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Challenges and Reforms in Accounting Standards in the Context of Globalization

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Abstract: Against the backdrop of an increasingly complex global economy and accelerating digital transformation, traditional accounting standards have revealed many limitations in adapting to emerging business models and market demands. This essay focuses on three core issues: the evaluation of intangible assets, the balance between fair value and historical cost accounting, and lease accounting reform. The current standards are more stringent in recognizing intangible assets, which makes it difficult to reflect the innovative investments of enterprises in financial statements truly. Although fair value accounting can enhance the relevance of financial information, its high volatility may lead to unstable financial conditions, while the lagging nature of historical cost accounting may lead to the undervaluation of assets. In terms of lease accounting, the rise of the sharing economy and the on-demand leasing model has challenged the applicability of traditional lease accounting methods, especially in terms of the accuracy of the valuation recognition of leased assets. In the future, accounting standards should find a proper balance between transparency and stability to meet the needs of globalization and the development of the digital economy, enhance the reliability and relevance of financial information, provide investors with a more accurate basis for decision-making, and promote the modernization of the accounting system.

Keywords: Accounting Standards Reform, Intangible Assets, Fair Value Accounting.

1. Introduction

Traditional accounting standards are gradually showing their limitations in the face of new economic forms and market demands in the more diverse and complex global economy of today. Although many international accounting standards (e.g., IFRS) have been continuously revised and improved, they are still not sufficiently adapted to the diversity and complexity of modern economic activities. The rapid development of global capital markets, the increasing complexity of multinational corporations' operations, the accelerated mobility of capital, and the increased speed of information dissemination have made traditional accounting standards face great challenges in reflecting changes in the global economy and markets [1]. In particular, the measurement and recognition of intangible assets, the issue of balance between historical cost and fair value accounting methods, and the treatment of lease accounting have become important issues that need to be resolved in both accounting theory and practice. These problems have a direct impact on investor decision-making and market efficiency, as well as lowering the caliber of businesses' financial reporting. Therefore, a key concern in the field of accounting research and practice nowadays is adjusting and enhancing the

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current accounting framework to ensure that it can accurately reflect the financial status of businesses and respond to the trend of globalization and digitization.

As an important part of modern enterprises, intangible assets have become more and more prominent. However, current accounting standards still face significant limitations in their identification, measurement, and impairment testing. These issues make it harder for investors to assess a company's long-term profitability and financial health. At the same time, the debate between historical cost accounting and fair value accounting remains unresolved. Each method has its strengths and weaknesses, affecting how financial information is presented. Finding the right balance between the two is crucial. Accounting standards must ensure both reliability and transparency while adapting to changing market conditions. Lease accounting reform faces similar challenges. New standards like IFRS 16 have improved transparency and comprehensiveness. However, significant theoretical and practical difficulties remain in their implementation.

Therefore, the purpose of this essay is to explore the shortcomings and challenges of current accounting standards in these areas from the three core topics of measurement and disclosure of intangible assets, the balance between historical cost and fair value accounting methods, and the reform of lease accounting. Through in-depth analysis and reflection on these issues, this essay not only reveals the shortcomings of conventional accounting standards in light of modern economic patterns but also further explores how accounting standards can meet these challenges and promote the modernization of the accounting system, in the hope of providing suggestions and contributing to the improvement and development of global accounting standards.

2. Intangible Assets

In the age of a knowledge-based economy, when intangible assets are frequently more significant than tangible assets and represent a critical component of an organization's competitiveness, intangible assets are essential to the modernized operations of businesses. Although the current accounting standards, IFRS and US GAAP, provide a framework for accounting for intangible assets in many respects, there are still significant limitations in the areas of recognition, measurement, amortization, impairment testing, and disclosure, which have prevented an enterprise's intangible assets from being adequately and accurately reflected in the financial statements.

The current accounting standards have a more stringent recognition standard for intangible assets, requiring that intangible assets must be identifiable, controllable, and capable of generating future economic benefits in order to be recognized as assets. This criterion has resulted in many intangible assets failing to be accounted for in the balance sheet, especially those with significant economic value but are difficult to identify independently or lack an independent market trading price. According to Tang, especially in the high-tech and service industries, intangible assets, such as intellectual capital and brand value, tend to be ill-defined and difficult to categorize, which results in the recognition of such intangible assets in the financial statement inconsistency and ignoring the long-term economic benefits of such intangible assets [2]. Such limitations prevent the core competitiveness and long-term potential of enterprises from being reflected in the financial statements, thus affecting investors' assessment of the true value of the enterprise. In addition, the current standard generally adopts the historical cost measurement of intangible assets, a method that makes it difficult to reflect the market value of intangible assets. The market value of intangible assets is usually affected by market demand, technological advancement, and other factors. The historical cost method does not appropriately account for these changes, leading to an underestimation of an organization's intangible assets, which further impacts the financial statements' relevance for decision-making.

The treatment of R&D expenditures on intangible assets is also an important limitation in the current accounting standards. The current standard divides R&D activities into a research stage and a development stage, in which all expenditures are required to be expensed, while in the development

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stage, only expenditures meeting a set of strict conditions can be capitalized as intangible assets. However, the line between research and development activities is often difficult to clearly demarcate, resulting in most R&D expenditures being immediately expensed. Research indicates that the expensing of R&D expenses may result in an undervaluation of a company's share price because the financial statements do not account for the long-term economic worth of R&D investments [3]. This practice ignores the impact of R&D investments on firms' long-term innovation and competitiveness and may lead to an underestimation of firms' innovative capacity in the financial statements. Particularly in the high-tech and biopharmaceutical industries, a firm's R&D expenditures are often key to its long-term value and market competitiveness. Moreover, as R&D expenditures are usually not capitalizable, they may lead to a decline in corporate profits in the short term and affect investors' judgment of their long-term prospects.

In addition, there are some problems with the amortization and impairment testing methods for intangible assets. For finite-lived intangible assets (e.g., patents, copyrights), accounting standards usually require the straight-line amortization method, i.e., the value of the asset is amortized evenly over its useful life. However, this method does not adequately take into account the actual pattern of economic benefits of intangible assets. For example, certain patents may bring large economic benefits in the early years and gradually decline in value as market demand changes, and straight-line amortization cannot accurately reflect this change. For indefinite-lived intangible assets (e.g., goodwill), the accounting standard no longer requires systematic amortization, but rather an annual impairment test. While this improvement avoids the drawbacks of mechanical amortization, it provides room for financial manipulation as the impairment test for goodwill is highly dependent on management's subjective judgments, including future cash flow estimates and discount rate selection. According to Ramanna & Watts, the subjective nature of the goodwill impairment test may lead to opaque financial information reported by firms, increasing the risk of surplus management [4]. Many firms may take advantage of this flexibility to manipulate profits by, for example, under-accounting for impairments when performance is good and focusing on accruals when performance declines in order to reconcile financial statements. Therefore, improving the objectivity and transparency of the goodwill impairment test and reducing the subjective intervention of management has become one of the important directions of the current accounting reform.

Another major problem with intangible assets is the lack of disclosure of information. Due to the complexity of the measurement of intangible assets, the disclosure requirements for intangible assets under the current standards are rather broad, which makes it difficult for investors to obtain detailed information about key intangible assets such as intellectual property rights, data assets, and brand value of enterprises. Many firms' financial statements often fail to accurately reflect the economic value of their patents and data assets even though they have a large number of high-value patents and data assets, which increases information asymmetry in the capital market [5]. In addition, there is a lack of detailed information disclosure on the investments made by enterprises in intangible assets such as patents, data assets, and brand value, which makes it difficult for investors to judge the contribution of these assets to the future profitability of the enterprise, which increases the uncertainty in the market and reduces the efficiency of the capital market.

In summary, the transparency and comparability of financial statements are impacted by the constraints of present accounting standards in the areas of recognition, measurement, amortization, impairment testing, and disclosure of intangible assets. Therefore, future accounting standards should consider introducing more flexible measurement methods, such as fair value measurement, and allowing more capitalization of R&D expenditures to reflect better the innovative investment and long-term economic value of enterprises. Improve the goodwill impairment testing mechanism and adopt more flexible amortization methods, such as accelerated amortization or amortization based on the income model of the asset, so as to more reasonably match the economic benefits of intangible

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assets. There is also a need to strengthen the disclosure of information on intangible assets so as to improve the transparency and relevance of financial statements in decision-making. Only in this way can it truly adapt to the development of modern enterprises and the global economy, promote the healthy operation of the capital market, and provide investors with a more accurate basis for decision-making.

3. Fair Value Accounting and Historical Cost Accounting

The dispute between fair value accounting and historical cost accounting has always been one of the central issues in accounting. The foundation for measuring assets and liabilities is where fair value accounting and historical cost accounting diverge most. Fair value accounting adopts a dynamic market-based measurement approach, emphasizing the impact of current market conditions on the value of assets and liabilities and reflecting the real-time economic environment. In contrast, historical cost accounting follows the principle of robustness, emphasizing the true cost at the time of the initial transaction and disregarding subsequent market fluctuations. With the acceleration of globalization and changes in the market environment, the balance between the two not only affects the reflection of an enterprise's financial position but also has a far-reaching impact on investors' decisions.

The ability of fair value accounting to promptly reflect changes in the market is by far its biggest advantage. The book value of assets and liabilities can be swiftly adjusted to the market environment due to this assessment approach, which is based on market pricing or verified market data, which increases the financial statements' relevance [6]. Investors can more precisely evaluate an organization's financial health by using fair value, which, for instance, can reflect the market value of securities, derivatives, and other financial instruments in real time on the financial market. Fair value accounting also improves transparency in financial reporting. It provides a fair value based on market transactions, which makes the interpretation of financial information more intuitive and avoids subjective intervention by management. For example, in actively traded markets such as stocks and bonds, fair value measurements can reduce the subjectivity of accounting treatment and thus provide investors with more accurate information.

However, fair value accounting also faces some notable challenges. First, the main drawback of fair value is the problem of volatility, which arises from its dependence on market data. Fair value might not be an accurate representation of an asset's true value in volatile or illiquid markets. The market price of financial assets fell sharply during the financial crisis, and fair value accounting quickly depreciated the assets' value. This could result in sharp fluctuations in financial statements, which would then impact the firm's financial stability and investor confidence [7]. This high volatility may make the financial statements more sensitive to short-term market conditions at the expense of a true reflection of the long-term value of the firm. The market dependence on fair value may also lead to difficulties in valuation when markets are not active, or prices are not transparent. Especially on some intangible assets (e.g., brands, patents) that do not have a clear market transaction, the estimation of fair value may depend on external assumptions and management's judgment, which carries a greater degree of uncertainty and subjectivity and is prone to raise the risk of profit manipulation by management [8]. This, in turn, leads to valuation differences between different firms under the same conditions, which affects the comparability and transparency of financial statements, as well as the stock market's efficient operation.

The main advantage of historical cost accounting over fair value accounting is its stability and reliability. By avoiding the effect of market fluctuations on an asset's value and basing accounting on the asset's original purchase price, historical cost accounting improves the stability and predictability of financial statements. For those assets held for a long time, the historical cost can better reflect the true investment cost of the enterprise, which makes the financial statements more stable in periods of

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economic fluctuations. A consistent and impartial indicator of asset worth that represents the real transaction at the time of acquisition is also provided by historical cost accounting, which further lessens management involvement in valuation, and reduces the controversy associated with measurement subjectivity [9].

However, the limitations of historical cost accounting have become increasingly evident, with its most significant drawback being the inability to reflect an asset's current market value. The true economic value of assets and liabilities is not adequately reflected by historical cost accounting when the market value of assets fluctuates. For instance, the market value of assets might fluctuate dramatically in the real estate sector, but historical costs fail to adjust accordingly. This could result in a significant undervaluation of the enterprise's assets and affect the financial statements accurate presentation of the enterprise's true position [10]. This lag is particularly prominent in some industries, especially when the market environment changes drastically and historical cost accounting fails to reflect the actual potential and future value of assets. Furthermore, the value of assets and liabilities may be distorted if the historical cost accounting approach is used. In industries where asset prices continue to rise (e.g., real estate and technology industries), historical cost accounting fails to adjust the book value of assets in a timely manner, resulting in serious undervaluation of an enterprise's assets. On the other hand, in the case of declining asset prices, historical cost accounting may fail to reflect the market loss of assets in a timely manner, leading investors to be overly optimistic about the financial position of the enterprise, thus affecting investment decisions.

Due to the advantages and disadvantages of both fair value accounting and historical cost accounting, it is challenging to accurately depict an organization's financial status using only one method. In a globalized economy, the complexity and diversity of markets require accounting standards to find a reasonable balance between the two.

One possible solution is a hybrid measurement approach, for example, for assets with highly volatile market values, such as financial instruments and equity investments, fair value measurement could be used to reflect market changes in a timely manner, while for more stable assets, such as fixed assets and long-term investments, historical cost measurement could continue to be used to maintain the stability and reliability of financial statements. Such a balanced approach avoids excessive volatility and ensures the reliability of the financial statements while reflecting the impact of market dynamics on business assets. In addition, flexibility and adaptability are key to balancing fair value and historical cost. Accounting standards can allow companies to make appropriate choices between the two, depending on different types of assets and market conditions. For instance, because of the volatility of their market value, some intangible assets (such patents and brands) may be better suited for fair value analysis, while for those assets held for a long period (e.g., plant, equipment), historical cost measurement can continue to be used. This flexible application can ensure that financial reporting can fully and accurately reflect the actual situation of the enterprise.

Overall, both historical cost accounting and fair value accounting have clear benefits and drawbacks, and a single reliance on either method will bring certain problems. Fair value can reflect market changes in a timely manner, but its volatility and subjectivity of valuation may affect financial stability; while historical cost provides reliability, the information lags, and it is difficult to show the true market value of assets. In order to realize the transparency, relevance, and stability of financial statements, future accounting standards should flexibly balance fair value accounting and historical cost accounting, making appropriate choices based on the type of assets, the market environment, and the actual situation of the enterprise, to ensure that the financial reports can truly reflect the market dynamics, while maintaining the enterprise's long-term stable financial position.

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4. Leasing Accounting

Leasing has grown in importance as a means for businesses to purchase assets, optimize capital structure, and lower financial risks in the modern business environment. In recent years, IFRS 16 and ASC 842 have made profound changes to the treatment of lease accounting, aiming at improving the transparency of financial information and preventing the “off-balance sheet” treatment of lease assets and liabilities. However, while the new standards have helped to improve the comparability and integrity of financial statements in theory, their application in practice still faces many challenges. These challenges not only affect the financial management and capital structure of enterprises but also introduce new complexities to investors' decision-making.

One of the core objectives of lease accounting reform is to enhance the transparency of financial statements so that investors and stakeholders can more accurately assess the financial position of an enterprise. However, in practice, the overloading of financial information has become a problem that cannot be ignored. The new standard requires enterprises to make detailed disclosures on the measurement of leased assets, discount rates, lease term estimates, and variable rental terms. While this helps to enhance the completeness of information, it also increases the complexity of financial statements, making it more challenging for investors to interpret financial information. For industries with a high volume of leasing operations, such as airlines, retail, and hotels, bulky lease disclosures may reduce the readability of financial statements and even obscure other key financial data [11]. In addition, capitalization of lease liabilities leads to significant changes in the structure of a firm's balance sheet, making key financial ratios, such as gearing and current ratios, more volatile. Such changes may mislead investors into believing that a firm's leverage level has increased significantly when, in fact, these lease liabilities may not constitute actual long-term debt.

In addition, the sharing economy and on-demand leasing models are changing the way assets have traditionally been used, allowing businesses and individuals to gain access to assets on a shorter and more flexible basis. This trend is particularly evident in areas such as office space (e.g., WeWork), transportation (e.g., Uber, Lyft), and equipment leasing (e.g., cloud computing server leasing, 3D printing equipment leasing). One of the characteristics of the sharing economy is the uncertainty of lease terms, which makes estimating lease terms a complex task.

Current lease accounting standards require companies to reasonably estimate the lease term based on the terms of the lease contract and recognize the corresponding lease assets and liabilities on the balance sheet. However, under the on-demand lease model, many lease contracts do not have a fixed lease term, and users can terminate or renew the lease at any time as needed. This model makes the accounting recognition of leased assets more complex. For example, cloud computing companies usually sign flexible server leasing agreements with their customers, who can adjust the server leasing scale at any time according to their computing needs, and this on-demand leasing (pay-as-you-go leasing) model makes it necessary for companies to consider asset recognition and liability measurement more cautiously in their accounting treatment [12]. Therefore, in the sharing economy, how companies should define the lease term, how to measure the asset value, and how to reflect uncertainty have become new challenges for lease accounting.

Meanwhile, as modern enterprises increasingly rely on leasing technology products such as cloud computing and SaaS, the sharing economy also brings new revenue models, such as “pay-as-you-go” or “revenue-sharing.” These models differ from traditional fixed-payment leases in that they may involve variable rents or usage-based payment schemes, and there is still a lack of clear guidance on their accounting treatment. In such cases, how to accurately recognize lease revenue and how to disclose uncertainty in financial statements has become a major challenge in current lease accounting standards. For example, contracts for SaaS and cloud services are often difficult to fully match with the “right-to-use assets” and “lease liabilities” of traditional leases, resulting in the possibility that these contracts may not be fully recognized on the balance sheet, which in turn affects a company's estimation of its long-term liabilities and assets. In such cases, the accurate recognition of lease revenue and the disclosure of uncertainty in the financial statements have also become a major challenge for current lease accounting standards.

Overall, while lease accounting reform has improved financial transparency, it has also introduced many new complexities. Future accounting standard reforms can be optimized in several ways to mitigate the limitations of current lease accounting. On the one hand, disclosure requirements can be optimized so that financial statements can provide complete information while maintaining a certain degree of readability to avoid information overload caused by redundant disclosures; on the other hand, the adaptation to the sharing economy and on-demand leasing can be strengthened by simplifying the treatment of short-term leases and introducing the concept of “right-of-use expenses.” On the other hand, it strengthens the adaptability to the sharing economy and on-demand leasing by simplifying the treatment of short-term leasing and introducing the concept of “right-to-use expenses” so as to enable enterprises to reflect their actual business activities more flexibly and avoid including the leasing liabilities arising from short-term leasing in the balance sheet, thus reducing the complexity of financial statements.

5. Conclusion

Against the backdrop of a changing global economy, current accounting standards face many limitations in areas such as intangible assets, the balance between fair value and historical cost, and lease accounting, which are not adequately adapted to the modern business environment. These issues not only affect the transparency and reliability of financial information but may also lead to biased market decisions, thus requiring urgent optimization at both the theoretical and practical levels.

The main challenges in accounting for intangible assets are the overly strict recognition criteria, the subjective treatment of expensing R&D expenditures, amortization and impairment testing, and the lack of disclosure, all of which can weaken the decision-making value of financial statements. In this regard, consideration should be given to introducing more flexible measurement methods, optimizing impairment testing, and enhancing information disclosure to improve the relevance and transparency of financial data. Both historical cost and fair value have benefits and drawbacks when it comes to application. Future accounting standards should flexibly combine the two, adopting fair value measurement for financial instruments while continuing to use historical cost for long-lived assets to ensure that financial statements are both stable and market-relevant. With respect to lease accounting, with the rise of the sharing economy and on-demand leasing models, the complexity of disclosures and the estimation of lease terms have become more complicated. Future accounting standards should provide clearer guidance in response to these changes to ensure that they accurately reflect the substance of an enterprise's operations.

Overall, the reform of accounting standards should strike a balance between financial transparency and stability to ensure the reliability, relevance, and comparability of financial data. This would meet the development needs of the digital economy, the sharing economy, and new types of asset structures and provide accurate decision-making support for the capital market.

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