

Summer Scholar Project Proposal

Name: XXXX

Proposed mentor: Dr. XXXX

Proposed Project:

Examining the differences between local French Generally Accepted Accounting Standards, International Financial Reporting Standards, and United States Generally Accepting Accounting Standards.

Preparatory Course Work:

Financial Accounting Information Systems I, II, and III

French Conversation and Composition I and II

International Institutions (in progress abroad)

Study Abroad in Grenoble, France

Background:

Every country develops different accounting standards based on each country's unique economic environments. These environments include: type of legal system, the tax code, source of financing, inflation, and political or economic links to other countries. Based on a mix of those environmental factors, accounting standards develop. For example, French companies use their tax code as a basis for preparing their financial statements. By contrast, American companies do not use the tax code to prepare their financial statements. These two different methods create very different income figures.

These differences become problematic in the global marketplace. Multi-country corporations must spend valuable time and money to prepare subsidiary financial statements in accordance with every country's local accounting principles. Foreign investors have difficulty in comparing companies from different countries, despite coming from the same industry. If a country would like to sell stock in a foreign country, then they must present financial statements in that country's local accounting principles.

A solution to these problems comes through harmonization. Harmonization means reducing the differences in financial reporting practices across the world. In 2001, the International Accounting Standards Board (IASB) adopted accounting standards called International Financial Reporting Standards, IFRS. The European Union decided to implement IFRS as a set of unifying accounting principles, and all European Union members were required to report using IFRS in 2005. The United States has yet to require IFRS. In the Norwalk Agreement of 2002, the United States Financial Accounting Standards board, FASB, and IASB agreed to take steps towards converging their reporting standards.

Project:

This summer, XXXX, a junior accounting major and French minor, will work under the supervision of Dr. XXXX to analyze the differences between French accounting principles and United States' accounting principles. The major area of interest is whether or not these accounting principles are converging over time. This project will attempt to answer the following questions:

- What prevents France and the United States from using the same accounting standards?
- Where does French GAAP differ from US GAAP?
- Why does French GAAP differ from US GAAP?
- Are there cultural reasons for these differences?
- Is France having difficulties changing to IFRS?
- Is French GAAP converging with IFRS?
- Is IFRS (as used by French companies) converging with US GAAP?

Methods:

Phase One: Descriptive Analysis

This analysis will explore different aspects that impact local French accounting principles and French adaptation of international accounting standards. These aspects include: cultural differences, legal environment, and government impact. The steps to accomplish this goal are:

- a. Cultural immersion during my spring semester abroad in Grenoble, France.

- b. Participation in a European political science course, emphasizing the European Union, while abroad.
- c. Performing a literature review including French business press.

Phase Two: Empirical Analysis

The purpose of this stage is to gather numerical support for the claims made during the descriptive analysis phase. The steps to accomplish this goal are:

- a. Identify all of the French companies currently traded on the New York Stock Exchange, NYSE.
- b. Collect form 20-F for each company for five years.
- c. Compare the net incomes under French GAAP (prior to 2005), IFRS (post 2005), and US GAAP (reconciled).
- d. Identify the financial items that create the largest change when reconciling to US GAAP.
- e. Identify any trends from the data to determine whether or not there is any convergence over time.

Preliminary Data Sources:

International Accounting Text:

Radebaugh, Gray and Black (RGB) *International Accounting and Multinational Enterprises*, 6th edition, Wiley, 2006.

International Accounting Standards Plus:

<http://www.iasplus.com/country/france.htm>

International Accounting Standards Board:

<http://www.iasb.org>