RESEARCH PAPER | Management | Volume : 3 | Issue : 7 | July 2013 | ISSN - 2249-555X

International Financial Reporting Standards (IFRS)

KEYWORDS Accounting Standards, Financial Status, Flexibility, Applied Retrospective

Dr P.Gurusamy	K.Mahendran
Assistant professor / Head , Department of corporate Secretaryship, Dr NGP Arts and science college, Coimbatore-48	Assistant professor, Department of corporate Secretaryship, Dr NGP Arts and science college, Coimbatore-48

ABSTRACT *International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external. Companies that have high levels of international activities are among the group that would benefit from a switch to IFRS. Companies that are involved in foreign activities and investing benefit from the switch due to the increased comparability of a set accounting standard. It would reduce different accounting requirements prevailing in various countries there by enabling enterprises to reduce cost of compliances*

Introduction

Globalization of capital markets is an irreversible process, and there are many potential benefits to be gained from mutually recognized and respected international accounting standards. The adoption of uniform standards cut the costs of doing business across borders by reducing the need for supplementary information. IFRS began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. They are sometimes still called by the original name of International Accounting Standards (IAS). IAS was issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On 1 April 2001, the new International Accounting Standards Board took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards International Financial Reporting Standards (IFRS).

Adoption of IFRS

IFRS are used in many parts of the world, including the European Union, India, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, Chile, South Africa, Singapore and Turkey. At present more than 120 countries around the world, including all of Europe, currently require or permit IFRS reporting and 85 require IFRS reporting for all domestic, listed companies, according to the U.S. Securities and Exchange Commission. It is generally expected that IFRS adoption worldwide will be beneficial to investors and other users of financial statements, by reducing the costs of comparing alternative investments and increasing the quality of information. Companies are also expected to benefit, as investors will be more willing to provide financing. Companies that have high levels of international activities are among the group that would benefit from a switch to IFRS. Companies that are involved in foreign activities and investing benefit from the switch due to the increased comparability of a set accounting standard.

Benefits of adopting IFRS

- It would benefit to the economy by increasing growth of international business
- It would increase international investing and thereby lead to more foreign capital inflows in to the country.
- Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions.
- I F R S would enhance the comparability between financial statements of various companies across the globe.
- It would reduce different accounting requirements prevailing in various countries there by enabling enterprises to reduce cost of compliances

Drawbacks in IFRS

Greater comparability

Companies that use the same standards to prepare their financial statements can be compared to each other more accurately. This is especially important when comparing companies located in different countries, as they might otherwise be using different rules and methodologies to prepare their statements. This increase in comparability has helped investors better determine where their investment dollars should go.

Not Globally Accepted

The United States has not yet adopted International Financial Reporting Standards and other countries continue to hold out as well. This makes accounting by foreign-based companies that do business in America difficult as they often have to prepare financial statements using IFRS and another set using American Generally Accepted Accounting Principles.

Manipulation

There is a downside to the flexibility that IFRS allows: companies can utilize only the methods they wish to, allowing the financial statements to show only desired results. This can lead to revenue or profit manipulation, can be used to hide financial problems in the company and can even encourage fraud. For example, changing the method of inventory valuation can bring more income into the current year's profit and loss statement, making the company appear more profitable than it really is. While IFRS requires that changes to the application of the rules must be justifiable, it is often possible for companies to "invent" reasons for making the changes. Stricter rules would ensure that all companies are valuing their statements the same way.

Cost

A small company would be impacted by a country's adoption of IFRS in the same way a larger one would. However, small businesses do not have as many resources at their disposal to implement the changes and train staff. This results in smaller

Volume : 3 | Issue : 7 | July 2013 | ISSN - 2249-555X

companies bringing in accountants or other outside consultants to help make the changeover. These smaller companies will bear more of a financial burden than larger ones in this area.

Difference between Indian GAAP and IFRS
(1)Accounting policies
IFRS
Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transitional provisions.

Indian GAAP
The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision) where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed. Where a change in accounting policy has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such an amount is not ascertainable this fact should be indicated.

(2)Functional and presentation currency
IFRS
Assets and liabilities are translated at the exchange rate at the balance sheet date when the financial statements are presented in a currency other than the functional currency. Income statement items are translated at the exchange rate at the date of transaction or at average rates. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Group is US dollars.

Indian GAAP
There is no concept of functional or presentation currency. Entities in India have to prepare their financial statements in Indian rupees.

(3)Business Combination
IFRS
All business combinations are treated as acquisitions. Assets, liabilities and contingent liabilities acquired are measured at their fair values. Pooling of interest method is prohibited. For acquisitions occurring on or after 1 January 2004, IFRS 3 'Business Combinations' (IFRS 3) requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognised and if considered to have a finite life, amortised through the income statement over an appropriate period.

Indian GAAP
Treatment of a business combination depends on whether the acquired entity is held as a subsidiary, whether it is an amalgamation or whether it is an acquisition of a business. For an entity acquired and held as a subsidiary, the business combination is accounted for as an acquisition. The assets and liabilities acquired are incorporated at their existing carrying amounts. For an amalgamation of an entity, either pooling of interests or acquisition accounting may be used.

(4)Impairment of financial assets
IFRS
At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment.

Assets held at amortized cost
If objective evidence of impairment exists, an assessment is made to determine what, if any, impairment loss should be recognized. The impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount. The recoverable amount is determined based on the present value of expected future cash flows, discounted at the instrument's original effective interest rate, either individually or collectively. Individually assessed assets for which there is no objective evidence of impairment are collectively assessed for impairment.

Available-for-sale assets
If objective evidence of impairment exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any previously recognized impairment) is removed from equity and recognized in the income statement.

Market recoveries leading to a reversal of an impairment provision for available-for-sale debt securities are recognized in the income statement. Impairment losses for equity instruments classified as available-for-sale are not permitted to be reversed through profit or loss.

Conclusion
Ensuring a high quality corporate financial reporting environment depends on effective Control & Enforcement Mechanism. Merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure. Top Management should ensure that the Financial Statements are prepared in compliance with the IFRS. Auditors and Accountants should prepare and audit Financial Statements in compliance with IFRS. Regulators and Law Makers must implement efficient monitoring system of regulatory compliance of IFRS. Along with this the Regulators should ensure that proper changes are to be made in existing laws for IFRS adoption process.