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Review of International Financial Reporting Standards (IFRS) -A Tool of Financial Reporting

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Abstract—*International Financial Reporting Standards (IFRS) is the new language of financial reporting and communication to investors and other organizations. Synchronizing accounting standards across the globe is an ongoing process in the international accounting community. 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. More than 120 countries have adopted the process of convergence with IFRS.*
The IFRS represents a radical change in accounting for transactions as well as reporting of financial statements. The present study is an attempt to review the concept of International Financial Reporting Standards (IFRS), its adoption, global status and hindrances to the adoption of IFRS.

Keywords: *IFRS, adoption, financial reporting, communication.*

1. INTRODUCTION

'**Financial reporting**', a source of communicating economic messages on the results of business decisions and events, in so far as they can be expressed in terms of quantifiable financial data; plays an essential role when thinking of investments either national or international.

The process of financial reporting of business activities saw a great change when European Union made it mandatory for publicly traded companies to present consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) starting from January 01, 2005. Existing literature supports this view of researchers that adoption of IFRS as single set of reporting standards improves the quality of financial information and also ensures timely loss recognition. Summarily, adopting a single set of Financial Reporting Standards brings many benefits to reporting entities, Investors, Bankers and other interested parties as in this period of international boundaries getting eliminated, they will not have to refer to Reporting Statements prepared on the basis of different Reporting standards.

2. INTERNATIONAL FINANCIAL REPORTING STANDARDS

Financial statements prepared in different countries according to different set of rules, mean numerous national sets of standards, each with its own set of interpretation about a similar transaction, making it difficult to compare, analyse and interpret financial statements across nations. Thus, Globalization of financial markets has meant an increased focus on international standards in accounting. A global standard-setting body such as the International Accounting Standards Board (IASB) is of critical importance in Converging global accounting standards i.e. IFRS. Thus, global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets by facilitating comparability between enterprises operating in different jurisdictions.

In 2002 IASB got united with the Financial Accounting Standards Board (FASB) to combine their knowledge and develop a set of high-quality accounting standards that would be compatible with all countries in order to carry out international business affairs and their accounting successfully. This set of global accounting standards is referred to as the International Financial Reporting Standards (IFRS).

3. OBJECTIVES OF IFRS

The main objectives of IFRS can be summarized as:

- To develop and introduce a single set of top quality global accounting standards.
- To produce transparent and top quality information in financial reporting statements.
- To make the financial reporting statements more comparable and comprehensive to the concerned users for taking appropriate decisions.
- It is transparent for users
- Is comparable over all periods presented.

4. RESEARCH METHODOLOGY

The study is primarily qualitative in nature and the data has been collected basically from secondary sources.

Emphasis has been placed on books, journals, and newspapers and online database.

The objectives of this study can be listed as-

- To discuss the IFRS adoption in India and benefits in implementing IFRS.
- To discuss the need and implications of IFRS adoption across the world; as well as also analyse the hindrances in it adoption.
- To study the use of IFRS as a tool of Financial Reporting.
- To propose analysis and recommendations.

5. BENEFITS OF IFRS

IFRS has gained acceptance as a single set financial reporting standards in countries around the world. Globalization of capital markets have created the need to scrap local standards in favour of international standards and benchmarks and attributed IFRS adoption as single set of global accounting standards. More than hundred (100) countries have adopted IFRS for financial reporting but others including (Chile, Korea, Brazil, India, and Canada) have agreed to adopt or converge to IFRS by 2011. The international financial reporting standards provides national regulatory bodies a better chance to have good knowledge, oversight and enforcement capacity on the operation, applications and interpretation of company's financial statements to ensure higher financial disclosure standards so as to formulate and regulate the companies and corporations in a better way so in return it will benefit the economic condition of the country.

A consistent reporting procedure in preparation of the financial statement to all the companies as well as for their subsidiaries also gives opportunities for the organisation for easy process of merger and acquisition.

6. GAAP VERSUS IFRS

The General Accepted Accounting Principles (GAAP) are proposed guidelines, more precisely, a group of objectives and conventions that have evolved over time to govern how financial statements are prepared and presented. The Financial Accounting Standards Board, the American

Institute of Certified Public Accountants, and the Securities and Exchange Commission provide guidance about acceptable accounting practices. According to IAS (GAAP 2005) "it states that the objective of general purpose of financial statement is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decision".

The basic objective of financial reporting is to make information available for various users about financial position that could help investors to make investment decisions.

The International Accounting Standards Board (IASB) is an independent body set up with the responsibility of setting up and supervision of the accounting rules and standards for international reporting standard. Prior to the establishment of IASB in 2001, IAS was responsible for the setting up of this accounting rules and standards.

- The objective underlining the introduction of IFRS are to promote a common platform for better understanding of accounting, internationally.
- Improvements in accounting standards can help promote global financial stability and sound economic growth by enhancing transparency, reducing complexity and restoring confidence in financial reporting as a key component of the global financial system.
- With adoption of IFRS, businesses can present their financial statements on the same basis as its foreign competitors, making comparisons easier.

The principal objectives of the IASB are:

- To develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs) through its standard-setting body, the IASB;
- To promote the use and rigorous application of those standards;
- To take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs); and
- To bring about convergence of national accounting standards and IFRSs to high quality solutions.

7. HINDERANCES IN IFRS ADOPTION

The main barrier faced in the use of a single set of accounting standards includes language differences. To comply with the international accounting standards the companies have to spend both time and money in knowing the language of IFRS which effects the profitability of the companies. The use of IFRS is associated with cost in conversion, in terms of manpower training.

8. CONVERGENCE IN INDIA

The Ministry of Corporate Affairs (MCA) has announced a roadmap which requires Indian companies to adopt the converged standards in a phased manner from 2011 onwards. In respect of banks and NBFCs, a separate road map was prepared in March 2010 for convergence with IFRS for the banking industry and NBFCs. The convergence process would be from period beginning April 1, 2013, with a phased approach for urban banks and NBFCs.

9. CONCLUSIONS

The study tried to carry out an analysis of IFRS and US GAAP, to examine whether adopting International Financial Reporting Standards has better benefits over GAAP. From the various opinions reviewed, there was overwhelming agreement on the various reasons for the adoptions of IFRS, first being the reductions in cost of capital, qualities of disclosures is highly superior as compared to other local GAAPs in the ways it reduces uncertainty of investors. However, in this study, various pitfalls associated with its reporting are also analysed. One such issue that IASB has not yet have a uniform enforcement body to regulate the levels of errors in the application of its principles and to prevent aggressive earning, misrepresentations and frauds.

10. RECOMMENDATIONS

- In order to achieve the set goal of IFRS, a proper education and training of employees about IFRS is essential.
- IFRS should be implemented in phased manner.
- To increase the progress and independence of IASB there must be an independent source of funding for the activities of the body, this is necessary to avoid all undue influences.
- Government needs to take serious action regarding mandatory adaptation of IFRS.
- Identifying changes required in the existing financial reporting system to confirm with IFRS requirements.
- Identifying of effects on the existing contracts and agreements before implementing IFRS.

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