Available online @ www.iaraindia.com
RESEARCH EXPLORER-A Blind Review & Refereed Quarterly International Journal
ISSN: 2250-1940 (P) 2349-1647 (O)
Impact Factor: 3.655 (CIF), 2.78 (IRJIF), 2.62 (NAAS)
Volume X, Issue 35
April-June 2022
Formally UGC Approved Journal (63185), © Author

INTERNATIONAL FINANCIAL REPORTING SYSTEM- THE COMMON GLOBAL LANGUAGE FOR BUSINESS AFFAIRS

Dr. M.VIJAYALAKSHMI
MR. J. MURALIDHARAN
&
MR. M. GOWTHAMAN
Assistant Professors of Corporate Secretaryship
Saradha Gangadhara College
Puducherry

Abstract

Modern economies rely on cross-border transactions and the free flow of international capital. More than a third of all financial transactions occur across borders, and that number is expected to grow. Investors seek diversification and investment opportunities across the world. Many renowned organisations support continuing work to achieve convergence to a single set of high-quality accounting standards. An attempt is made in this paper to bring out the significance International Financial Reporting System (IFRS). Focus is done to bring out the features, benefits and elements of IFRS. The prospective benefits accruing to India if it adopts IFRS is also drawn. Eventually a conclusion is derived based on the descriptive information provided.

Keywords: Financial statements, cross-border transactions of international capital, International Financial Reporting System, high-quality accounting standards

DEFINITION

Financial statements are a structured representation of the financial positions and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flow of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it.

OBJECTIVES OF THE STUDY:

1. To bring out the meaning and features of IFRS
2. To highlight the benefits of IFRS
3. To portray the elements revolving around IFRS
4. To put forward the effects of IFRS across borders
5. To bring out the implication of IFRS in India
6. To derive a conclusion based on the study.

INTERNATIONAL FINANCIAL REPORTING STANDRDS (IFRS)

International financial reporting standards are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external.

FEATURESOF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

- IFRS was developed by the International Accounting Standards Board, which is a part of not-for-profit, London-based IFRS Foundation
- It sets standards that bring transparency, accountability and efficiency to financial markets around the world.
- It specifies the manner in which companies should maintain their records and report the expenses and income
- It serve to establish a common accounting language that enables a global understanding by investors, government regulators, auditors and other interested parties.
- It enables a consistency in the accounting language, statements and practices
- It aids the investors and businesses to draw an effective financial analyses and arrive at healthy decisions for their progress
- It is not as strict as GAAP reporting. It allows companies to report revenue sooner and a company's expense on development for the future is capitalized which are points that differentiates from GAAP.
- The Standard IFRS sets the following mandatory rules.

❖ **Statement of Financial Position**: IFRS influences the way in which the components of a balance sheet are reported.

❖ **Statement of Comprehensive Income**: This can take the form of one statement or be separated into a profit and loss statement and a statement of other income, including property and equipment.

❖ **Statement of Changes in Equity:** Also known as a statement of retained earnings, these documents reflect the company's change in earnings or profit for the given financial period.

❖ **Statement of Cash Flows:** This report summarizes the company's financial transactions in the given period, separating cash flow into operations, investing, and financing.

IFRS – A BOON TO THE WORLD:

- **Fair presentation and compliance with IFRS** - It advocates a fair presentation and faithful representation of the effects of the transaction, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the framework of IFRS and benefits with materiality.
- **Going concern:** Financial statements are present on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

- **Accrual basis of accounting:** An entity shall recognize items as assets, liabilities, equity, income and expenses when they satisfy the definition and recognition criteria for those elements in the Framework IFRS
- **Materiality and aggregation:** It ensures that every material class of similar items has to be presented separately. Items that are of a dissimilar nature or function shall be presented separately unless they are immaterial.
- **Offsetting:** Offsetting is generally forbidden in IFRS. However certain standards require offsetting when specific conditions are satisfied (such as in case of the accounting for defined benefit liabilities in IAS 19 and the net presentation of deferred tax liabilities and deferred tax assets in IAS 12)
- **Frequency of reporting:** IFRS requires that at least annually a complete set of financial statements is presented. However listed companies generally also publish interim financial statements (for which the accounting is fully IFRS compliant) for which the presentation is in accordance with IAS 34 Interim Financing Reporting.
- **Comparative information:** IFRS requires entities to present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. In addition comparative information shall also be provided for narrative and descriptive information if it is relevant to understanding the current period's financial statements thereby helpful for effective decision-making.
- **Consistency of Presentation:** IFRS requires that the presentation and classification of items in the financial statements is retained from one period to the next unless it requires a change in presentation.
- **Qualitative characteristics:** Since IFRS warrants comparability and a faithful representation it aids in verifiability of facts and a comprehensive understanding to investors to make their shrewd investments.
- **Single Set of Global Standards:** The IFRS Foundation has developed and posted profiles about the use of IFRSs in individual jurisdictions thereby resulting in a progressive assessment towards the goal of single set global accounting standards.

ELEMENTS OF IFRS:

The elements directly related to the measurement of the statement of financial position include:

- **Asset:** An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to then entity.
- **Liability:** A liability is a present obligation of the entity arising from the past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits, i.e. assets.
- **Equity:** Nominal equity is the nominal residual interest in the nominal assets of the entity after deducting all its liabilities in nominal value.
- **Revenues:** increases in economic benefit during an accounting period in the form

of inflows or enhancements of assets, or decrease of liabilities that result in increases in equity. However, it does not include the contributions made by the equity participants (for example owners, partners or shareholders).

- **Expenses:** decreases in economic benefits during an accounting period in the form of outflows, or depletions of assets or incurrence's of liabilities that result in decreases in equity. However, these don't include the distribution made to the equity participants.

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, GCC counties, Russia, Chile, South Africa, Singapore and Turkey, but not in the United States. Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies, although **approximately 90 countries have fully conformed with IFRS** as promulgated by the IASB and include a statement acknowledging such conformity in audit reports.As of August 2008, more than 113 countries around the world, including all of Europe, currently require of permit IFRS reporting and 85 require reporting for all domestic, listed companies, according to the U.S. Securities and Exchange Commission.

EFFECTS OF THE ADOPTION OF IFRS ACROSS BORDERS:

Effect on Information Quality

The information disclosed by IFRS has a high quality in relevance than that when it was disclosed in accordance with local standards in certain countries. It has a positive effect on the relevant value of goodwill.

Effect on Capital and Credit Markets

The adoption of IFRS has proven to have a favourable effect on the capital market. This owes to the fact that the IFRS adoption improves operating conditions in the capital market, as it involves lower cost of capital, lower synchronicity of actions, attraction of institutional investors and foreign investors. The positivity is more pronounced in case of companies which has a greater informational transparency. This positive effect is seen in terms of cost and nature of loans and attracting foreign creditors.

Effect on Analysts

The adoption of IFRS enables an increased analysts' ability to predict. This relates to those companies from countries which has a greater increase on information quality and information comparability.

Effect on Information Comparability

The accounting information in an IFRS environment is more comparable than local standards. This considers the company's characteristics as well.

Effect on Information Cost

Owing to the high audit fees the adoption of IFRS leads to increase in costs for companies. This is more evident in case of companies which undergo a complex auditing process and in countries with a low enforcement level and having high differences between local standards and IFRS.

Effect on Information Use

The accounting information used based on IFRS carries a superlative quality and this serves as a criteria to finalize the executive pay. This is more conspicuous in companies whose activity has an international nature with a high enforcement level.

IFRS Implication in India:

India, one of the fastest-growing global economies is on the verge of converging with International Financial Reporting Standards (IFRS). As on date 123 countries across the globe have converged with IFRS, India is soon to join the bandwagon.

Benefits of applicability IFRS in India

There are many benefits of implementing IFRS in India. These can be divided in three benefits to:

1) Economy: Due to global market expansion, the need for a global standard also increases. Implementation of IFRS will benefit the economy by increasing the growth of its international business. It facilities the maintenance of orderly and efficient capital markets and also helps in increasing the capital growth and thereby economic growth.

2) Investors: Investors from other countries who are willing to invest in India seek information which is more relevant, timely, reliable and comparable across different jurisdictions. Regarding financial statements prepared using a different set of national accounting standards global investors have to incur more costs in terms of time, effort and money to convert them so that they can better understand global opportunities. So there is a need for financial statements prepared using a common set of accounting standards to help investors in better understanding the investment opportunities. Investor's confidence would be stronger if accounting standards used are globally accepted.

3) Industry: A major focus towards implementing IFRS has been coming from the industry. The owes to the fact that the industry would be able to raise capital from foreign markets at a lower cost if it can create confidence in the minds of foreign investors that its financial statements comply with globally accepted accounting standards.

CONCLUSION;

Historically accounting standards have evolved country by country through standards set by government, accounting profession or independent board.

Governments need to manage the national economy as well as managing public expenditure. Exchange rates, interest rates, external borrowing and inflation are all key issues affecting the need to control public spending. Until very recently, almost every country in the world operated national accounts on a fairly primitive basis. In terms of reporting, this is simply poor accountability and disclosure.

So there was a need for pan-national bodies such as the UN, Red Cross/Red Crescent, Treaty Organizations such as NATO and SEATO, and free trade areas such as EU and ECOWAS, only exacerbates the need for IPSAS.

While converting to IFRS is a complex process, these standards have important and positive implications for organizations and individuals that adopt them. For companies: Reduced cost of capital and the ease of using one consistent reporting standard from.

And IFRS Accounting Standards contribute to economic **efficiency** by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs.

IFRS Accounting Standards have gone on to become the *de facto* global language of financial reporting, used extensively across developed, emerging and developing economies.

It is clear that 144 jurisdictions now require the use of IFRS Accounting Standards for all or most publicly listed companies, whilst a further 12 jurisdictions permit its use. The adoption of IFRS is effective in improving the quality of financial statements. But for the purpose of corporate governance, there is need for tightening of the loopholes within the IFRS framework. This would result in more a subjective judgement in the estimation of financial statements.

REFERENCES:

- Accounting Constructs And Economic Consequences Of IFRS Adoption In India, by Meshram, Vedprakash Vasantrao Journal Of International Accounting, Auditing And Taxation, Volume 45, Dec. 2021,100427.

- Managerial Discretion And The Comparability Of Fair Value Estimates, Journal Of Accounting And Public Policy, 2022, Volume 41, Issue 1, Jan-Feb 2022, 106878.
- Measuring The Effects Of IFRS Adoption On Accounting Quality: A ReviewBy Irina Doina Pascan Journal Of Porcedia Economics &Fianance Volume 32 2015, Pgs 580-587.
- The Effect Of IFRS Adoption On Financial Reporting Quality: Evidence From Listed Manufacturing Firms In Ghan By Emmanuel Mansah In Journal Of Economic Research Volume 34, Issue 1, 2021
- Main Consequences Of IFRS Adoption: Analysis Of Existing Literature And Suggestions For Futher Research By Isabel Maria Estima Costa Lourenço Manuel Emílio Mota De Almeida Delgado Castelo Branco, **Revista** Contabilidade & Finanças, Volume: 26, Issue: 68, Published: 2015
- Palea, V. (2013). IAS/IFRS And Financial Reporting Quality: Lessons From The European Experience. China Journal Of Accounting Research, 6(4), 247-263
- Yip, R. W. Y., & Young, D. (2012). Does Mandatory IFRS Adoption Improve Information Comparability? The Accounting Review, 87(5), 1767-1789.