Major issues in implementation of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)

Author:
Pradeep Kumar,
Research Scholar
GM-Central Accounts Department

Supervisor:
Dr.(prof) Jayender Verma
H.O.D.-FCBS, MRIIRS,
Faridabad -121001

MRIIRS, Faridabad-121001

Abstract

Due to increase in globalization of business at a large scale, most of the corporate in many countries have started convergence of financial statements and disclosures to IFRS for bringing uniformity of the statements. After IFRS came into existence, the accounting standards at national level of most of the developed countries have been altered to make them similar with that of IAS and IFRS due to globalization. Presently, the multinational business entities of the countries which are following IAS or IFRS have to convert the accounts belonging to entities of other countries by using IFRS and then consolidated financial statements are prepared.

However, IFRS cannot be made applicable by all the countries across the world due to many constraints which are mentioned in the article in details. There are many barriers in formulation and implementation of IAS or IFRS due to difference in business culture and prevailing accounting practices, local GAAP and national accounting standards and stages through which the countries are going through viz., developing or developed. The same are explained in this study.

Keywords – Accounting standards, Higher education, GAAP, International Financial Reporting Standards IFRS, Annual Reports and Financial Transactions.

Introduction

The basic purpose of recommendation for implementation of IFRS is globalization of business at a large scale. In India there are multinational business organizations working at a large scale at global level. In case the accounting treatment of transactions is made differently as compared to the parent company, the financial statements shall be required to be converted into the standards of the parent country before consolidation.

If the books of accounts in all over the world are maintained as per IFRS, there shall be no need of convergence of financial statements and the statements prepared by parent company with that of subsidiaries and other companies situated across the world can be clubbed and consolidated financial statements prepared straight away.

During 2005 the IAS regulations were at implementation stage, more than 8000 companies in European Countries started preparing financial statements by the use of IFRS. This resulted in comparability at global level. Earlier to this, there was difficulty in comparison of financial statements due to accounts prepared by the use of national standards of the respective countries. In future, without following IFRS, no comparability shall be possible at global level. Therefore, most of the developed countries have already modified their countries' accounting standards in consonance with IFRS or have adopted IFRS to a considerable extent.

IFRS have been issued on various types of transactions which are made by corporate and institutions viz.,First Time Adoption of International Financial Reporting Standards, Share Based Business, Business Combination, Insurance Contracts, Operating Segments, Financial Instruments, Joint Arrangements, Disclosure of Interest in Other Business, Leases, Insurance Contracts etc.

The countries in which the publishing of financial information of corporate in public media is a common feature, the stakeholders may be interested in financial information which is authentic and prepared by using International Accounting Standards. In such cases, if the financial disclosures need be common for all corporate or institutions which means the treatment of similar transactions are same in all types of organizations.

There are considerable advantages of implementation of IFRS. The major is attracting investors across the world. The more number of disclosures and quality of information are annexed to the financial statements; more trust is developed amongst stakeholders within the country or across the world.

In spite of lot many advantages of use of IFRS in preparing financial statements; the same have been implemented in few developed countries only that too not fully. Although many developed countries have prepared the accounting standards of their countries in consonance with IAS and IFRS, yet full implementation is not practicable due to various factors which are explained in this study.

Objective of the study

The major objective of the study is to highlight the limitations of not adopting International Accounting Standards (AS) and International Financial Reporting Standards (IFRS) across the world.

Analysis of the study

However, there are many barriers in implementation of IFRS across the boarders due to the reasons described as below-

1. **Different Direct and Indirect Tax Structures**

   Income Tax is the major direct tax of which the structure, rules, deductions, incentives and exemptions differ from one country to another. The formation of Income Tax rules depend upon country's economic structure. Therefore, taxation principles prescribed in IFRS cannot be adopted by other countries with the different tax structure.
   Similarly, there may be considerable differences in indirect taxes in different countries i.e. VAT, Custom Duty and other taxes levied at state levels. This has major impact on the business designs of that country. Some developing countries may offer lot of incentives to entrepreneurs whereas the same may not be applicable in developed countries.

2. **Human Resource related rules:**

   The salary and wages structures may differ from one country to another viz., retirement benefits, bonus, insurance schemes, reimbursement, taxes deducted at source etc. These incentives are different due to difference in economic conditions and business designs of the countries.

3. **Difference in business sectors**

   There can be difference in the countries' categories and designs of business. To illustrate, Australia may be having major business as agriculture whereas Japan may have manufacturing of

automotives and has no agriculture base and it has to depend upon sea food and has to import many agricultural products. Therefore, the national accounting standards and local GAAP may play a vital role instead of IAS or IFRS in those countries.
Similarly, if the multinational companies are connected through networking in two or more countries, they may produce financial statements which are comparable.

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4. Political situation of the countries

China and Russia are communist countries and the major control is in the hands of Governments whereas U.S. and Japan may have globalization of trade and industry, liberalization and flexible import export policies.

5. Equity Capital

Around 15-20 years back, the large companies used to be dependent mainly on bank financing and less on equity capital participation. Therefore, the requirements regarding reporting in stock market were not so many. However, in recent years, the requirement of reporting with respect to capital market has increased manifold. After that many types of reporting relating to stocks to equity holders and other stakeholders have increased.
The equity participation can be from the public or public sector. If participation is from public sector, the rules and regulations whether financials or non-financials shall be applicable as per constitution and regulatory bodies of that country and implementation of IFRS may not be possible.

6. Valuation of Assets

Regarding valuation of assets in India, two methods are allowed as per Companies Act i.e. written down value and second straight line method. However in IAS and IFRS, fair market valuation method is recommended. In this case, the fair market value may differ in one case to another. It is noticed that the computation of fair value is not done through the authentic modes to know the correct value. The value for the same assets may differ in two different situations. This constraints are required to be looked into.

7. IFRS not been followed religiously

In developed countries like south pacific countries who have signed onto IFRS, even in those countries many corporates and industries are not preparing financial statements by using IFRS. In those countries, the statutory auditors are supposed to qualify the audit report in case IFRS are not used. But generally, these corporates advocate that they are using national standards which are the basic requirement for them. In other countries, where no agreement for implementation of IFRS is signed, the auditors are not required to mention whether the same are used or not while preparing the financial statements. It is pertinent to note that IAS and IFRS are required to be used only when the corporate are working at global level. One more reason of not following IAS or IFRS may be the flexibility which might be available in national accounting standards of that country to present the financial statements in the way the corporate or institute wishes.

Practically speaking, due to globalization of business across the world, formulation and implementation of IAS and IFRS certainly would be beneficial to a considerable degree for economic growth at world level. It can be inferred that complete implementation and use of IAS and IFRS is not possible in all over the world because the countries differ with respect to their economic status, work culture, taxation structure and constitution of business. The more the similarities in national accounting standards with IAS or IFRS, the lesser is the need of convergence.

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