



# International Financial Reporting Standards (IFRS): At a Glance

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**Abstract:** *IFRS is the official reporting standard and internationally accepted and adopted by more than 100 countries across the world. Earlier it was known as IAS (International Accounting Standards). The European Union and Australia decided that public companies would be required to use International Financial Reporting System in the year 2005. New Zealand started using this in 2007. In the year 2008, the Canadian Accounting Standards Board decided to make IFRS compulsory for all public companies starting in January 2011. Countries like China, Japan, India, and South Korea have initiated to adapt IFRS by 2011. The International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board (IASB) seems to a worldwide consensus surrounding the need for one global set of accounting standards which would make financial statements comparable across the world. The convergence with IFRS standards is set to change the scenario for financial reporting in India. IFRS represents the most commonly accepted global accounting standards. With the development of Indian Economy and increasing integration with the global economies, Indian corporate are raising capital across the world.. This research article is analysis attempt to examine the need and requirement of the IFRS in the present scenario as well as to find out the stakeholders and beneficiaries of IFRS in India.*

**Keywords:** *IFRS, Financial, IAS, International, Accounting, Standards.*

## I. INTRODUCTION

In this dynamic era, the world has become an economic integrated village. The forces of globalization prompt most nations to open up doors to foreign investment and as businesses expand cross borders the need arises to recognize the benefits of having commonly accepted and understood financial reporting standards. In this era of globalization, India cannot insulate itself from the developments taking place across the globe. National Advisory Committee on Accounting Standards established under the Companies Act, 1956, and various regulators such as Securities and Exchange Board of India and Reserve Bank of India are concerned, the aim has always been to comply with the IFRS's to the extent possible with the objective to formulate sound financial reporting standards. The ICAI, being a member of the International Federation of Accountants, considers the International Financial Reporting System's and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India.

The International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board (IASB) are recognized as Global Reporting Standards (GRS). More than 100 countries such as countries of European Union, Australia, New Zealand, and Russia currently require or permit the use of IFRSs in their countries. Countries like China and Canada have announced their intention to adopt IFRSs from 2008 and 2011 respectively. USA has also taken-up convergence projects with the IASB in order to allow filing of IFRS-Compliant Financial Statements in the US Stock Exchanges without requiring the presentation of reconciliation statement. In view of the benefits of convergence with IFRSs to the Indian economy, its investors, industry and the accounting professionals, the concept has been developed with the objective of exploring the approach for achieving convergence with IFRSs, and put down a roadmap for achieving convergence with the IFRS's in order to make India IFRS-compliant. Presently, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards (ASs) based on the IFRS's keeping in view the local legal and economic environment regulations, which have recently been notified by the Central Government under the Companies Act, 1956.

## II. LITERATURE REVIEW

According to *Beneish and Yohn, 2008* IFRS is found to be accounting standards of high quality and is now used in over 100 countries. Some authorities had fully adopted IFRS as issued by IASB such as China, Peru, South Africa, and Turkey. Other countries have altered local GAAP to be IFRS equivalent such as EU members using EU-IFRS. In 2002, the Council of the EU issued an order imposing an obligation on companies listed on European stock exchanges to structure their consolidated final accounts according to the EU-IFRS, IFRS as endorsed by the EU starting from the year 2005. The Institute of Chartered Accountants in England and Wales (ICAEW) has published a report for the European Commission on the first year of implementation of IFRS across EU.

According to *ICAEW, 2007* the study includes a detailed review of the 2005 financial statements of 200 companies from 25 EU member states. Major differences between EU-IFRS and IASB-IFRS including hedge accounting and business combination were



highlighted. In November 2004 the European Commission adopted a Regulation endorsing IAS 39 with the exception of certain provisions on the use of the full fair value option for liabilities and on hedge accounting. Financial statements of companies that chose to rely on this carve-out were not in compliance with IASB-IFRS. The EU-IFRS carved out part of IAS 39 primarily to allow banks to apply fair value hedge accounting to hedges of the interest rate risk of their portfolio of demand or core deposits. Eight companies were found using the EU carve-out for 2005 (ICAEW, 2007). Such carve-out practice may hinder worldwide consistency in IFRS adoption. Former research investigating the requirement for reconciliation from IAS/IFRS to US GAAP found value in such reconciliation. US-GAAP and IAS reported amounts for the same US-listed foreign companies adopting IAS from 1992 to 1996 were found to be valued differently by the market (Harris and Muller, 1999).

According to *Haverty, 2006*, when 14 US-listed foreign firms from *P. R. China* were studied for the period 1996-2002, net income per IASBIFRS was found to be less than net income per US-GAAP for the same company. According to *Chen and Sami, 2007* reconciliations from IAS to US-GAAP were found to capture information that is reflected in investors' decisions about their stock holdings with data from 1995 through 2004.

As per *Henry et al., 2009* when the 2004~2006 reconciliation made by 75 EU cross-listed firms were examined, reported net incomes per EU-IFRS still lacked comparability with USGAAP. The current research extends earlier research by separating IASB-IFRS from EU-IFRS in the analysis of their comparability to US-GAAP with most recent data.

### III. OBJECTIVES OF THE STUDY

The major objectives of this research article are to study and understand the concept of International Financial Reporting System (IFRS) in India. It also aims to study the need and requirement of IFRS in India, benefits of IFRS to stakeholders and convergence of IFRS. Apart from this studying the impact of IFRS in the financial statement of Indian corporate and also analyse the problems in adoption of IFRS in India.

### IV. LIMITATIONS OF THE STUDY

Research is a dynamic and process and we have inventions and innovation throughout the research. The study has the following limitations.

- There is non-availability of previous literature and data.
- It is not easy to adapt IFRS
- The study is based on secondary data only.
- IFRS is not fully adopted by the Indian companies.

### V. EXPLANATION OF RESEARCH TOPIC

A financial reporting system sustained by strong governance, standards, and enterprise regulatory framework is the key to economic growth. The Institute of Chartered Accountants of India ICAI as the accounting standards formulating regulatory body in the country has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. Indian Accounting Standards have hold out the test of time. As the world constantly globalize, discussion on convergence of national accounting standards with International Financial Reporting Standards (IFRS) has increased considerably.

The convergence with IFRS standards is set to alter the framework for financial reporting in India. IFRS represents the most commonly accepted global accounting standards as it has been adopted by most countries across the world. With the development of Indian economy and increasing integration with the global economies, Indian corporate are raising investment cross borders. Under the situation, it would be vital for Indian corporate to adopt IFRS for their financial reporting. There are several equalities between IAS and IFRS, yet there are differences which can have vital impact on the financial statements. This Research Paper is put emphases on to carry out the need and aim of IFRS and to found out the impact of IFRS in the financial statement.

### VI. RESEARCH METHODOLOGY

This research study is based on secondary data. Since the study is on secondary data so, the author has used internet and books and other published literature. Sampling technique is also used and the data is also obtained from IFRS data base from the internet.



## VII. ANALYSIS AND INTERPRETATION OF IFRS AND ITS REQUIREMENT

- ❖ There seems to be worldwide harmony surrounding the need for one global set of high-quality accounting standards and that IFRS is presently best positioned to accomplish the need. But, there is much to be gained from U.S. GAAP and, as such, the convergence of U.S. GAAP and IFRS may very well best serve the needs of the global corporate. The concept of a single set of global accounting standards, considering our global economy and the frequency of international transactions, makes great sense.
- ❖ In the long term a single set of global accounting standards will be turned in positive. There is no doubt that global markets need a single set of global standards in this dynamic world. Without this platform investors will be unable to fully assess investment options that are now globally available. Having such a standard would also increase the accessibility of overseas capital. For multinational firms, they would have one set of financials for reporting aims that would be acceptable across the globe.
- ❖ This would dramatically decrease all kinds of risks, from legal emergencies to fraud, and make international business more efficient. The political, cultural and governance challenges associated with getting global adoption of a uniform set of high-quality accounting and financial reporting standards accomplished are far more difficult to deal with than the technical accounting issues, and will likely prevent the achievement of that goal. Yet the convergence aim should be pursued to the extent feasible, and any remaining differences should be identified so that financial statement users can better consider the impact of such differences.
- ❖ A single set of standards is crucial given global markets today, and IFRS is a suitable path. With the impact of globalization and large developing economies like China, Brazil and India, effective, meaningful comparisons between entities are absolutely significant. The U.S. accounting profession, guided by the efforts of the AICPA and the IFAC Planning and Finance Committee, continues to be very active in setting those standards, and in helping with implementation. A major concern is that international standards are impacting both private companies as well as public companies as the standards are mandated and, as a result, the impact will not escape even the smallest accounting firm, still the appropriate training in small firms may not be in place.
- ❖ The AICPA and IFAC are aware of this issue, and are stepping up to it. A single set of standards will not only simplify the way companies conduct themselves, but encourage 100% adoption of ethical behavior. The adoption of incorporated global accounting and financial reporting standards are extremely important. The world is globalizing both firms and their clients need to be able to do business across the world and with the increased use of Internet and globalization, the barrier to doing business internationally is going to keep getting lower and lower. A single set of global accounting standards like IFRS particularly as business today isn't be limited by geographic boundaries.

## VIII. BENEFICIARY OF CONVERGENCE WITH IFRS

According to accountant professionals the convergence with IFRSs benefits the accounting professionals in a way that they are able to sell their services as experts in different parts of the world. The thrust of the movement towards convergence has come mainly from accountants in public practice. It creates more opportunities in any part of the world if same accounting practices prevail across the world. For accounting professionals in industry as well as in practice, their mobility to work in different parts of the world increases Investor's point of view.

A strong case for convergence can be made from the viewpoint of the investors who wish to invest cross-border. Investors require the information that is more relevant, reliable, timely and comparable across the jurisdictions. Financial statements prepared using a common set of accounting standards help investors to understand investment opportunities in profitable manner and as opposed to financial statements prepared using a different set of national accounting standards. Investors' confidence will increased if accounting standards used are globally accepted. Convergence with IFRSs contributes to investors' understanding and confidence in best quality financial statements.

## IX. PROBLEMS WITH IFRS

The economic environment of the nation plays vital role in laying down the accounting requirements applicable to several business enterprises. For example, while various IFRSs have been based on the fair value approach, there has been unwillingness in India to adopt this approach in view of the fact that various markets in the country have not been considered to possess necessary depth and breadth providing reliable fair values on measurement of various assets and liabilities. In some circumstances, the legal and regulatory requirements in India are differ from the IFRSs and, hence, in such scenario, Indian Accounting Standards deviate from IFRSs because otherwise various legal problems may arise. For instance, keeping in view the requirements of the law governing the companies in India, Accounting Standard (AS) 21, Consolidated Financial Statements, defines 'control' as ownership of more than one-half of the voting power of an enterprise or control over the composition of the governing body of



analysis enterprise. This definition of 'control' is based on the definitions of 'holding company' and 'subsidiary company' as per the Companies Act, 1956.

However, IAS 27, Consolidated and Separate Financial Statements, defines 'control' as "the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In a few stray cases, the Indian Accounting standards deviate from IFRSs because adoption of IFRSs verbatim may cause hardship to the industry and, to avoid the same, modifications are made in Accounting Standards until the industry is prepared for the IFRSs. For instance, AS 15 (revised), Employee Benefits, permits deferment of expenditure incurred with a view to termination of services arising in a voluntary retirement scheme for a transitional period, in view of the fact that the Indian industry was undergoing a structural change at the time when the standard was introduced, whereas the corresponding IAS 19, Employee Benefits, does not allow the postponement of such expenditure even as a transitional measure.

#### **X. IMPACT OF IFRS IN THE FINANCIAL STATEMENTS**

Minimum lines of items to be presented in the statement of financial position that are prescribed under IFRS are:

- Property, plant and equipment (PPE)
- Investments accounted for using the equity method
- Biological assets
- Inventories
- Trade and other receivables
- Cash and cash equivalents
- Investment property
- Intangible assets
- Financial assets such as investments
- Provisions
- Financial liabilities
- Tax liabilities or advance tax ( to be disclosed net of liabilities or advance tax as the case may be)
- Deferred tax liabilities and assets (to be disclosed net of liabilities or assets as the case may be)
- Non-controlling interest presented within equity; and 11 IFRS in India - Key Aspects
- Issued capital and reserves attributable to owners of the parent

This dissimilarity arises out of Schedule VI to the Companies Act. The following actions to be taken are as under:

- ❖ Categorization of financial assets into current and non current
- ❖ To take on operating cycle concept for classification of trade debtors, inventories and trade creditors.
- ❖ Inclusion of the concept property, plant and equipment in place of Fixed Assets
- ❖ Classification of property, plant and equipment held for sale and discontinued operations and carrying them out at fair value less cost to sell and no depreciation charge on such block of assets
- ❖ Figure out investment property (land and building which is not owner Occupied) from PPE
- ❖ Carving out leasehold property out of PPE in accordance with IAS 17 Leases and accounting it as prepaid leases (IAS 19 classifies leasehold land as operating lease)
- ❖ Re-classification of goodwill into intangible assets in accordance with IFRS 3 Business Combinations if those intangible assets require recognition in accordance with IAS 38 on the date of transition
- ❖ Classification of current liabilities out installment due within twelve months from the reporting date out of noncurrent liabilities
- ❖ Taking cognizance of breaches of loan conditions and discretion to roll over while classifying current/non current liabilities

#### **XI. CONCLUSIONS**

It is surely going to be a confront to move from the current rules-based system to a more principles based system of accounting. It will require a change in existing patterns of accounting, and many are also concerned about how it will affect the profession from a liability standpoint. However, in India the companies can quickly adapt itself to the new standards through commitment to the process and education on the standards and practice application. As business transactions expand beyond their traditional borders, the need for a common set of global accounting standards has become mandatory. These standard accounting standards are globally accepted and provides common platform to each firm who want to do cross-border business transactions.



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