

# An Exploratory Study of International Financial Reporting Standards (IFRS) from a Christian Perspective

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**ABSTRACT:** More than 140 international jurisdictions, not including the United States, have standardized the use of International Financial Reporting Standards (IFRS). Secular research on IFRS focuses on its external goods, which has so far generated mixed results. This paper evaluates IFRS from a Christian perspective, looking at its principles-based nature and ability to produce internal goods. Internal goods facilitate the rationality and responsibility of accounting practices that are crucial in achieving the qualitative objective of financial reporting.

**KEYWORDS:** International Financial Reporting Standards, IFRS, generally accepted accounting principles, GAAP, internal goods, external goods, true and fair view (TFV), true and fair view override (TFO), accounting practice

## INTRODUCTION

In 2002, the European Union (EU) announced that it will require the use of International Financial Reporting Standards (IFRS) for all its members. Since then, IFRS adoption has risen rapidly in Europe and other continents. As of 2018, 144 out of 166 jurisdictions around the globe use IFRS standards (IFRS Foundation, 2018b). It caught the interest of accounting researchers who conducted studies on IFRS's impact on businesses, countries, and the global economy in the last two decades. Proponents of IFRS claim that its adoption increases transparency and comparability, lowers information costs, and facilitates capital flows and efficiency in increasingly complex international transactions (Chua & Taylor, 2008; Zhu, 2014). The benefits of adopting IFRS measures in terms of market efficiency (i.e., cost of capital, market liquidity, share prices, trading volume activity, equity, and credit market reactions) are not univocal in results, though cautiously encouraging (Ball, 2016; Brüggemann et al., 2012; Daske et al., 2008; DeFond

et al., 2011; Guggiola, 2010; Landman et al., 2011). However, businesses bear high transition costs, such as adaptation of complex information systems, application of new principles, employee training, and more (Ball, 2016; Fox et al., 2013; Grabinska et al., 2014; Jermakowicz & Gornik-Tomaszewski, 2006). The United States has changed its position on IFRS since 2012 and remains one of the few countries that has not required all publicly traded companies to prepare financial reports based on IFRS (Djatej et al., 2012). However, the rapid growth and use of IFRS makes it relevant for U.S. companies in the global marketplace (US-Analytics, 2014).

This paper evaluates IFRS and its principles-based nature from a Christian perspective. It differs from secular research that primarily focuses on external goods. It assesses IFRS's ability to produce internal goods in accounting practices. Accounting is a social science that continually evolves and is shaped by social, cultural, political, and economic environments and values (Alina & Cerasela, 2015; Bensadon, 2016; Hopwood & Miller, 1994). As Francis (1990) points out, "[A]ccounting is

not a value-neutral routine, but a moral and discursive practice in which value choices such as what we account for, how we account, to whom we account, about whom we account and when we account, are made” (pp. 5, 7). Internal goods of accounting practices ensure that the result of the applied standards satisfies their intended objectives (Securities Exchange Commission, 2003).

This paper studies how IFRS promotes rationality and responsibility in organizations. First, it surveys the current climate of IFRS in the U.S. marketplace. Next, it evaluates IFRS in terms of its principles-based approach through the lens of Scripture. Then, it discusses the shortcomings of a rules-based accounting practice and affirms IFRS’s ability to produce internal goods that facilitate the qualitative objectives of accounting.

## RISE AND FALL OF IFRS IN THE UNITED STATES

### IFRS in the U.S. Marketplace

For many years, the U.S. stock market regulator (Securities Exchange Commission or SEC), accounting standard setter (Financial Accounting Standards Board or FASB), accounting professionals, and the users of accounting information have all believed that the U.S. financial reporting standards (generally accepted accounting principles or GAAP) were the best accounting standards in the world. Their confidence was weakened by the occurrence of a series of accounting scandals in the early 2000s. Many accounting scholars argued that U.S. GAAP may have been responsible for these scandals (Maines et al., 2003). In the case of Enron, one of the biggest accounting scandals in U.S. history, the management abused the 3% rule, which required companies to consolidate special-purpose entities (SPEs) with 3% equity ownership. It created and used various SPEs with less than 3% ownership to hide the company’s riskiest assets and enormous debt (SEC, 2003). Compliance with these bright lines makes it difficult for auditors to challenge management’s accounting choices (Maines et al., 2003). Such accounting scandals and frauds have caused SEC, FASB, AICPA (American Institute of Certified Public Accountants), and accounting scholars to call for the reformation of U.S. GAAP (Derstine & Bremser, 2010; Kang et al., 2014).

In 2007, the SEC began allowing foreign companies to use IFRS without requiring a reconciliation to U.S. GAAP. In 2008, the SEC published a roadmap for

integrating U.S. financial accounting standards into IFRS, including the groundwork to shift from U.S. GAAP to IFRS beginning in 2014 (PriceWaterhouseCoopers, 2011). The SEC also proposed that some qualified U.S. issuers be given the option of filing financial statements based on IFRS. In 2010, it announced its support of convergence and global accounting standards. In 2012, it released the report “Work Plan for Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers.” This report was the final phase of a work plan to consider specific questions, such as where, when, and how the current financial reporting system for U.S. issuers should be changed to a system incorporating IFRS. In early 2013, IFRS established the Accounting Standards Advisory Forum (ASAF) to improve cooperation among worldwide standard setters. The FASB was one of the USAF’s twelve members, representing U.S. interests in the IASB’s standard-setting process (American Institute of Certified Public Accountants, 2012).

The above facts indicate that in the first decade of the 21st century, the SEC, FASB, and AICPA worked diligently with the IASB to develop convergent accounting standards. It was more a matter of *when* than *if* the U.S. would adopt IFRS. Accounting educators and practitioners also believed that the U.S. would adopt IFRS in the near future. However, in the second decade of the 21st century, the SEC stopped mandating IFRS for all registrants (US-Analytics, 2014). The adoption process had raised some critical issues that influenced the change in position (Tysiac, 2016). First, IFRS’s interpretation, application, and enforcement had not been uniform in various jurisdictions. IFRS has wider rules and less specific guidance applications than GAAP, giving more room for interpretation. Thus, accounting professionals would need to incorporate a higher level of value judgment in preparing and auditing financial reports under IFRS than when using U.S. GAAP. Enforcement also depends on the jurisdiction’s interpretation, which is heavily influenced by national culture. Second, the cost of adopting IFRS would be significant. The transition costs are estimated “to be at least 8 billion dollars for the entire U.S. economy” (Hail et al., 2011, p. 41). Also, “[t]he average one-time cost of \$420,000 will be difficult to absorb for local and small firms” (Hail et al., 2011, p. 41). Third, IFRS does not provide specific guidance to certain industries. Therefore, it is difficult for them to apply a system they do not understand (US-Analytics, 2014).

Advocates of IFRS strongly believe that long-term cost reductions and increased efficiencies will more than offset the “pains” experienced during the adoption. For example, companies listed on the U.S. and foreign capital markets would need to prepare only one set of financial statements if IFRS were adopted globally (Ampofo & Sellani, 2005). Also, investors benefit from enhanced comparability of multinational companies’ financial performance (Hibbard II, 2012). Local governments eliminate the cost of developing, maintaining, and enforcing national and international standards (Ampofo & Sellani, 2005). Some research supports that these factors will result in better investor protection, fewer barriers to international capital flows, and easier allocation of resources in global financial markets (Choi & Levich, 1991; Zarzeski, 1996). The former SEC Chief Accountant Wes Bricker emphasized the importance of continually monitoring the quality of IFRS and suggested that the SEC will not mandate movement to IFRS until it is convinced that the interests of investors and capital markets are best served by that change (Poon, 2012). In the last decade, the SEC, FASB, and IASB’s convergence work has significantly slowed down with only a few GAAP and IFRS standards having converged to date. Furthermore, some researchers cite political and cultural reasons for the delay in the U.S. adoption of IFRS—a general discomfort with globalization and standardization (Chand, 2005, as cited in Rodrigues & Craig, 2007, pp. 740, 745).

The mixed messages from the SEC and FASB in the past two decades is affecting the accounting industry. Inadequate IFRS education and training among the accounting graduates and professionals is one of the key reasons for the delay in its adoption (Aldredge, 2018). Tysiac (2016) states that the SEC, FASB, AICPA, and accounting practitioners and educators recognize the necessity to have a common language in financial reporting across nations as many companies operate internationally. The market also reflects the need for IFRS. By September 2016, over 500 foreign private issuers with a combined market capitalization of approximately \$7.3 trillion filed IFRS financial statements with the SEC without reconciliation to U.S. GAAP (Tysiac, 2016). Regardless of whether IFRS is adopted in the U.S., Christian business people should be well informed of this global phenomenon and consider the value of IFRS from a Christian perspective, looking at its intrinsic nature.

### The Intrinsic Nature of IFRS

In 2008, the FASB and IASB jointly issued “The Conceptual Framework of Financial Reporting.” They agreed that the objective of financial reporting is to provide financial information that is useful in making decisions. They further affirmed the qualitative characteristics of usefulness as relevance, faithful representation, comparability, verifiability, and timeliness (IFRS Foundation, 2018a). This agreement indicates the FASB and IASB’s efforts to pursue the convergence of IFRS and U.S. GAAP. However, the convergence is challenging due to the foundational difference in their conceptual approach: The U.S. GAAP is rules-based, whereas the IFRS is principles-based (Forgeas, 2008; Popatia, 2017).

Indeed, the essence of IFRS is that it offers principles rather than specific rules to achieve the objective of financial reporting. Many professionals attribute the rise of IFRS adoption to its flexibility and enhanced applicability to different industry practices, circumstances, and cultures. The international community views “U.S. GAAP as a set of complex and detailed accounting rules that leave little room for individual judgment” (Zarb, 2006, p. 31). It also claims that GAAP’s precise rules may lead management to structure transactions so that they can achieve their favorite accounting treatments while following the standards to the letter. Conversely, the major criticism of IFRS lies in its ambiguity because it provides general principles and fewer detailed instructions or mechanics than U.S. GAAP to deal with complex accounting situations. Under IFRS, management is required to comprehend and follow the spirit of the standards. The interpretation and application of such standards can be subjective. However, the proponents of IFRS claim that this kind of subjective judgment and decision-making is necessary to adequately capture the complexity of the changing business environment.

In 2018, IASB updated the conceptual framework. While the objective of the financial reporting did not change, it addressed the principles-based nature of IFRS and added the role of prudence: “Prudence is the exercise of caution when making judgements under conditions of uncertainty. Prudence does not allow for overstatement or understatement of assets, liabilities, income or expenses” (IFRS Foundation, 2018a, p. 6). In practice, no accounting standards, either U.S. GAAP

or IFRS, can cover all possible accounting situations. Management must exercise professional judgment. IASB acknowledges this necessity and asserts that the concept of prudence serves as the underlying criterion to guide financial statements' preparers. FASB did not include such a statement on prudence in its conceptual framework.

### **Biblical Insight on Rules and Principles**

Does the Bible give insights on the worth of rules versus principles? GAAP has been called the "Bible for accountants" because it provides strict regulations. Indeed, the Bible contains many clear-cut rules, some proscriptive—"Do not murder," "Do not commit adultery"—and others prescriptive—"Honor your father and mother" (Exodus 20:13-14; Exodus 20:20). Does it also invite its reader to reflect on principles that will guide their decision-making?

If the Bible is a simple rulebook, then a verbatim reading makes sense. However, one cannot take all commands in the Bible literally. It contains different genres of literature that require a nuanced reading, such as poetry in the Psalms, apocalyptic literature in Revelation, and theological history in Joshua (Duvall & Hays, 2005). Each genre uses different literary devices and figures of speech that invite a more nuanced interpretation. For example, when the Psalmist wrote, "Your word is a lamp unto my feet and a light unto my path" (Psalm 119:105), he did not mean that believers should use the Bible as a flashlight. The Psalmist used a metaphor to connect the reader's earthly reality with a spiritual need. Most Bible readers would agree that when Jesus said, "If your right hand causes you to stumble, cut it off, and throw it away" (Matthew 5:30), he did not intend for his followers to amputate their limbs. Jesus used hyperbole to drive his point. When Paul states, "[S]laves, obey your earthly masters with respect and fear, and with sincerity of heart, just as you would obey Christ" (Ephesians 6:5), most Christians would not understand this verse to mean that Paul legitimized any masters' abusive acts. A few verses down, he admonishes the masters to stop threatening their slaves (Ephesians 6:9). In another letter, he asked a Christian master, Philemon, to receive his runaway slave no longer as a slave but as a brother in Christ (Philemon 1:16)

The meanings of these Scriptures lie beyond the literal reading of the texts, in the principles they unveil. In the example of Psalm 119:105, the verse highlights that the Word of God provides guidance and direction for life.

In the Matthew 5:30 passage, Jesus instructs his listeners to remove anything from their lives that can hinder their full allegiance to Him. The principle Paul highlights in Ephesians 6 is that all Christians, no matter their position, should acknowledge the Lord's authority over their lives.

These three examples confirm that principles can inform the interpretation of rules for three reasons:

1. They heighten the quality of the rules.
2. They achieve a better objective than rules alone.
3. They transcend cultures.

Jesus made the first point clear in the Sermon on the Mount. At first glance, it appeared that he was teaching the crowd a new law. In reality, he was teaching a heightened Torah as he did not come to abolish the law but to fulfill it (Matthew 5:17). He intensified the meaning of its Mosaic commands to the highest level. Accordingly, committing adultery was no longer acting upon a sexual desire but thinking about it. Murder was no longer taking someone's life but thinking angrily about another person. Jesus expects His followers to surpass the strict obedience to a set of rules by pondering on their motives. This precept requires reflection and introspection. Indeed, Jesus declared that all the Law and the Prophets depend on two commandments (Matthew 22:34-40; Mark 12:28-34): a. Love God with all your heart, mind, and soul (Deuteronomy 6:5), and b. Love others as yourself (Leviticus 19:18). This tri-dimensional aspect of unconditional love is the overarching principle that should guide the Christian life. It is not a rule-binding exercise but one that requires consideration before making any decision: Does my action reflect my love for God, others, and me? Does it glorify God and honor others and me? Paul echoed this principle when he wrote, "Whatever you do, whether in word or deed, do it all in the name of the Lord Jesus, giving thanks to God the Father through him" (Colossians 3:17).

In the Sermon on the Mount, Jesus demonstrated that principles achieve better objectives than rules for three reasons. First, principles are internal. Internality is a long-term benefit that helps an individual to make a decision. The book of Acts illustrates this concept. Jesus promised his disciples that they would receive power when the Holy Spirit came upon them (Acts 1:8). Indeed, throughout the book, the reader encounters common people, both Jews and Gentiles, who do extraordinary things through the Holy Spirit (Philip, Cornelius, Ananias, Barnabas, Tabitha, and more). Their secret is that they obey the

Holy Spirit, a living being who guides, leads, enlightens, rebukes, and empowers them. They are no longer bound by adherence to ordinances. Their guide is internal and transcends the Law. The New Testament establishes that the law of the Spirit who inhabits every born-again Christian is a more excellent way (Galatians 5:18; 25; 1 Corinthians 3:16; 6:19; 2 Corinthians 6:19; Joel 2: 28–29). His internal guidance is greater than the sole guidelines of the Law because it is permanent, regardless of circumstances, dispositions, and cultural expectations. The second reason why principles can help achieve better objectives is that they are enduring. In his book *The 7 Habits of Highly Effective People*, Stephen R. Covey (2020) argued that principles do not change over time. Principles constitute a framework that guides thoughts and behaviors and determines values. They are universal by nature. Third, principles are adaptable, which means that they can transcend time, space, and culture. Rules are non-negotiable, but principles are adjustable. Principles are like a compass. They help guide lives in any situation. Rules are like roads. They lead in only one direction and, therefore, cannot always acclimate to different situations and different cultures.

Principles are based on values and virtues instead of standards that could become obsolete as cultures shift. Acts 15 provides an example of this concept. At the completion of their first missionary journey, Paul and Barnabas request an audience with the Jerusalem Church to discuss the status of the Gentiles who had embraced the Gospel and received the Holy Spirit without adhering to Jewish statutes. Paul and Barnabas advocated to eliminate the strict observance of the Mosaic Law for the Gentiles; the seal of the Spirit was sufficient (Acts 15: 8–11). The leaders at the Jerusalem Council agreed and simply required Gentiles to renounce idolatrous practices (“to abstain from food sacrificed to idols, from blood, from the meat of strangled animals and from sexual immorality” (Acts 15:29)). They recognized the leadership of the Spirit and gave the Gentiles principles in place of the Jewish tradition. Although they offered a challenging solution, it was easier to apply than the Judaic requirements. It allowed Christians in the different Roman provinces to adapt to their specific needs and contexts.

The example of Acts 15 and the success of Paul’s missionary journeys provide a primary example of how principles translate in different cultures. As previously noted, principles are universal, internal, and adaptable.

Therefore, they can transfer well in various customs and traditions. When applied to accounting, a rules-based approach, such as GAAP, is dependable yet less flexible than a system like IFRS, which is more adaptable to international settings. In the same way that Bible readers need to apply proper interpretation of Scriptures, accountants sometimes need to interpret what appear to be clear-cut rules. They have to appeal to principles beyond the strict reading of the accounting standards. Of course, the fluidity of IFRS makes some people nervous. Yet, a principles-based system like IFRS requires practitioners to use it as a compass, gauging the correct path to get to the destination. A rules-based instrument like GAAP, when used without a compass, can take the company down the wrong paths, which is demonstrated in the next section.

### **The Problem of Rules-Based Accounting Practice**

Hans Hoogervorst, the chairman of the IASB, stated that the risk of moral hazard in accounting has increased in the current economy as managers access enormous amounts of capital in the global markets where investors are more distant than ever. Moral hazard occurs when the agent (management) benefits from an asymmetry of information at the cost of the principal (investors). Today, many managers’ compensation is tied to the financial performance of the business. Performance-based compensation may motivate management to engage in earnings manipulation (Hoogervorst, 2014; McKinsey & Company, 2009). Under such conditions, a principles-based accounting practice that allows managers more opportunities to exercise professional judgment appears questionable to IFRS opponents. Yet, Hoogervorst claimed that a principles-based accounting practice fosters an environment that offers more opportunities to minimize moral hazard (Garvey et al., 2021). This claim is not novel to the financial world. Hoogervorst may be referring to the reality of corporate climate and accounting failures that resulted from practicing rules-based accounting.

As mentioned previously, the occurrence of a series of accounting scandals in the early 2000s caused the SEC and scholars to suspect that the rules-based accounting system may have enabled companies to structure transactions to achieve technical compliance while evading the intent of the standard. The example of Andy Fastow, the former chief financial officer of Enron who was the mastermind of fraudulent financial schemes illustrates this point. Even

during his trial, Fastow did not believe he was guilty. He insisted that he had followed GAAP exactly and did not violate any rules. In fact, the CEO and board of directors approved all the transactions, and the auditors and attorneys never questioned whether Enron's financials accurately and faithfully represented the financial position of the company. Reflecting on Enron, Fastow stated that a common thread among accounting frauds is that companies adhere to the words but not the spirit of the law (Real Vision Finance, 2021). This example demonstrates that accounting is not only about following accounting standards precisely but also about engaging in a moral and discursive practice (Francis, 1990). The Sarbanes-Oxley Act, which called for a SEC study of rules- and principles-based approaches, concluded that the accounting standards must be more "objectives-oriented," where the result of the applied standards must satisfy their intended objectives (Securities Exchange Commission, 2003).

In the practice of rules-based accounting, external auditors issue unqualified (clean) opinions when the financial statements present the company's results fairly, "in all material respects," in conformity with GAAP (International Auditing and Assurance Standards Board, 2020, p. 732). Consequently, compliance with GAAP is the auditors' priority (DeFond et al., 2011; Popatia, 2017). However, in the practice of principles-based accounting, auditors issue unqualified opinions when financials truly and fairly reflect the reality of the company's results, called "true and fair view (TFV)," in accordance with the principles (IAASB, 2020). Although the IAASB (2020) states that fair presentation and TFV are "regarded as being equivalent" (p. 732), accounting practitioners and researchers do not agree. They believe that auditors who certify that the financials are in conformity with GAAP rules are merely ticking the box of compliance without issuing a true "opinion" on the financial statements (Zeff, 2007, as cited in Garvey et al., 2021). They think such an opinion of conformity is just a "rubber stamp" of GAAP (DeFond et al., 2011).

In summary, accounting practitioners and researchers have criticized a rules-based accounting practice since a series of accounting scandals occurred in the 2000s. The major problems are threefold. First, it may create loopholes to get around the rules. Second, it is difficult for auditors and other "watchdogs" to challenge loopholes that comply with GAAP. Third, it deprives accounting

practitioners and educators the opportunity to exercise professional judgment. Although GAAP brings rich external goods, its internal goods may be questionable.

### **Principles-Based Accounting Practice and Internal Goods**

External goods, or successes of an organization, refer to financial, social, and cultural capital that contributes to the sustenance of an institution (Stansbury et al., 2015, p. 122). For example, a local coffee shop that sells its goods at a high margin can pay fair wages, benefits, and taxes. It can also provide a social gathering place and sponsor community events for the town. Likewise, an accounting standard setter that develops a sophisticated accounting method widely used by practitioners may gain respect and reputation, perhaps even financial backing and a political voice. By comparison, internal goods, or "excellences of a given practice, are the outcomes that are characteristic of a practice done well" (Stansbury et al., 2015, p. 121). A cup of coffee that captures a balance of sweetness, acidity, and bitterness of the coffee beans is an outcome of the practice of acquiring quality beans, roasting, and brewing at a proper time and temperature with the correct equipment. In explaining what makes "good accounting, good" Christian scholars Stansbury et al. (2015) state that "accounting is a sustainable practice that enables human flourishing through common grace and can itself be good, apart from the 'good accountant' who practices it" (p. 125). They claim that an accounting standard is excellent when it promotes rationality and responsibility within the organization, thereby capturing the economic reality of the firm's transactions and financial positions as accurately and faithfully as possible (Stansbury et al., 2015). Francis (1990) states that internal goods or virtues that arise from accounting practices can "influence the lived experience of others in ways which cause that experience to differ from what it would be in the absence of accounting, or in the presence of an alternative kind of accounting" (p. 7).

How do people achieve the internal goods of accounting? MacIntyre states, "[A]s for Aristotle, the exercise of virtue requires a capacity to judge, to do the right thing in the right place at the right time in the right way" (as cited in Francis, 1990, p. 13). A principles-based accounting practice questions whether the application of the standards meets its objectives at both the transaction level and the financial statement level, which requires management to exercise professional judgment. Francis

(1990), reflecting on MacIntyre and Aristotle, affirms that “it is through the exercise of judgment that the accountant practices accounting and wherein the virtues of accounting practice are realized” (p. 13). Judgment plays an indispensable role to generate internal goods of accounting. Francis (1990) suggests five internal goods that may be realized through the practice of accounting: (1) honesty, (2) concern for the economic status of others, (3) sensitivity to the value of cooperation and conflict, (4) communicative character, and (5) dissemination of economic information (pp. 9–10). These internal goods are critical in achieving the ultimate objective of financial reporting as they induce rationality and responsibility in an organization (Stansbury et al., 2015).

A valuation of long-lived assets may illustrate the point. Under both standards, assets are initially valued at historical cost. However, under IFRS, assets are re-evaluated subsequently using fair value. For sure, fair value better reflects the current value of assets. However, the determination of fair value can be subjective. Determining fair value requires judgment that gives an opportunity to obtain internal goods of accounting practice. The accountant asks, “Which assets are impacted?” “What methods are available?” “Which method best reflects the reality of this economic situation?” “When should the adjustment be made, i.e., during which period did this change occur?” “To whom is the revaluation ‘costly’ if it were done or not done?” In addressing these questions, conflicts between the accountant and his manager, or between the management and auditors, can generate valuable discussions before reaching a consensus. This example shows that where judgment is exercised, internal goods of the accounting practice (such as honesty, the concern for the economic status of others, or the value for cooperation and conflict) arise. By contrast, GAAP’s historical cost is objective, but it deprives the management of judgment, and the cost of the asset, however irrelevant, remains unchallenged.

The fair value example above demonstrates a process of management that exercises judgment. After interpreting and applying the principles of accounting standards, IFRS requires that management and auditors reflect on whether the result meets the objective of the standards. IFRS emphasizes “substance over form,” and the existence of “true and fair view override” (TFO) reflects its essence. IAS 1 (International Accounting Standards) notes TFO on the “Presentation of Financial Statements,” which serves as the basis of the whole IFRS reporting:

IAS 1 provides that in extremely rare circumstances, in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements as set out in the conceptual framework, the entity shall depart from that requirement if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure. (Garvey, 2021, p. 4)

Per the option of TFO, management can deviate from IFRS if the compliance of accounting standards results in misleading the users (Garvey et al., 2021). Many principles-based accounting advocates assert that TFO is necessary in achieving TFV because it is not possible that rules suffice in capturing complex situations and minimizing moral hazard (Alexander, 1993). Benston et al. (2006), for example, state that TFO puts the responsibility for accounting judgments where it rightly belongs—on management and auditors.

What would management and auditors of Enron have done differently if TFO had existed? Mintz (2011) predicts that the disagreements between management and auditors will increase, as well as audit risks and lawsuits. However, Dirsmith et al. (1985) argue that it is more likely to keep auditors out of court if they exercise quality professional judgment in the first place (as cited in Francis, 1990, p. 14). Proponents and critics of IFRS debate whether, given the TFO, the management and auditors will ultimately make the right judgment. However, they agree that ethics plays a critical role for management and auditors to make sound judgments (Verschoor, 2010).

Principles-based and rules-based accounting practices address ethics differently, especially in the critical area of auditors’ independence. In the practice of rules-based accounting, an auditor’s independence is considered as satisfactory if it has exactly followed the SEC and PCAOB’s regulations, laws, and professional codes regarding “independence” (IAASB, 2020). However, Francis argues that maintaining the image of “independence” by following the rules is just symbolic. He claims that “you are independent if you do not violate any of the many rules, which has nothing to do with real ethics or the virtues of independence” (Francis, 1990, p. 13). Ethics is more than a rule-binding exercise but one that requires consideration before making any decisions. Principles-based accounting facilitates questions, judgments, reflections, and introspections. These are opportunities

where the common grace of accounting practice can lead to internal goods (Stansbury et al., 2015). For Christian practitioners, the internal guidance of the Holy Spirit will provide discernment and courage in complex situations.

In summary, a principles-based accounting practice such as IFRS provides more opportunities to exercise judgment under complex business circumstances and promotes internal goods. As a result, it may mitigate issues raised by moral hazard and reduce earnings management (Barth et al., 2008; Ivan, 2016; Zhou et al., 2016). Principles-based accounting heightens the quality of the rules, thereby better achieving the qualitative objectives of financial statements.

### **Role of Culture in IFRS Application**

One last point to consider is the influence of culture on the interpretation and application of IFRS. A principles-based accounting practice, such as IFRS, inevitably will be interpreted and applied through local cultural lenses (Gernon & Wallace, 1995). Similar transactions can receive different accounting treatments due to cultural and institutional variables. For example, given the same economic scenario, Brazilian accountants are much less likely than U.S. accountants to disclose contingencies in their financial statements as Brazilians tend to exhibit more secrecy (Doupnik & Riccio, 2006, as cited in Tsakumis et al., 2009). Likewise, French and German accountants accrue more warranty expenses than U.S. accountants as they are inclined to be more cautious and conservative (Schultz & Lopez, 2001, as cited in Tsakumis et al., 2009, p. 34). Therefore, cultural distinctiveness has direct effects on accounting (e.g., Braun & Rodriguez, 2008; Chenhall, 2003; Cieslewicz, 2014; Harrison & McKinnon, 1999) as well as on institutions (Licht et al., 2007).

One must ask if IFRS's flexibility toward the cultural context can impact its dependability. In other words, if an accountant has to make decisions based on the cultural demands, does it undermine the process? GAAP does not raise this question because of its mechanical application. It focuses on following the directives verbatim while IFRS encourages grappling with the appropriate interpretation of the accounting standards.

Along with assessing cultural contexts, Christians need to consider the accuracy of value judgments on cultural differences. The Bible itself does not place value judgments on culture. First, culture is not intrinsically evil. Indeed, the Bible writers were entrenched in diverse

cultures. God does not judge the nations for their cultural identities but for their idolatrous practices that involve ignominious acts such as child sacrifices. Second, culture is where communication takes place (Cruthers, 2019). An accounting system should stimulate such communication, especially in the age of globalization. Third, if culture is not inherently evil, it is not perfect. While some cultural values may reflect the Gospel more than others, every culture is blessed by common grace, yet tainted by sin, and called to redemption.

Contextualization does not change the message; it adapts it. It is a means to an end. For example, in Acts 17, Paul built on the cultural *a-prioris* of the Areopagus philosophers to awaken their curiosity. He emphasized certain elements and omitted others, taking into consideration their spiritual and cultural background when presenting the Gospel. In the same way, while IFRS permits in its principles-based nature the contextualization of accounting standards, it does not change them. It translates them in a language that makes sense to its recipients. Adaptability does not negate reliability. Unfortunately, a lack of cultural understanding may generate judgment and fear.

### **CONCLUSION**

The recent U.S. accounting scandals have raised concerns about the moral hazards of utilizing GAAP. Indeed, its rules-based nature generates rich external goods while its internal goods are questionable. The U.S. is reluctant to adopt IFRS because of its principles basis. At first, principles appear ambiguous. Because they lack specific guidance, they can be difficult to apply under complex business circumstances. However, the Bible reveals that principles can augment rules as they heighten the quality of the rules, better achieve objectives, and transcend cultures.

In this study, we explore from a Christian perspective whether IFRS better promotes internal goods in accounting. Applying IFRS requires the management to exercise judgment, which is a necessary ground for internal goods: honesty, concern for the economic status of others, value of conflict and cooperation, communicative character, and dissemination of economic information (Francis, 1990). Such internal goods facilitate rationality and responsibility in organizations (Stansbury et al., 2015)

that are crucial in achieving the qualitative objective of financial reporting.

In the business world, the cost-benefit analysis serves as the primary consideration for making almost all decisions, including which accounting standard one should use. Numerous studies have shown that IFRS is valuable and should be adopted in the U.S., with primary emphasis on external goods. The current study offers a unique angle as it evaluates IFRS from a Christian perspective and reexamines the value of IFRS in how it applies the internal goods of accounting theory. Its main contribution is the shift of emphasis from external to internal goods in evaluating accounting standards.

Besides the consideration of the cost of adoption and other reasons, inadequate IFRS education and training for accounting students and professionals is another significant hurdle for adopting IFRS in the U.S. In future research, we plan to explore if it is prudent, responsible, and beneficial to teach IFRS in Christian colleges. IFRS is a global phenomenon that today's accounting students will likely face in the future marketplace. We will research the criterion and challenges related to curriculum implementation for equipping future Christian accountants to lead in the global marketplace.

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