



IFRS: A GLOBAL PARADIGM OF FINANCIAL REPORTING

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ABSTRACT

In spite of globalization and emergence of Multinational Corporation, we are still lacking in harmony and comparability in financial reporting across the globe. Since, the world has been "Glocal" so we require internationally accepted principle, concept and conventions of financial reporting. So, The International Financial Reporting Standards (IFRS) was issued by International Accounting Standards Board (IASB). International Financial Reporting standard provide a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards. All major economies have established timelines to converge with, or adopt the IFRS.

Major economies of the world such as United States of America, China, Canada etc. has converged with the International Financial Reporting Standards with their respective local GAAP. India has also converged with the International Financial Reporting Standards for the reporting and presentation of transactions with effect from 1st April 2011. Currently International Financial Reporting Standards is adopted by 147 countries across the world. The adoption of the International Financial Reporting Standards surely will ensure uniformity, comparability and reliability of the financial reporting across the world.

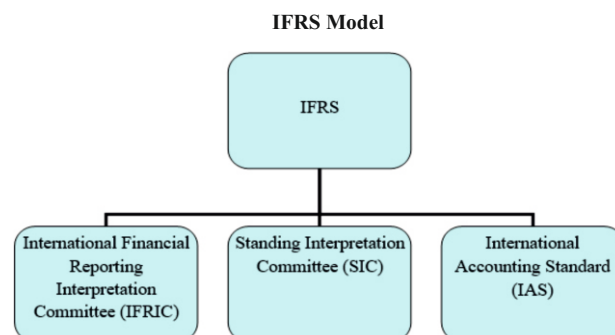
This paper attempts to identify and construe the objectives, advantages, issues and challenges of International Financial Reporting Standard.

KEYWORDS: IFRS, IASB, GAAP.

Introduction

International Financial Reporting Standards (IFRS) are a set of accounting concepts, principle and standards developed by the International Accounting Standards Board (IASB). International Financial Reporting Standard has been issued to bring similarity and comparability in financial reporting at the international level. The IASB is an independent accounting standard-setting body, based in London. It consists of 15 members from multiple countries, including the United States. The IASB began operations in 2001 when it succeeded the International Accounting Standards Committee. It is funded by contributions from major accounting firms, private financial institutions and industrial companies, central and development banks, national funding regimes, and other international and professional organizations throughout the world. The foundation for the current external financial reporting model (that is, US GAAP and other equivalents like IFRS) was adopted during, and to meet the needs of, the global industrial age. It is, to a large extent, based on the assumption that profitability is driven by tangible assets such as physical plant and equipment and raw materials that are needed to produce tangible products. This model was not designed to describe the vast array of new business models that companies now follow in the knowledge economy—business models that, in many cases, rely heavily on the employment of intangible assets to create value and increase profitability of the firm.

- IFRS is set of international accounting standards stating how particular types of Transactions and other events should be recorded in financial statements. (ICAI, 2011)



Composition of International Financial Reporting Standards (IFRSs)

PRESENTATION

IFRS 1 First Time Adoption of IFRS

IAS1 Presentation of Financial Statements

IAS7 Cash Flow Statements

IAS8 Accounting Policies, Changes in Accounting Estimates, & Errors

BALANCE SHEET & INCOME STATEMENT

IFRS 2 Share Based payment

IFRS 4 Insurance Contract

IFRS 9 Financial Instrument

IAS 2 Inventories

IAS 11 Construction Contracts

IAS 12 Income Taxes

IAS 16 Properties, Plant & Equipment

IAS 17 Leases

IAS 18 Revenue

Dynamic Change in Business Reporting

Historical Financial Reporting	Enhanced Financial Reporting
1. Single set for all transaction (GAAP)	Tied to company-specific mission, Vision and values
Ignores nonfinancial measures	Focuses on factors critical to success
Reports results of past decisions	Moves decision criteria to forefront
Periodic	On-demand
Historical	Real-time/future
Cost-basis	Fair value basis
Financial only	Comprehensive
Statements	Custom reports and analysis
Backward-looking	Forward-looking

Definition of IFRS

- IFRS is set of reporting standards issued by International Accounting Standards Board & it includes:

International Financial Reporting Standards

International Accounting Standards

Interpretations issued by IFRIC & SIC. (Ghosh, 2010)

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IAS 19 Employee Benefits

IAS 20 Accounting for Government Grants & Disclosure of Government Assistance

IAS 21 The Effect of Changes in Foreign Exchange Rates

IAS 23 Borrowing Costs

IAS 36 Impairment of Assets

IAS 37 Provisions, Contingent Liabilities & Contingent Assets

IAS 38 Intangible Assets

IAS 39 Financial Instruments: Recognition & Measurement

IAS 40 Investment Property

IAS 41 Agriculture

GROUP STATEMENTS

IFRS 3 Business Combination

IAS 27 Consolidated & Separate Financial Statements

IAS 28 Investments in Associates

IAS 31 Interest in Joint Ventures

DISCLOSURES

IFRS 5 Non-Current Assets Held for Sale & Discontinued Operations

IFRS 6 Explorations for & Evaluation of Mineral Resources

IFRS 7 Financial Instruments: Disclosures

IFRS 8 Operating Segments

IAS 10 Event after the Balance Sheet Date

IAS 24 Related-Party Disclosures

IAS 26 Accounting & Reporting by Retirement Benefit Plans

IAS 29 Financial Reporting in Hyperinflationary Economies

IAS 32 Financial Instruments: Presentation

IAS 33 Earnings Per Share

IAS 34 Interim Financial Reporting (ICAI, 2011)

Necessity of Globalization

Due to globalization global transactions are taking place across the world. So, accounting professional requires international business language to record and report the financial transactions of a business in globally accepted language. IFRS is necessary due to the following reasons:

- 1. Uniformity:** In the age of multinational companies and transnational companies, global transactions are taking place. So, in order to bring uniformity in the recording and reporting a common set of principle are required. Convergence of IFRS helps to bring uniformity in the financial statement.
- 2. Comparability:** To set a benchmark at the international level it is must to have a comparative analysis of financial statement of companies. Comparative analysis is possible only, if transactions and events are recorded in same manner.
- 3. Reliability:** carrying business at international level requires high level of trust amongst the investors, government and all other stakeholder. So, there must be concept and principle that are accepted and trusted across the globe. IFRS are accepted and recognized across the globe.
- 4. Universally Accepted Business Language:** At present there is need of universally accepted accounting system so that it can be implemented across the world. Since financial statements are used at international level so there must be a common system that could be accepted universally.
- 5. Shift from Industrial Age to Knowledge Age:** A shift has taken place from industrial age to knowledge. In present scenario new concepts, knowledge and skills are developing and being implemented in the business world. Accounting is also witnessing the same like other area of business; IFRS is the outcome of the same.
- 6. Transparency:** Current business structure is very complex now days. So, high level of transparency is required. IFRS could ensure the transparency in the business reporting at international level.
- 7. New Socio-Economic Structure:** A drastic Socio-Economic change has taken across the globe so, there is a need of change in financial reporting standards and procedure. Old concept and theories should be replaced from updated and efficient standards.

Etc.

Adoption of IFRS across the Globe

IFRS has been adopted by the following countries across the globe:

North America	South America	Europe	Asia	Africa	Oceania
Antigua and Barbuda	Argentina	Albania	Afghanistan	Algeria	Australia
Aruba	Bolivia	Austria	Armenia	Angola	New Zealand
Bahamas	Brazil	Belgium	Bahrain	Botswana	New Caledonia
Bermuda	Chile	Bulgaria	Cambodia	Cameroon	Papua New Guinea
British Virgin Islands	Colombia	Cyprus	China	Chad	
Canada	Ecuador	Denmark	Hong Kong	Egypt	
Cayman Islands	Paraguay	Estonia	India	Ghana	
Costa Rica	Peru	Finland	Indonesia	Kenya	
Dominican Republic	Uruguay	France	Israel	Libya	
Dutch Caribbean	Venezuela	Georgia	Japan	Morocco	
El Salvador		Germany	Laos	Namibia	
Guatemala		Greece	Malaysia	Nigeria	
Honduras		Greenland	Magnolia	Rwanda	
Jamaica		Hungary	Oman	Senegal	
Mexico		Iceland	Pakistan	South Africa	
Nicaragua		Isle of Man	Philippines	Tanzania	
Panama		Ireland	Qatar	Uganda	
St. Kitts and Nevis		Italy	Saudi Arabia	Zimbabwe	
St. Lucia		Kosovo	Singapore	Etc.	
Trinidad and Tobago		Lithuania	Sri Lanka		
United States		Luxemburg	Taiwan		
		Macedonia	Thailand		
		Malta	Turkey		
		Netherlands	UAE		
		Norway	Etc.		
		Poland			
		Etc.			

Highlights of IFRS in Some Countries**India**

IFRS is currently permitted on a limited voluntary basis. A few listed companies (approximately 11 companies) use IFRS. India has adopted a new set of accounting standards for listed and large companies that is generally converged with IFRS, but with some mandatory and some optional modifications. Those standards are known as Indian Accounting Standards (Indian AS).

China

National standards are substantially converged with IFRS. While Chinese companies that trade on Mainland China stock exchanges use national standards, it should be noted that Chinese companies whose securities trade on the Stock Exchange of Hong Kong may choose IFRS, Hong Kong Financial Reporting Standards (HKFRS) or Chinese Accounting Standards (ASBEs) for purposes of financial reporting to Hong Kong investors. Those financial reports are in addition to the ASBE financial reports that the Chinese companies issue within mainland China.

At 30 June 2014, a total of 296 Chinese companies (known as 'Red Chip' and 'H-Share' companies) trade in Hong Kong. Of those 296 companies, 85 per cent use IFRS or HKFRS (identical to IFRS); only 15 per cent use ASBE. And the IFRS/HKFRS companies constitute 95 per cent of the market capitalization of Chinese companies trading in Hong Kong. There are also a number of Chinese companies that use IFRS for the purpose of trading in the US and in Europe.

Indonesia

Listed companies follow Indonesian Financial Reporting Standards (SAK). Currently, SAK is substantially in line with IFRS as at 1 January 2009, but there are a number of differences, and several Standards and Interpretations do not have SAK equivalents.

The standard-setter is currently working toward bringing SAK substantially in line with IFRS as at 1 January 2014, again with some exceptions.

Japan

Listed companies may use Japanese Accounting Standards, IFRS or US GAAP. In Japan, IFRS adopters and their market capitalization are growing rapidly. At May 2015, 85 companies are using or have publicly announced that they will adopt IFRS. Their market capitalization is approximately 20% of the Tokyo Stock Exchange. An additional 30 companies are known to be considering moving to IFRS. Till December 2012 only 10 Japanese companies were using IFRS.

Saudi Arabia

IFRS is required for banks and insurance companies. There is a plan to adopt IFRS for all listed companies and financial institutions, which is most likely to be effective in 2017.

Switzerland

IFRS is permitted. Swiss GAAP FER, US GAAP and statutory bank standards may also be used. SMEs may also use the IFRS for SMEs. Of the 130 companies whose primary securities listing is the main Board of the SIX Swiss Exchange in January 2015, 91 per cent use IFRS.

United States

SEC has studied whether to require or permit IFRS. See, for example, SEC Concept Release (2007), Roadmap (2008), and Staff Report (2012). IFRS is permitted for non-US companies without reconciliation to US GAAP. Around 500 cross border SEC registrants now use IFRS.

Benefits of adopting IFRS

1. It would benefit the economy by increasing growth of international business. It would encourage international Investing and thereby lead to more foreign capital inflows into the country.
2. Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions. IFRS would enhance comparability between financial statements of various companies across the globe.
3. Better understanding of financial statements would benefit investors who wish to invest outside their own country.
4. The industry would be able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards.
5. It would reduce different accounting requirements prevailing in various countries there by enabling enterprises to reduce cost of compliances.
6. It would provide professional opportunities to serve international clients.
7. It would increase their mobility to work in different parts of the world either in industry or practice.

IFRS challenges

1. Increase in cost initially due to dual reporting requirement which entity might have to meet till achievement of full convergence.
2. Unlike several other countries, the accounting framework in India is deeply affected by laws and regulations. Changes may be required to various regulatory requirements under The Companies Act, 1956, Income Tax Act, 1961, SEBI, RBI, etc. so that IFRS financial statements are accepted generally.
3. If IFRS has to be uniformly understood and consistently applied, all stakeholders, employees, auditors, regulators, tax authorities, etc would need to be trained.
4. Entity would need to incur additional cost for modifying their IT systems and procedures to enable it to collate data necessary for meeting the new disclosures and reporting requirements.
5. Differences between Indian GAAP and IFRS may impact business decision / financial performance of an entity.
6. Limited pool of trained resource and persons having expert knowledge on IFRSs.

Conclusions

Adoption of IFRSs by Indian companies is going to affect a number of items of their financial statements including their profitability and financial strength. IFRS will affect Operating Profit Margin, Return on Equity, Current Ratio, Earnings Per Share, Return on Capital Employed, Debt- Equity Ratio, Asset- Turnover Ratio, Net Profit Margin Ratio and Depreciation. Adoption of IFRS process will have a clear impact on financial position indicators of a company. More so the impact will reflect relatively more on those items where fair valuation concept of IFRSs is applicable. Thus initially at the time of adoption the companies must prepare themselves for an impact on financial statements. Adoption of IFRSs by Indian companies is also going to have a favorable impact on the confidence of the investors. They could be able to analyze the financial position of the companies much more accurately due to the strict reporting and disclosure requirements of IFRSs. Under IFRSs the companies are also required to report all their assets on fair value basis so the investors can evaluate the true financial position of the organizations much more accurately. The overseas investors who want to invest their capital in Indian companies would also feel more confident in investing. The financial information delivered by the statements prepared under IFRSs is considered to be of the highest quality therefore it is also going to have a favorable impact on the confidence level of the users of the financial statements whether they are investors, auditors, students, stake holders, institutions, accountants, legal firms or any academicians; all accept the reliability of the financial statements prepared under IFRSs. Thus the good will of the reporting entity would also increase.

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