

A Study on Justifications Determining Reliability and Relevance of IFRS to India

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Abstract: This paper presents justifications determining adoption of IFRS in India. Factors like Reliability, Relevance, Comparability and Consistency are evaluated. Financial information quality is judged based on the quality of Accounting Standards and Accounting Practices. It is concluded finally, considering views of ICAI and ASB that to the country like India, already having strong accounting base, IFRS can be adopted with modifications.

Key words: Financial information quality, reliability, relevance, consistency, comparability, understandability

1. Introduction:

The impacts of globalization are to be evidenced much on world's economic activities. One can observe services of its effects on the economic activities at national and global level and many of them are inter-connected. It resulted in increased accessibility of foreign capital markets by business entities that resulted increased flow of capital of foreign capital across the countries, increased number of foreign collaboration, and joint ventures, and in this context, more significant effect is reforms in corporate financial reporting mainly to satisfy foreign investors. Achieving quality in financial reporting seem to be very important to the business entities in order built up there corporate financial image at global level. Entities seeking funds from off share capital market are require presenting and prove about informational quality. In this regard, to convince international investors, business entities require to present reliable, understandable, transparent, relevant and also consistent accounting information. It is known that quality of accounting information is the outcome of high quality accounting practices/

standards adopted by the reporting entries. In the meanwhile, IFRSs are gaining global acceptance and it is propagated that IFRSs as high quality, global accounting standards satisfy the qualitative aspects of financial statements such as reliability, relevance, transparency, and so on.

2 Objectives of the Study

The study objectives are:

- ❖ To throw light on qualitative aspects of financial information
- ❖ To make conceptual analysis of quality deciding factors of financial information
- ❖ To analyze the relationship between accounting standards and practices and financial information quality
- ❖ To identify and analyze justifications that determine relevance and reliability of IFRS to India

3. Methodology of the work

This paper is prepared intending to throw lights on conceptual analysis of qualitative aspects of financial information reported through financial statements of business entities and identify and analyze the justifications determining IFRS adoption in India. Hence, the work is purely based on the information obtained through secondary sources like books and journals.

2. Conceptual Analysis of Reliability and Relevance.

2.1 Reliability

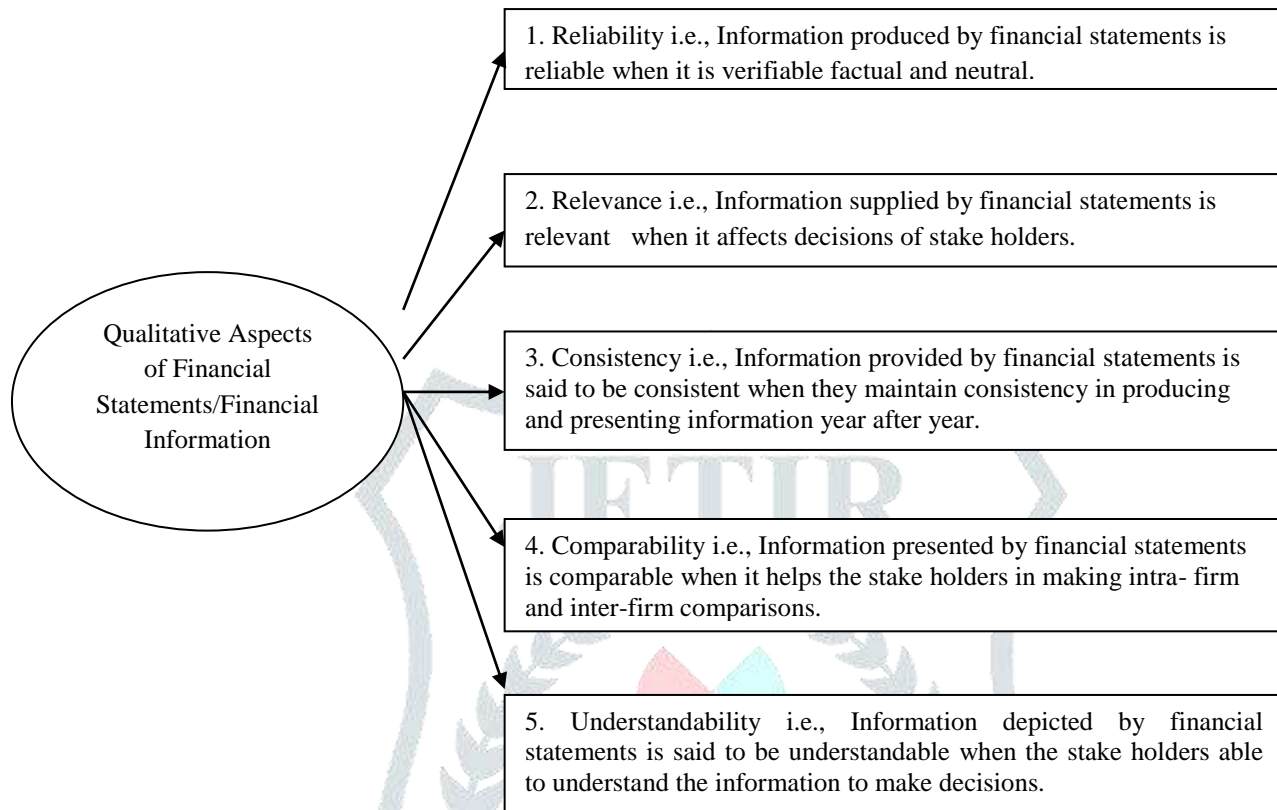
In the context of financial statements of business entities and or accounting or financial information Reliability is the quality of information, which is free from error or bias and when it is not misleading the use. Financial information said to be reliable when it faithfully represent transitions and events.

2.2 Relevance

When the accounting information is used by the stake holders to make economic or investment decisions, it is said to be relevant. Relevancy of accounting information is to be judged when it permits the investors to evaluate past performance and also to estimate future performance.

3. Qualitative Aspects of Financial Statements/Financial or Accounting Information.

Financial statements of business entities are said to be of high quality when they reflect qualitative information. Hence, certain qualities are assigned to financial statements and or financial information and such qualitative aspects of financial statements are depicted as below.



Accounting standards or accounting practices considered to be of high quality when they result in the production of accounting information which is reliable, relevant, understandable, transparent, comparable and consistent.

4. Relation between Accounting Standards/ Accounting Practices and Financial Information Quality:

It is known that quality of financial information is affected by the quality of accounting standards or accounting practice adopted in producing and presenting such information. It is the accounting quality that speaks on information quality.

In recent years due to the impacts of globalization as mentioned in 1st Para of this chapter, business organizations noticed or realized the need of maintaining and reporting high quality accounting information to satisfy the informational needs of all stake holders. Therefore, to achieve uniformity in accounting practices throughout the world, accounting bodies and accounting and finance professionals

recognized the need of internationalizing and or harmonizing the accounting standards or facilitating national accounting bodies of different countries to achieve convergence of their national standards with IFRSs and thereby to achieve global convergence. All these developments resulted in the developments of accounting standards that can be used by business entities at global level. In this context, IFRSs are recognized as global set of standards and propagated as high quality common accounting standards. As it is understood that quality of financial statements and quality of information reported is being reflected by the quality of accounting standards. Therefore accounting standards set by an independent, privately funded, having representation of members from different countries are assumed to be high quality standards that are reliable, transparent and relevant in this globalized economic and corporate environment.

5. Justifications Determining Reliability and Relevance of IFRSs to India.

There are certain reasons that substantiate the issue- why IFRSs is required to India? The reasons may be called justifications of IFRSs adoption by different countries or convergence of national accounting standards with IFRSs are presented in next paragraphs.

- 5.1** Presently, at global level, there is a view that business entities across the world require to use high quality common standards (i.e., IFRSs) for reporting purposes to facilitate comparability of financial information presented by them. Hence, IFRSs as reporting standards are reliable and relevant and need to be adopted by the entities having global business operations to present reliable, relevant, transparent and comparable information. The need is same in case of India.
- 5.2** Maintaining comparability of information is necessary for the business entities intended to collect funds from foreign capital markets. Because the investors at global level may be individual or institutional, expect comparable information by the entities listed in foreign capital markets as they require to compare the information presented by different entities to make investment decisions. In India, many of the entities having foreign operations and are interested in raising foreign funds required to adopt IFRSs for reporting purposes.
- 5.3** Globalization resulted in the integration of economies of more and more countries providing ample scope for developing economic to find business prospects in economics of other countries. That held to the entering of more number of multinational companies in India and also to the establishment of many number of joint ventures and collaborations at global level. This kind of unification of world economy through business operations resulted in the acceptance of new accounting regime by the business entities individually and the economy of the country as the whole. India, being an emerging economy experiences all such impacts as mentioned above and therefore, cannot isolate itself from the changes happening in the world economy. In this regard, it could be seen that IFRSs as a set of high quality accounting standards in total or in converged version are reliable and also relevant to Indian environment.

5.4 In these years, one can notice growing international consensus for maintaining accounting quality or quality of reported information. This is necessary mainly to protect the interest of investors and to raise capital from off-shore capital markets, corporate entities are obligated to provide high quality information to satisfy investors' requirements. Therefore, adopting IFRSs is getting global acceptance and it is require to be adopted by Indian entities also. On this background, as many of the countries considering IFRSs is suitable for reporting purposes to maintain quality in accounting. Reliability and relevance of IFRSs to India is justified from this dimension also.

Conclusion

India is already having strong accounting base for financial reporting purposes and is called by the term Indian Accounting standards. The ICAI, a body established to regulate chartered accountancy profession in the nation and also to develop the standards for financial reporting, based on International standards. It frames the standards suitable to Indian environment. Therefore, international accountings Standards are not completely unfamiliar to Indian corporate environment. Due to the developments occurred in accounting frame work at global level i.e., restructuring of IASC in to IASB, development of standards by IFRSs including old standards (i.e.,IAS) as global set of standards resulted in the movement across the global to change their accounting frame work. The standards developed by IASB i.e. IFRSs are completely new to India as no Standards were available in India in these areas. Hence, India requires to adopt IFRSs with some modifications in its accounting framework. Also, it becomes necessary to modify/ improve its existing standards in the light of changed business environment across the world.

IFRSs are depicted as high quality, common accounting Standards that are reliable, and relevant and can be adopted by business entities of different countries. Eventually, it could be assessed that IFRSs are suitable and appropriate to India to place the country in par with other countries using IFRSs.

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