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IFRS - As a Tool of Global Accounting

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Abstract

These papers contains the arguments for the adoption of a common set of accounting standard worldwide since 1973 and widen use of IFRS to furnish an easy way of revamping efficiency of a business in global scenario, and summarize some important role of IFRS in this context at present.
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I. Introduction

Globalization has changed the close economy into open economy. Now days a national economy is integrating in international market with other countries by spreading their trade and business outside their own country. Foreign Direct Investments, Foreign Institutional Investors, Merger and Acquisition, Franchising and Business Outsourcing are some example of international transaction in global business. For the integrity of different county's business together in the world market it was necessary for the business to adopt a common set of accounting standard, since accounting is the language of a business. Therefore in 1973, international professionals from different countries established the International Accounting Standard Committee. Main objective to this committee is to issue International Accounting Standards, at this present time Ministry of Corporate Affairs notified 35 Accounting Standards. In 2001 International Accounting Standard Committee are superseded as International Accounting Standard Board. Now the board issues the International Financial Reporting Standard formerly known as International Accounting Standards.

Accounting Standards were prepared for some benefits in global market which are compelling. The use of common set of accounting standards throughout the world provides an easy way of comparability and transparency of financial information. It also reduces the cost of preparing financial statements. A constant use of accounting standards provide higher quality information which enables the investors to make a better decision, indirectly fund will allocate in more efficient manner in the market and the company can reduce its overall cost of capital.

II. International Precedent

In 1993, diamlerBenz, who was the first German to secure stock market listing in the United States, reported a net profit of DM 158m for the six months to June 1998 based on German GAAP. The U.S GAAP reconciliation statement revealed that the company had incurred a loss of DM. 949m.

Similarly, British Telecom Inc. reported a net profit reduced to £1767 for the year ended 31-3-1994 under the UK GAAP but under the US GAAP reconciliation, the net profit reduced to £1476.

This just shows that there can be significant and material differences between the GAAP followed by each country which needs to be reconciled and disclosed to the investors. Adoption of different accounting standards cause difficulties in making relative evaluation of performance of companies. There are various instances in India and around the world of bad accounting practices leading to corporate failures. Analysts are among the most important and sophisticated users of financial statements, harmonization of accounting standards affects analysts, especially foreign analysts who are most likely to be impacted by the existence of different accounting standards across countries, adds to the literature documenting other effects of harmonization.

III. IFRS and Capital Market

Since the mandatory adoption of IFRS, a fundamental question is raised whether IFRS provide more effective information to the market participants for their decisions in the capital market?

It is expected that IFRS provide information to market participants may different from the information provided on the basis of prior national GAAP. A main cause of these differences may be due to difference between standards and IFRS. The extent to which IFRS gives more beneficial information relating to capital market is a question currently being address in research.

IFRS improve the comparability of financial information. It also improves the financial performance of global standard. The company's financial information is more transparent which satisfy its investors, customers and stakeholders in India and Overseas. IFRS required the consistent application of Accounting Principles, which improve the reliability and better quality of financial statements. The most important point is IFRS are now accepting for financial reporting for the companies seeking to raise funds from global market. Ultimately it would result in reduction in cost of capital. Recently those companies are listed in US, they are permitted to present their financial statements in accordance with IFRS, it is decided by US Security and Exchange Commission. Usually these companies are required to prepare their financial statements under Generally Accepted Accounting Principles in US (US GAAP), but now they can prepare only a single set of IFRS compliant financial statements. This would result in saving of financial and compliance costs.

At the present time IFRS are harmonizing as a financial reporting language across the globe. Over a 100 counties in the Europe Union, Africa, Most-Asia and Asia-Pacific region either require or permit the use of IFRS. In India recently ICAI released a concept paper on convergence with IFRS in India; it includes the detail of strategy for adoption of IFRS in India with effect from April 1 2011. Ministry of Corporate Affairs had also confirmed the agenda for convergence with IFRS in India by 2011. In the US replacing the IFRS in place of US GAAP, is still an ongoing debate.

Adopting IFRS in India is going to be very challenging by Indian Corporate but at the same time Indian Corporate are likely to obtain significant benefits from adopting IFRS. The European Union addresses many benefits as a result of adopting IFRS. Overall most investors, financial statement preparers and auditors concern that IFRS improve the quality of financial statements and implementation of IFRS was a positive sign for development for European Union financial reporting (2007 ICAEW Report on EU Implementation of IFRS and the Fair Value Directive).

IV. KEY STUDY ON CONVERGENCE WITH IFRS IN INDIA

Adoption of IFRS has become a vital issue of discussion and debate in the different country. Due to the variation in different country's GAAP of a individual country, a threat is always sustain on the harmonization of accounting standards. IFRS is one of the best financial reporting system, which does not include any country with variation of accounting policies. Now a single set of financial reporting is final statement to present across the world at a reduced cost and more reliable, transparent and fair reporting of an entity. These benefits are attracting each country to set mandatory for adopting IFRS in their country. India has also mandate the IFRS for financial reporting statement from 1st April 2011 but still India have been not succeeded to resolve its issues relating to conversion with IFRS such as taxation.

Corporate Affairs Minister Salman Khurshid said on the sidelines of an Assocham seminar on International Financial Reporting Standards (IFRS) here "We are still working on fair value concepts and other issues like depreciation, but I can assure you that we will stick to the roadmap laid for the convergence of Indian standards with the IFRS".

After enactment of companies Act 2013 the ministry of corporate affairs has focus to implement IFRS from April 1 2011. According to the draft plan the ministry announce to implement IFRS in the companies having turnover over Rs. 1000 crore form April 1 2015 and form April 1 2016 for those whose turnover is between Rs. 500 crore to Rs. 1000 crore but the professionals are still having difference on how to get fair value of assets and liabilities.

Therefore India needs to develop its conference regarding to IFRS convergence. Also need to develop some training programs for IFRS policies. For the purpose of successful conversion of IFRS with Indian Corporate, India needs to have efficient professionals to operate in this field. Apart from this, IFRS require the fair market value applications in financial reporting this may create significant differences in financial information currently presented in financial reports. This may result in the reduction in earnings of the company. Therefore Indian companies will have to create awareness amongst its customers, investors and stakeholders as well as they need to make clear themselves to explain the reason for this changes and maintain understanding, transparency and reliability of their financial statements.

Due to the lack of availability of professionals with adequate valuation skills to stimulate Indian Corporate to get fair value estimate, India has not gain benefits of IFRS. But those companies are taking the challenges of convergence of IFRS effectively have succeed to get more earning in the last year like IT companies have gain benefits from the convergence with IFRS. For example; following are the report of BANGALORE, India and EAST BRUNSWICK, N.J., Oct. 22, 2013 /PRNewswire/ Wipro Limited (NYSE: WIT) announced financial results under International Financial Reporting Standards (IFRS) for its second quarter ended September 30, 2013.

V. HIGHLIGHTS OF RESULTS

A. Results for the Quarter ended September 30, 2013

- Revenues from continuing operations were rupees 109.92 billion ($1.76 billion[1]), an increase of 19% YoY.
- Net Income from continuing operations was rupees 19.32 billion ($309 million[1]), an increase of 28% YoY.
- Non-GAAP Adjusted Net Income from continuing operations was rupees 19.32 billion ($309 million[1]), an increase of 29% YoY.
- Non-GAAP constant currency IT Services Revenue in dollar terms grew 3.2% sequentially and 7.9% YoY
- IT Services Revenue was $1,631.1 million, a sequential increase of 2.7% and YoY increase of 5.9%.
- IT Services Revenues in Rupee terms was rupees 100.68 billion ($1,609 million[1]), an increase of 20% YoY.
- IT Services Earnings Before Interest and Tax (EBIT) was rupees 22.64 billion ($362 million[1]), an increase of 31% YoY.
- Operating Income to Revenue for IT Services was 22.5% for the quarter.

Azim Premji, Chairman of Wipro, commenting on the results said – "There are positive indicators on the global economy. Client confidence is on the uptick and we see it reflected in our results."

IFRS are formulated by International Accounting Standard Board. However, the responsibility of convergence with IFRS vests with local government and accounting and regulatory bodies, such as the ICAI in India. Thus ICAI need to invest in infrastructure to ensure compliance with IFRS. In addition to the above, India has several constraints and practical challenges to adoption and compliance with IFRS. These are:-

Need to change some laws and regulations governing financial accounting and reporting in India. There are some legal requirements which determine the manner in which financial information are presented in financial statements. For example...The Companies Act provides the format for preparation of financial statement but this may be different from the requirement under IFRS. One more example is related to Business Combination- under Indian GAAP, acquisitions are accounted at book values of identifiable assets and liabilities of the acquiree, with the excess of consideration over the net book value recognized as goodwill. Under IFRS, accounting is done for all assets including hidden intangibles at fair value. As the assets are recognized at fair value, amortization of these assets will reduce future year profits under IFRS.

There is a lack of adequate professionals with practical experience of IFRS conversion; therefore Indian Companies may rely upon external advisors and auditors.

Another issue that Indian GAAP should have been formulated on the basis of the principles of IFRS. This may shows differences between Indian GAAP and IFRS. At the end some principles need to be amended, implements or remove in the Indian GAAP. For example, use of pooling of interests method in accounting for business combination is not available in the principles of IFRS. Thus it should be eliminated from Indian GAAP.

There is further need to make implementations in the field of accounting policies and procedures. And need to work towards full adoption of IFRS in India. To face these challenges we need to take more effective steps like:-

Need to build adequate IFRS skills professionals by investing in training processes for Indian accounting professionals to manage the conversion projects for Indian corporate. This can be done by research on effect of IFRS conversion in different countries.

An effective step for future perspective is that a brief knowledge of IFRS should add into the studies for professional courses with worldwide latest examples.

VI. Conclusion

In this paper I reviewed a range of the underlying sources that shows the benefit from adoption of IFRS. After research of various techniques, it is clear that IFRS provide a better efficiency in the capital market and promote cross boarder investment. Some points also focus on the importance of infrastructure which covers the use of IFRS. It is also clear that IFRS benefits can be utilize when IFRS applications will be supported by a framework that include legal protections, efficient professionals and adequate administrations.

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