International Financial Reporting Standards - A Conceptual Study

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ABSTRACT

Because of globalization the integration of world market has been increasing for goods, services and capital – with the result that traditionally were reliant on their domestic capital markets for financing now have substantially increased access to debt and equity capital both inside and outside their national borders. Hence there was a requirement to have a single set of accounting standards throughout the world. One of the main advantages of a single set of global accounting standards is that it would enable the international capital markets to access and compare inter-company performance in a much more meaningful, effective and efficient way. Thus the request for global standards came both from regulatory bodies and from preparers of financial statements. The International Accounting Standards Board (IASB) reports that almost 120 countries require or permit the use of International Financial Reporting Standards (IFRS).

Keywords--- IASB, IFRS, IAS, IFRIC, SIC, IASC, SAC, Adoption, Convergence

I. INTRODUCTION

Accounting has been developed in response to the need to keep a record of transactions between the organization and various parties. But for many years the practice of financial accounting lacked a generally accepted theory that could clearly enunciate the objective of financial reporting or provided clear guidance as to when and how to recognize and measure the various elements of accounting over the years, a set of rules were developed as generalizations of existing practices. The creation of international standards allows investors; organization and government to compare the IFRS supported financial statements with greater ease. The present paper focuses on the concept of IFRS and its convergence in India. Further the paper concentrates on IASB, its structure and its objectives. Further it studies how IAS has been converted into IFRS. What are the advantages and challenges to adopt IFRS? This is a conceptual paper.

II. OBJECTIVES OF THE STUDY

1. To know the concept of International Financial Reporting Standards.
2. To study the convergence and adoption of IFRS in India.
3. To study about IASB, its structure and objectives.
4. To study advantages and challenges involved while adopting IFRS.
5. To give suggestions so that IFRS could reach to target segment effectively.

III. RESEARCH APPROACH

Secondary data collected by an article, books and online resource

IV. MEANING OF IFRS

IFRS are a set of International Accounting Standards, stating how particular types of transaction and other events should be reported in the financial statements. They are the guidelines and rules set by IASB which the company and organization can follow while compiling financial statements.

The term has both a narrow and a broad meaning:
- In a narrow sense, it refers to the new numbered series of pronouncements that IASB is issuing as distinct from the International Accounting Standards (IAS).
- Broadly, it refers to the entire body of IASB pronouncements, including standards and...
interpretations approved by IASB, International Financial Reporting Interpretation Committee (IFRIC) and Standing Interpretation Committee (SIC).

V. MAIN CONSTITUENTS OF IFRS

- International Financial Reporting Standards(IFRS) – 13 Standards
- International Accounting Standards(IAS) – 41 Standards
- International Financial Reporting Interpretation Committee(IFRIC) – 16 Interpretations
- Standing Interpretations Committee(SIC) – 11 Interpretations

VI. INTERNATIONAL ACCOUNTING STANDARD BOARD

- It is an Independent and privately funded Accounting Standards setting body
- It is a not-for-profit private sector organization working in the public interest
- Established on April 1st, 2001 to replace the International Accounting Standards Committee(IASC)
- Head quarters in London, England
- It comprises of 16 board members

VII. STRUCTURE OF IASB / IFRS

**IFRS FOUNDATION:** It is a not-for-profit organization that oversees the development of the IASB’s International Reporting Standards for general financial statements. The Trustees undertakes governance and oversight of the IFRS foundation. For example, funding, approving the annual budget, and so on.

**MONITORING BOARD:** This group assists in nominating and appointing individuals to IFRS Foundation trustee positions. It is established in April 2009 to enhance the organizations public accountability. This board is also responsible for all standard-setting activities, including development and adoption of IFRS. The board has 14 members from around the world selected by the trustees based on technical skills and market experience. It meets once a month and has 12 full time and 2 part-time members.

**IFRS INTERPRETATION COMMITTEE:** It is an interpretative body of IASB. It is in charge of developing interpretative guidance on issues that are not specifically dealt within IFRS or are likely to receive divergent or unacceptable interpretations in absence of any authoritative guidance. The committee at present has 14 voting members appointed by trustees.

**STANDARDS ADVISORY COUNCIL:** IASB is advised by Standards Advisory Council (SAC). It has about 45 members appointed by the trustees. It provides a forum for organization and individuals with an interest in international financial reporting to provide advice on IASB agenda decisions and priorities.

As a part process of developing new or revised standards, the board publishes an exposure draft of the proposed standard for public comment to obtain views of all interested parties.

VIII. OBJECTIVES OF IASB

- To achieve convergence in accounting standards around the world
- To develop a single set of high quality, understandable, enforceable and globally
accepted International Financial Reporting Standards

- To develop financial reporting standards that provide a faithful portrayal of an entity’s financial position and performance in its financial statements
- To provide guidance on IFRS
- To promote the use of those standards
- To take account of the financial reporting needs of emerging economies and small and medium sized entities

IX. IFRS SETTING PROCESS

International Financial Reporting Standards are developed through an international consultation process, the “Due process”, which involves interested individuals and organizations from around the world.

STAGE 1: SETTING THE AGENDA

The IASB receives requests from constituents to interpret, review or amend existing IFRS. It reviews such requests which have relevance to users of the information and reliability of information that could be provided. Whether existing guidance is available, based on that it sets agenda priorities.

STAGE 2: PROJECT PLANNING

IASB decides whether to conduct the project alone or jointly with another standard setter. After considering the nature of the issues a working group is established. The project manager draws up a project plan.

STAGE 3: DEVELOPING AND PUBLICATION OF DISCUSSION PAPER

Even though a discussion paper is not mandatory, the IASB normally publishes it as its first publication on any major new topic to explain the issue and solicit early comment from constituents. Typically, a discussion paper includes:

- A comprehensive overview of the issue
- Possible approaches in addressing the issue
- The preliminary views of its authors or the IASB
- An invitation to comment

STAGE 4: DEVELOPMENT AND PUBLICATION OF EXPOSURE DRAFT

Publication of an exposure draft is a mandatory step in due process. Irrespective of whether the IASB has published a discussion paper, an exposure draft is the IASB’s main vehicle for consulting the public.

STAGE 5: DEVELOPMENT AND PUBLICATION OF IFRS

It is carried out during IASB meetings, when the IASB considers the comments received on the exposure draft.

STAGE 6: PROCEDURES AFTER AN IFRS IS ISSUED

After an IFRS is issued, the staff and the IASB members hold regular meetings with interested parties, including other standard setting bodies to help understand issues related to the implementation of IFRS.

X. JOURNEY OF IAS TO IFRS

International Accounting Standards started in mid 1960s precisely 1966 with an initial proposal to enact institution and organization like ICAEW for England and wales ; AICPA for the us; CICA for Canada to evolve accounting standards consequently . Accounts International Study Groups (AISG) was founded in 1967 which aggressively championed for a single international body for evolving accounting standards . As a result in 1973 , an agreement was reached to establish an international body with the sole purpose of writing accounting standards to be used internationally.
In mid – 1973, IASC was established as an agreement between the professional accounting bodies in a countries for releasing new international standards that would be rapidly accepted and implemented world wide.

The members of IASC delegated the responsibility for all IASC activities – including standard setting activities to IASC boards, which consisted 13 country delegations representing members of IASC and up to four other organizations appointed by the board.

In 2000, the IASC received support from the International Organization of Securities Commissioners (IOSCO), the primary forum for International Corporation among securities regulator.

IASC issued 41 numbered standards, knowing IAS as well as framework for the preparation and presentation. A few of these standards have been withdrawn and many are still in force. In addition, some of the interpretations issued by the IASC’s interpretative body (SIC) are still in force.

In 2001, fundamental changes were made to strengthen the independence and quality of the international accounting standard setting process and so. IASC was replaced by the International Accounting Standards Board (IASB) as the body in charge of setting the international standards. The interpretative body of the IASC i.e., Standards Interpretation Committee (SIC) has been replaced by International Financial Reporting Interpretation Committee (IFRIC).

**LIST OF IFRS**

IFRS 1: First time adoption of IFRS
IFRS 2: Share Based payment
IFRS 3: Business combinations
IFRS 4: Insurance contracts
IFRS 5: Non – current assets held for sale and discontinued operations
IFRS 6: Explanation and evaluation of mineral resources
IFRS 7: Financial instruments; disclosure
IFRS 8: Operating segment
IFRS 9: Financial instruments
IFRS 10: Consolidated financial statements
IFRS 11: Joint arrangements
IFRS 12: Disclosure of interests in other entities
IFRS 13: Fair value measurement

**IFRS ADOPTION AND CONVERGENCE IN DIFFERENT COUNTRIES**

**MEANING OF CONVERGENCE WITH IFRS:**

Convergence means to achieve harmony with IFRS. It can be considered to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRS. Convergence does not mean that IFRS should be adopted word by word.

Example: Replacing the term ‘true and fair for present fairly’ in IAS 1 does not lead to non – convergence.

**MEANING OF ADOPTION**

If a country adopts IFRS while preparing its financial statements without making any changes to the existing IFRS is called as adoption of IFRS

**IFRS CONVERGENCE IN INDIA**

- IFRS and IFRS for SMES are prohibited
- Financial statements must be prepared in accordance with Indian GAAP
- The Ministry Of Corporate Affairs (MCA), Government of India, has announced a multiphase plan for transition
- The MCA has finalized 35 new converged Indian Accounting Standards (‘IND AS’)
- The actual date of application of these ‘IND AS’ is yet to be notified
- These standards will need to be incorporated in to law by amendments to the companies act which is yet to happen
- These standards are similar to IFRS in many respects with some exemptions

**PHASE – 1:** In this phase the following companies can transit from Indian GAAP

- Companies on the BSE Sensex 30 and NSE Nifty 50
- Companies having listed securities outside of India
- Companies having net worth in excess of $ 1000 Cr as computed on march 31, 2009, computed based on standard entity financial statements per original Indian GAAP

**PHASE – 2**

- Companies with net worth in excess of $ 500 Crores
- Non- Banking Financial Companies (NBFC) on the NSE – Nifty 50 or BSE – Sensex 30, non listed NBFC with net worth above $ 1000 Crores
- Commercial banks and urban co-operative banks with net worth above $ 300 Crores

**PHASE – 3**

- Listed companies having net worth of $ 500 Crores or less
- Urban co-operative banks having a net worth in excess of $ 200 Crores but not exceeding $ 300 Crores

**ADVANTAGES OF ADOPTING IFRS**

**COMMON BASIS OF COMPARISON:** If companies switched over to IFRS, it would make transactions and dealings with companies of other countries who operate under IFRS much easier. It would also give stock holders and other interested parties a common basis of comparability.
CLARITY AND PRODUCTIVITY: Under IFRS, financial markets use how to handle their own professional judgment as to a specific transaction. This will lead to less time being spent trying to follow all rules on complications that are coupled with rule based accounting.

CONSISTENT FINANCIAL REPORTING BASIS: It would allow MNC’s to apply common accounting standards with its subsidiaries worldwide, which would improve internal communications, quality of reporting and group decision making.

IMPROVED ACCESS TO INTERNATIONAL CAPITAL MARKETS: The majority of the stock exchanges require financial information prepared under IFRS. Migration to IFRS will enable (Indian) entities to have access to international capital markets, reducing the risk premium that is added to those reporting under Indian GAAP.

CHALLENGES OF ADOPTING IFRS

WIDE GAP: IFRS is very much different from the present accounting policies being followed. There are big differences accepted in accounting for financial instruments, deferred taxes business combination and employee benefits.

INCREASED RESPONSIBILITY: The change to IFRS opens up certain choices a company will have in flow to account for some items. This carries with it the responsibility of explaining to investors the reasons for the choices and impact on financial statements by developing a communication strategy.

TAX IMPLICATION: IFRS convergence will have a significant impact on the financial statements and consequently to liabilities. Tax authorities should ensure that there is clarity on the tax treatment of items arising from convergence to IFRS.

DISTRIBUTABLE PROFITS: IFRS is fair value driven, which often results in on realized gains and losses. Whether this can be considered for the purpose of computing distributable profits, is still to be debated, in order to ensure that distribution of unrealized profits will not eventually lead to reduction of share capital.

XI. FINDINGS

1. It is found that International Financial Reporting Standards has more effect than Indian Accounting Standards

2. It is found that IASB trying to increase the use of IFRS

3. We can know that India has taken many steps to converge IAS into IFRS

4. It is analyzed that India is ready to converge the standards and not to adopt the IFRS

5. It requires well knowledge person to deal with IFRS

6. We can study how a new Standards will be issued by the IASB which has a quality of global acceptance

XII. SUGGESTIONS

1. The concerned authority has to give training to the accountants

2. It should create awareness about the use of IFRS

3. It should clearly specify the important and benefits the company get if it adopts IFRS

4. The information regarding the ease of raising capital in foreign field should reach the entrepreneurs. In that way the IASB has to work

XIII. CONCLUSION

To conclude, IFRS is now very essential in accounting field. So it is necessary to include IFRS in academic field to give knowledge to the students which helps them to work confidently in future. So that to have IFRS in all country IFRS foundation needs to focus on discouraging local interpretations of IFRS and support the proposals to involve regulators in the process. Along with India many countries converging and adopting IFRS while reporting their financial statements. Some of them are Brazil, United Kingdom, Japan, Canada and South Africa.

REFERENCES