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Opinion Article

# Financial Statement Comparability, International Accounting Standards, and the Capital Expenditure Cost

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## DESCRIPTION

Comparability of financial statements is one of the most desirable aspects of financial reporting and is fundamentally interesting to regulators as well as scholars. Comparability allows users to recognize and comprehend similarities in and differences between items, according to the International Accounting Standards Board's (IASB) International Financial Reporting Standards (IFRS) Framework. Many advantages of comparability have been identified in a growing body of literature as a result of the global convergence of accounting standards. It was demonstrated that there is some disagreement regarding the cost of capital and comparability in an exchange economy. Comparability can only lower the cost of capital if and only if the quality of accounting standards is good enough, which implies that comparability alone cannot do it. The reasoning for the result is comparable to a recent study by Johnstone (2016), who challenges the notion that information's "precision" (i.e., whether it's "good news" or "bad news") by itself lowers the cost of capital.

It was demonstrated that greater comparability of disclosure increases investment in a production economy (i.e., one in which the firm can adjust investments) and that current investors benefit more from greater comparability. As a result, current investors continue to favor the most comparable information, and the mechanism underlying this preference is the same as in an exchange economy. Even so, if and only if the cost of investment is more than a particular threshold, there is still a positive correlation between the costs of capital and the welfare of new investors. According to logic, higher investment levels increase the covariance (variance) of enterprises cash flows, which raises the associated risk and raises the cost of capital even though comparability lowers it. More comparable information will make the company more stable and turn it into a relatively risk-free asset, which goes against new investors' preferences for riskier investments and their correspondingly greater projected returns.

Overall, the study contributes to the understanding of accounting characteristics by theoretically justifying comparability as a separate but secondary element of the IASB and FASB's conceptual frameworks, while still relying on the quality of accounting standards and the cost of investment adjustment. The study also contributes to the need for categorizing the consumers of accounting information by demonstrating that present investors and new investors have diverse and often contradictory criteria for comparability. One of the main goals of financial reporting that has undergone an audit is performance measurement. Accounting information is frequently employed in compensation contracts, particularly for bonus programmes, according to studies conducted after Healy (1985). According to the report, Generally Accepted Accounting Principles has evolved to address agency issues on the presumption that "full contracting outside of GAAP is too costly to be practical" in the presence of significant market frictions such information costs and transaction costs. Understanding the contracting demand for earnings is crucial for management performance appraisal and compensation since performance measurement is a key function of the income statement. Such a demand has significant standard-setting consequences and has the potential to affect GAAP's character. The expanded use of fair values, which is a key component of the FASB and IASB's current standard-setting agendas, has raised concerns from a number of studies that it may undermine the usefulness of financial reporting in efficient contracting due to the possibility of misuse when fair values are not verifiable.

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