

INTERNATIONAL FINANCIAL REPORTING STANDARDS – BENEFITS AND CHALLENGES

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INTRODUCTION

The term International Financial Reporting Standards (IFRSs) has both a narrow and a broad meaning. Narrowly, IFRS refers to the new numbered series of pronouncements that the International Accounting Standards Board (IASB) is issuing, as distinct from the International Accounting Standards (IASs) series issued by its predecessor International Accounting Standards Committee (IASC) from 1973 to 2000. More broadly, IFRSs refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB and IASs and SIC interpretations approved by the predecessor IASC.

The IASB was preceded by the IASC which operated until 2001. IASC was founded in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and these countries constituted the Board of IASC at that time. The International Professional activities of the accountancy bodies were organized under the International Federation of Accountants (IFAC) in 1977. In 1981, IASC and IFAC agreed that IASC would have full and complete autonomy in setting IASs and in publishing discussion documents members of IASC. This membership link was discontinued in May 2000 when IASC's constitution was changed as part of the reorganization of IASC.

Statement of Problem

The IFRS is gaining prominence now-a-days. Companies all over the world have become more and more internationally oriented during last few years. They create fusion, make investment, conduct trade and co-operate over country borders. International Financial Reporting Standards (IFRS) is becoming the global language of business with over 40% of the world having moved to IFRS in the past few years. For the sustainability, all companies in major markets are using IFRS. For the integrity of different country's business together in the world market it was necessary for the business to adopt a common set of accounting standard, since accounting is the language of a business. The use of common set of accounting standards throughout the world provides an easy way of comparability and transparency of financial information. It also reduces the cost of preparing financial statements. Therefore it is essential to understand about the benefits and challenges of IFRS.

Objectives

- 1 To determine the benefits of IFRS
- 2 To find out the challenges of IFRS

Review of Literature

Kirit & Meenakshi (2015). In the study “IFRS: Challenges Ahead” which was done by Prof Kirit Magana and Dr. Meenakshi Somani pointed out the benefits of IFRS to the Indian Corporate and Professionals, its key issues and challenges. The findings of the study were that a single set of high quality standards would be in public interest and would provide a uniform language for financial reporting which, in turn, will have a positive impact overall.

Govindarajan (2014). In this study , he mentioned about what is IFRS, its needs, Convergence and challenges faced by the stakeholders. He concluded that the convergence of IFRS with Indian Standards will, of course, benefit us.

Assocham (2014). A study on the topic “IFRS in India” was done by ASSOCHAM, Hyderabad. It discussed the Global Convergence of Accounting Standards with Indian Standards. It also focused on the use IFRS to various countries.

Emmanuel T (2009). In his study, he found that IFRS provides a cohesive picture of financial reporting quality, capital markets, corporate decision making. He also presented detailed discussion of research design choices and empirical issues researchers face when evaluating IFRS adoption effects.

RESEARCH METHODOLOGY

Secondary data are used for the study. Different journals, newspapers, books and relevant websites have been considered in order to make the study an effective one .

FINDINGS

Benefits of IFRS Adoption

1. Generalized Standard – Setting

IFRS stipulations are flexible to current business scenario which enhances the comparability among different companies across the national boundaries. It will also develop better understanding of financial statements worldwide which boost the confidence level among the people as investors, from whole of the world

2. Enhanced Financial Reporting

The use of IFRS enhances the quality of financial reports which inturn brings more transparency in financial reporting . It will also enhance the confidence of the stakeholders of the companies.

3. It allows for greater comparability.

Businesses using similar standards to prepare financial statements can more accurately compare with each other. This is very helpful when comparing businesses that are based in different countries, as they may otherwise have different methodologies and rules in preparing these documents. This greater comparability has aided investors to better identify the various investments opportunities.

4. It is beneficial to new and small investors.

The IFRS can help new and small investors by making reporting standards to have better quality and become simpler, putting these investors in a similar position with professional investors, which was not feasible under previous standards. This also entails a reduced risk for these investors when they trade, as the professionals will not be able to take advantage because the nature of financial statements will just be simple to be understood by all.

5. It creates more flexibility.

Using a philosophy that is based on principles, instead of rules, this set of standards will have the goal of arriving at a reasonable valuation with various ways to accomplish tasks. This would give businesses the freedom to adopt IFRS to their specific situations, which will result in financial statements that are more easily read and useful.

6. Better understanding

Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards.

7. Benefits to economy

By increasing the investments in a country, the economy can witness an overall development by improving standard of living of people.

Challenges

1. It requires high costs.

Installation cost is higher when the companies try to adopt the IFRS. However, small companies would not have sufficient resources to implement the changes that come with it, not to mention that they would need to train staff or hire accountants or consultants for assistance. They would simply bear more financial burden than their larger counterparts.

2. It is prone to manipulation.

As businesses can only use the methods that they wish, this would lead to financial statements show only desired results, which can lead to profit manipulation. While this new set of standards requires changes to how the rules should be applied to be justifiable, it is often possible for businesses to come up with reasons for making such changes. This means that stricter rules should be implemented to ensure all companies will value their statements in a similar fashion.

3. It is not globally accepted.

Truth is, the US has not yet adopted the IFRS, so as other countries that choose to continue holding out as well. This means that accounting by foreign companies operating in these countries are facing difficulties because they have to prepare financial statements using such a set of standards and another set of principles that is generally accepted in these countries.

4. Lack of proper training and education

Lack of training and proper awareness regarding IFRS also pose challenge in India.

5. Taxation Effect

IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.

SUGGESTION

- Companies should properly adopt the IFRS with the help of accounting professionals.
- Awareness classes/ seminars/ workshops should be arranged in order to impart the knowledge on IFRS, its benefits.
- The clarifications, knowledge should be provided regarding implementation of IFRS among employees.

CONCLUSION

This search and study is conducted to determine the benefits and challenges of IFRS adoption. IFRS , the common set of accounting standards through out the world provides an easy way of comparability and transparency of financial information. The first and foremost objective of the IFRS development is harmonization in financial statement reporting. It creates sound business sense among the beneficiaries. It helps to create global financial reporting infrastructure, Moreover, this study also identifies certain challenges regarding the adoption of IFRS , By proper training and implementation, the challenges can be resolved which results in smooth functioning of the organization.