. The mean rating for this question was 3.10. Both these ratings are close to neutrality, indicating neither disagreement nor agreement with the statements. Although U.S. GAAP has strongly influenced the Accounting Standards of some Asian and European Countries, it is currently not generally accepted in those countries for financial reporting.

Requirement of Reporting to the SEC. The participants were asked to indicate their agreement with the statement that companies could choose either U.S. GAAP or IAS when reporting to the SEC. The mean rating was 2.86, which again is close to neutrality. The SEC currently does not permit choice, and financial statements must be prepared in accordance with or reconciled to U.S. GAAP.

The Nature of U.S. GAAP and IAS. The participants were asked to assess the statement that IAS are generally considered more conservative than U.S. GAAP. The mean rating assigned by the participants was 3.12. Thus, the participants were neutral in their assessment of the comparative conservatism of U.S. GAAP and IAS. However, U.S. GAAP generally is considered more conservative than IAS, and this assessment typically is expressed and discussed in accounting textbooks.

The participants were asked to assess the statement that U.S. and IAS have become more compatible during the past few years. The participants’ mean rating was 3.56, which is midway
between “neutral” and “agreement.” Accounting standards issued by both FASB and the IASB have become more compatible during the past few years. FASB, which is also a member and one of the founders of the IASB, has publicized its intent to harmonize its standards with those of the IASB.

Importance of Knowledge of IAS. The study participants were asked to rate the importance of knowledge of IAS to business careers. The mean rating assigned by the participants was 3.92. Thus the participants on average were close to agreeing that knowledge of IAS is important to their careers.

Significant Associations

Several significant or highly significant associations were identified. Academic major and standing, age, completion of higher level accounting classes, working status, and speaking a language other than English were positively or highly positively associated with performance on one or more of the identification and the perception questions. Gender, travel and residency abroad, and working status were not associated with any of the identification and perception items. Table 3 provides detailed information on significant or highly significant associations.

Table 3
Significant Associations

<table>
<thead>
<tr>
<th>Variable</th>
<th>F-Value</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major: Accounting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify FASB</td>
<td>17.50</td>
<td>0.00**</td>
</tr>
<tr>
<td>Identify IAS as less conservative</td>
<td>4.29</td>
<td>0.04*</td>
</tr>
<tr>
<td>Higher Accounting course</td>
<td>25.23</td>
<td>0.00**</td>
</tr>
<tr>
<td>Age group: older</td>
<td>4.94</td>
<td>0.03*</td>
</tr>
<tr>
<td>Gender: female</td>
<td>5.57</td>
<td>0.02*</td>
</tr>
</tbody>
</table>
Age group: older

Can’t choose GAAP for SEC reporting 2.24 0.04*

Academic Standing:

Reporting to SEC 3.64 0.01*

Higher Level Accounting Class:

Identify FASB 3.82 0.02*
Identify IASB 3.78 0.03*
U.S. GAAP not acceptable in
Asian countries 3.80 0.03*
U.S. GAAP not accepted in Europe 4.60 0.04*
Accounting major 12.80 0.00**
Work 5.67 0.00**

Language Other Than English:

Lived abroad 15.32 0.00**
Knowledge of IAS important 8.83 0.00**
U.S. GAAP acceptable in Europe 4.33 0.04*

Note. ** p < 0.01. *p < 0.05.

Effect of Major. Majoring in accounting was highly positively associated with being able to identify correctly FASB as the organization currently promulgating U.S. GAAP, with perceiving IAS as less conservative than U.S. GAAP, and with having already completed a higher level accounting course (p < 0.01). Majoring in accounting also was positively associated with belonging to an older age group and with being female (p < 0.05).
**Effect of Age Group.** Age was positively associated (p < 0.05) with one of the perception items; older students were more likely to disagree with the statement that companies could choose between U.S. and international GAAP in reporting to the SEC, than were younger students.

**Effect of Academic Standing.** Academic standing was highly positively associated (p < 0.01) with correctly disagreeing with the statement that companies could choose either U.S. or IAS for reporting to the SEC. Thus, seniors and graduate students were more likely to disagree with the incorrect statement that companies can choose either U.S. GAAP or IAS when reporting to the SEC.

**Effect of Higher Level Accounting Classes.** Completion of a higher-level accounting class was positively associated (p < 0.05) with correctly identifying (a) FASB as the organization that is currently promulgating U.S. GAAP, and (b) IASB as the organization promulgating IAS. In addition, those who had already completed a higher level accounting course were more likely to perceive that U.S. GAAP was unacceptable for financial reporting in Asian and European Countries (p < 0.05). Not surprisingly, completion of a higher level accounting course was highly positively associated with being an accounting major, and also with currently working (p < 0.01).

**Language(s) other than English.** Participants who reported that they were able to speak one or more language(s) other than English tended to perceive knowledge of IAS more important to their business careers than were those who spoke English only (p < 0.01); they also were more likely to perceive U.S. GAAP was unacceptable in European Countries (p < 0.05). In addition, those who spoke a language other than English also were likely to have lived abroad (p < 0.01).

**Conclusions**

The accounting students who participated in this study did not have a good understanding of the appropriate accounting standards used in the United States and other countries as evidenced by their responses to questions in the survey described in this paper. Merely 32% of the students
identified FASB as the organization promulgating U.S. GAAP, while 48% of the students identified the IASB as the body promulgating IAS. The acceptability of U.S. GAAP for financial reporting in Asian countries and European countries was perceived as neutral by the students, while in actuality, the perception should have been closer to disagreement. The SEC reporting requirement perception was almost neutral while the conservatism of the U.S. GAAP versus International GAAP was neutral. Slight recognition of the growing compatibility of U.S. and International GAAP was indicated by the student perception halfway between neutral and agreement.

The bright spot of the results was that students perceived that the importance of IAS knowledge was 3.92, closer to agreement than neutral. In addition, having completed higher level accounting courses and being an accounting major was associated with more accurate perceptions and identifications regarding several of the perception and identification items.

Recommendations

The following recommendations are offered for accounting instruction about international standards at the managerial accounting level and may be applicable at other levels:

1. Instructors of accounting classes should emphasize the importance of IAS and the situations that warrant its use. Furthermore, such emphasis should be integrated into every accounting course where applicable to increase student awareness and the opportunity for students to master the concepts.

2. Cases, articles, and examples that involve international aspects of accounting standards and require students to make judgment calls about the applicability of U.S. GAAP or IAS should be introduced to the particular situation.

3. Additional research should be conducted with students as they complete the accounting curriculum to determine the retention level of international standards concepts and their
applicability to various accounting situations.
REFERENCES


