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INTERNATIONAL FINANCIAL REPORTING STANDARDS -A GLOBAL FINANCIAL REPORTING LANGUAGE

BENNY C

Assistant Professor Don Bosco College Kottiyam

ABSTRACT International financial reporting Standards facilitate communication of financial statements and other related financial information to external users. At present there are 16 IFRS. The previously issued international accounting Standards were adopted with some amendments by IASB and were merged with minor changes into the IFRS .The main objectives of IFRS is to maintain accountability, transparency and authenticity.

KEYWORDS : IFRS, Financial Statements, Accounting Standards, Multinational

Introduction

International Financial Reporting Standards (IFRS) as a global accounting language seeks to bring about a convergence in the way corporate accounts are prepared and reported globally. The fundamental difference among IFRS, other countries' Generally Accepted Accounting Principles (GAAP) and US GAAP is the underlying principles on which these standards are based. Thus, GAAP in a few countries, including US, are formed on rule-based system where as IFRS is based on principle-based system. Such standards are qualitative and to apply them, capturing the economic substance underlying a transaction is essential. This process will result into more transparent and accurate financial reporting. By 2017, it is expected that more than 150 countries will move to IFRS. Presently, approximately 120 nations have accepted IFRS for domestic listed companies. Of these, about 90 countries have made it mandatory for their companies to follow IFRS. India has decided to converge than adoption of IFRS. In India, though the Government has deferred the implementation of IFRS which was due on April 1, 2011 but felt necessary that the industries should be given enough training before they convert and understand their accounts. The government said the convergence will happen after various tax-related and company law-related issues are resolved. The convergence requires that the awareness levels and competency needs to be raised on a war footing across the entire financial community, with an emphasis on substance, not merely, formats. The level of technical preparedness of industry, accounting professionals expertise with international standards and economic environment prevailing in the country would pose challenges to smooth switch to IFRS.Need of IFRS in India Due to globalization the world has become more and more dependent with all other countries because it helps to open the countries doors for trade and businesses expansion across the borders and to make foreign investment. A large number of multi-national companies are establishing their business in various countries especially in developing countries as the result shows that Indian companies are also being listed on overseas stock exchange, but different countries follow their own Accounting Standards (AS) framework, which create a great confusion for users of financial statements it leads to inefficiency in capital market around the world.

Literature Review

IFRS's are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statement. IFRS are issued by the International Accounting Standards Board and they specify exactly how accounts must maintain and report their accounts IFRS have been established in order to have a common accounting language, so business and accounts can be understood from company to company and country to country. A number of researchers have tried assessing the awareness of newer concept of accounting and the impact of convergence of Indian accounting standards with the international financial reporting standards. KPMG India, 2009 conducted a survey in India and concluded that "implementation of IFRS requires changes to the regulatory environment, requires large pool of IFRS trained and experienced resources; and requires educating and communicating effectively with investors, analysts and Board of Directors. Samir S. Mogul International community has long back recognized the need for moving towards harmonization of the accounting standard across the globe. Obviously an individual country is always entitled to customize the existing international accounting Standards according to its specific needs. Among other advantages of harmonization of accounting standards, the two benefits which tops the list are (a) systematic review and evaluation of the performance of the multinational company having subsidiaries and associates in various countries wherein each country has its own set of GAAP and (b) It provides a level playing fields where no country is advantaged or disadvantaged because of its GAAP.. D'souza, Dolphy, 2009, "stated that regulatory approvals are must for the successful implementation of IFRS in India and so the Reserve Bank of India (RBI), Indian Banking Association (IBA) should align their policies according to the requirements of the international standards." The available literature on IFRS and its implementation covers the data from mainly European Union. Few studies have been carried out analyzing the data from other countries. With conversion to IFRS expected but not definite, many professors are troubled discerning the "how, when, and what" of incorporating IFRS into today's Accounting curriculum (Nilsen, 2008). This study identifies some problems in the accounting curricula of business information at the high school level and suggests improvements needed in the accounting textbooks. Working on the data of European firms, Armstrong et al (2010) found out a positive reaction to IFRS adoption events for firms with high quality pre adoption information, consistent with investors expecting net convergence benefits from IFRS adoption. In his study of 1084 European Union firms during the period of (1995-2006), Siqi Li (2010) concluded that on average, the IFRS mandate significantly reduces the cost of equity for mandatory adopters. He also suggested in his research that this reduction is present only in countries with strong legal enforcement and that increased disclosures and enhanced information comparability are two mechanisms behind the cost of equity reduction. Cai & Wong (2010) in their study of global capital markets summarized that the capital markets of the countries that have adopted IFRS have higher degree of integration among them after their IFRS adoption as compared to the period before the adoption. Paananen & Lin (2009) gave a contrary view to prior research that IFRS adoption ensures better quality of accounting information. Their analysis of German companies reporting showed that accounting information quality has worsened with the adoption of IFRS over time. They also suggested that this development is less likely to be driven by new adopters of IFRS but is driven by the changes of standards. Lantto & Sahlstrom (2009) in their study of key financial ratios of companies of Finland found that the adoption of IFRS changes the magnitude of the key accounting ratios. The study also showed that the adoption of Fair Value Accounting rules and stricter requirements on certain Accounting issues are the reasons for the changes observed in Accounting Figures and financial ratios. Chand & White (2007) in their paper on convergence of Domestic Accounting Standards and IFRS, demonstrated that the influence of Multinational Enterprises and large international accounting firms can lead to transfer of economic resources in their favour, wherein the public interests are usually ignored. Barth et al (2008) in their study of financial data of firms from 21 countries examined whether application of IAS/IFRS is associated with higher accounting quality. The findings of the study confirmed that firms applying IAS/IFRS evidence less earnings management, more timely loss recognition and more relevance of accounting numbers. The study also found out that the Firms applying IAS/IFRS experienced an improvement in accounting quality between the pre-adoption and post adoption period. Elena et al (2009) in their article dealing with the issues of convergence between US Generally Accepted Accounting Principles (GAAP) and IFRS were of the opinion that the adoption of IFRS in the USA undoubtedly would mark a significant change for many US companies. It would require a shift to a more principles-based approach, place for greater reliance on management (and auditor) judgment, and spur major changes in company processes and systems.

Factors Which Lead To the Evolution of IFRS

Over the last decades the world economy and the capital market have become increasingly globalized and integrated. The need for IFRS to support the stability of international financial markets has becomes so critical that the financial stability forum has indentified. It helped to achieve greater mobility of capital and more efficient allocation of resources by reducing technical barriers created by the national accounting. It will provide the Indian firms in the globalization brining them in a common flat form and therefore by increasing international transaction in more simple and speedy way. .After the liberalization the Indian companies started comparing themselves with their global competitors which will help in assessing their own performance. By IFRS they can communicate their financial position and profitability to attract foreign investors to India. it will results into identifying opportunities and boundaries. A company located in multiple countries fall under multiple jurisdictions. So they ought to prepare multiple set of financial statements so IFRS will help to solve the matter. It will provide a fair view of accounting in the business combination and collaboration between two or more nations. Provide transparency to the stakeholders also will help them to study about investment. IFRS balance Sheet will be closer to economic value by providing that Historical cost will be substituted by fair values for several balance sheet items, which will enable a corporate to know about its true worth.

IFRS's with Its Objectives

IFRS 1.FIRTSTIME ADOPTION OF IFRS:-IFRS1issued november2008,ifrs financial statements for periods beginning on or after 1 July 2009The basic objective is to prescribe the procedures when an entity adopts IFRS for the first time as the basis for preparing its general purpose financial statements.

IFRS 2.SHARE BASE PAYMENTS:-To prescribe the accounting for transactions in which an entity receives or acquires good or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity.

IFRS 3. BUSINESS COMBINATIONS: - Its core principle is an acquirer of a business recognizes the assets acquired and liabilities assumed at their acquisition date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition.

IFRS 4. INSURANCE CONTRACTS:-To prescribe the financial reporting for insurance contracts until the IASB completes the second phase of its project on insurance contracts.

IFRS 5. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS:-Objective is to prescribe the accounting for noncurrent assets held for sale and the presentation and disclosure of discontinued operations.

IFRS6. *EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES*: - To prescribe the financial reporting for the exploration for and evaluation of mineral resources until the IASB complete a comprehensive project in this area.

IFRS 7. *FINANCIAL INSTRUMENT*:- disclosures- To prescribe disclosures that enable financial statement users to evaluate the significance of financial instruments to an entity the nature and extent of their risks, and how the entity manages those risks.

IFRS 8. *OPERATING SEGMENTS*:- An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.

IFRS 9. *FINANCIAL INSTRUMENTS*:- IFRS 9 sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

IFRS 10. *CONSOLIDATED FINANCIAL STATEMENT*:- To prescribe a single consolidation model for all entities based on control, irrespective of the nature of the investee.

IFRS 11. *JOINT ARRANGEMENT*:- To establish principles for financial reporting by entities that have an in joint arrangement.

IFRS 12.*DISCLOSURE OF INTERNET IN OTHER ENTITIES*:- To require information to be disclosed in an entity's financial statements that will enable users of those statements to evaluate the nature of and risks associated with, the entity's interest in other entities as well as the effects of those interest on the entity's financial position, financial performance and cash flows.

IFRS 13.*FAIR VALUE MEASUREMENT*: - To establish a definition of fair value, provide guidance on how to determine fair value and prescribe the required disclosures about fair value measurements. However IFRS13 does not stipulate which items should be measured or disclosed at fair value.

IFRS 14. *REGULATORY DEFERRAL ACCOUNTS*:- To specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

IFRS 15. *REVENUE FROM CONTRACTS WITH CUSTOMERS*:- To prescribe the accounting treatment for revenue arising from sales of goods and rendering of services to customer.

IFRS16.LEASES:- The objective of IFRS16 is to report information that (a) faithfully represents lease transactions and (b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognize assets and liabilities arising from a lease.

Conclusion

IFRS is more beneficial to attract the world capital market and also indicate that rules regarding various accounting. Most of them are not aware about the adoption of IFRS. Which create a barrier in adoption of IFRS in India .IFRS should be made a compulsory part in graduation and post graduation academic curriculum More than140 countries have already in line with IFRS.Throug the adoption of this financial reporting standards help to seek to have one comparable reporting standard around the world.

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