

INTERNATIONAL REPORTING STANDARDS: INSIGHTS & IMPLICATIONS

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Abstract

Increasing global interaction marked by the mergers and acquisitions (M & A) culture has changed the socio-economic scenario of the globe in all aspects. Hence there is a need for a universal financial accounting standard that is harmonized and adapted globally. It implies that all the accounting standard settlers worldwide come to the same platform and agree on a single wisecrack. In India, financial reporting is in a stage of transition where many changes are being accounting standards. It is also recognized that having a framework of credible financial reporting standards in India compatible with internationally accepted norms is one of the essential prerequisites for attracting foreign investment and globalization. If coherent and consistent internationally accepted accounting procedures and practices are developed, they will encourage free border flow of capital and make substantial investments for the development of the economy. Against this backdrop, the authors have collaboratively made an effort to bring out the need and significance of unanimously accepted worldwide standards for reporting. The authors have presented by taking relevant insights from reliable secondary sources of data and have brought the implications of these to the limelight of Corporate Governance Practitioners and Policymakers across the globe for both academic

and corporate interests.

Keywords: IFRS, Corporate Governance, International Reporting, GAAP

Introduction:

International Reporting Standards refer to a set of guidelines and principles that govern how companies and organizations report their financial information to stakeholders across borders. These standards ensure transparency, comparability, and consistency in financial reporting, regardless of the country or industry. International Reporting Standards are designed to apply to companies and organizations operating in diverse geographic locations and industries. They provide a common language for financial reporting, facilitating communication and analysis across borders. While adoption may involve challenges and costs, the benefits of standardized financial reporting are significant for companies, investors, and stakeholders. International Reporting Standards aim to harmonize accounting practices worldwide, facilitating easier comparison between companies operating in different countries. Adhering to International Reporting Standards can increase investor confidence by providing reliable and consistent financial information. Investors can make informed decisions about allocating capital

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based on the standardized financial reports of companies. For multinational corporations, adhering to International Reporting Standards streamlines financial reporting across various jurisdictions. This consistency simplifies compliance with regulatory requirements and reduces the risk of misinterpretation or confusion. Companies that follow International Reporting Standards may find it easier to access capital in international markets. International Reporting Standards promote transparency by requiring companies to disclose relevant information about their financial performance and position. This transparency enhances comparability between companies, enabling stakeholders to evaluate their performance and make meaningful comparisons. Compliance with these standards signals credibility and transparency to potential investors, lenders, and stakeholders, thereby enhancing the company's reputation and creditworthiness.

The International Financial Reporting Standards (IFRS) Foundation, along with the International Accounting Standards Board (IASB), is responsible for developing and maintaining International Reporting Standards. These standard-setting bodies collaborate with stakeholders worldwide to ensure that the standards meet the needs of users and reflect evolving business practices. Thus, by following these standards, companies can strengthen their governance structures and build trust with stakeholders. Hence it promotes mutual economic cooperation and development in world trade and transactions.

1.1 Why Differences in Accounting Framework?

An Indian subsidiary if a UK company has to prepare UK GAAP (Generally Accepted Accounting Principles) and Indian GAAP accounts. If the company plans to spread its business in the US, it will also have to prepare accounts as per the US GAAP accounting standards. Since the UK is now moving to

international financial reporting standards (IFRS – formerly known as IAS) the Indian subsidiaries are in the process of converting their UK GAAP accounts to IFRS. Differences in accounting framework impose additional costs, reduce the reliability of financial statements and divert management attention from real business issues. Today, investors are looking at global opportunities and making informal decisions but the differences in accounting standards act as the main barrier to making quick business decisions.

1.2 Which Accounting Standard is to be Accepted?

By 2005, many companies across the world had adopted International Financial Reporting Standards. Globally, the two accounting frameworks that work are IFRS and US GAAP. The basic difference between IFRS and US GAAP is that IFRS is principal-based while the US GAAP is rigid and rule-based. The US GAAP requires research and development costs to be taken into account when it is incurred whereas the IFRS makes a difference between research costs and development costs. Goodwill presently requires amortization under the IFRS but not under the US GAAP. Tangible and intangible assets can be revalued under IFRS but not under the US GAAP. Last in first out (LIFO) method of valuation of inventories is permitted under the US GAAP but it is not in the IFRS.

The Indian GAAP have by and large followed IFRS though there are significant differences. The Indian GAAP seem to be doing a 'Yes' or 'No' act on the fair valuation principle which is firmly established both under the IFRS and the US GAAP. A full convergence of variation GAAP at this point seems a distant dream. There is a need for disclosure of the Accounting Standard Framework.

2. International Financial Reporting Standards:

Significant milestones were reached last year in the SEC's ongoing effort to promote and achieve a single set of high-quality global accounting standards. Consistent with our 2005 roadmap, the commission approved the elimination of the reconciliation requirement to US GAAP for foreign private issuers that file in IFRS as issued by the IASB. The commission took this action only after certain preconditions were met. First, the commission needed to be satisfied that there was a robust process towards convergence. Second, we needed assurance that IFRS as published by the IASB was being consistently and faithfully applied. And third, we needed to have confidence in the IASB and its oversight by the IASC foundation. On all of these issues, the commission was able to reach a positive conclusion and, ultimately, determine that eliminating the reconciliation requirement would further our broader goal of achieving greater convergence and a single set of global accounting standards. The commission's consideration of IFRS continues to focus now on whether US issuers should similarly be able to choose between filing in IFRS or US GAAP. The commission issued a concept release in August and held roundtables in December probing this question.

The concept releases seeking information about the extent and nature of the public's interest in allowing US issuers to prepare financial statements by IFRS as issued by the IASB generated many thoughtful responses. The comment period closed on November 13, 2007, and we have been carefully reviewing all the comments submitted. The roundtables also provided the Commission with extremely valuable information. The professional staff of the Division of Corporation Finance, led by John White, and the Office of Chief Accountant, led by Conrad Hewitt, did an outstanding job organizing two days of highly informative panels. The first Round Tables focused on the general question of whether US issuers should be permitted to use IFRS. The second

Round Table focused on how to make the transition to IFRS. Each roundtable consisted of two panels, one from a US market perspective and another from the perspective of global market.

While there was a range of differing views expressed on key particulars and necessary preconditions common to allowing IFRS use in the US, it was interesting to observe agreement – particularly given the diverse constituencies represented on important fundamental issues. For example, everyone agreed that the ultimate goal should be a single set of high-quality accepted accounting standards. There was also a general belief that the uniform global standards would ultimately be IFRS, not US GAAP. And finally, panelists suggested that a roadmap should be established to transition US issues to IFRS. Although there are significant challenges ahead that will require strong leadership from all stakeholders, the round tables offered encouraging news concerning the level of agreement concerning some threshold considerations. The Commission will remain highly engaged in this area and can expect another productive year ahead.

2.1 IFRS in India:

A speedy and swift movement is required for convergence to IFRS by the government, industry and accounting professionals in India. The adoption or convergence of IFRS will allow India to have an effect on and mould international accounting standards. The adoption will benefit the Indian capital market as well as the Indian business. This is the right time to adopt IFRS in India as it opens doors to foreign investments. In 2005, the Institute of Chartered Accountants of India (ICAI) advised listed and large entities to adopt IFRS will induce foreign investors to invest the Indian firms. The other advantages are savings in the cost of preparing a separate set of financial statements savings in cost of capital and also the increasing opportunity for accounting Indian professionals aboard.

A switch to IFRS in India will be an easy task as Indian Accounting Standards are designed closely along the lines of IFRS. Even the recently issued accounting standards are closely aligned with IFRS. However, some complexities may arise due to the legal and regulatory frameworks. The preparation for the adoption of IFRS by the economy, accounting profession and industry in the country is an issue which needs to be addressed. The ICAI is discussing the matter given the issues involved with Accounting Standards Board (ASB). The board feels that there will not be any significant effect on the accounting discipline in the country. However, the economy may be affected. To resolve this issue a concept paper was developed and released for the interested parties like the government, regulators, industry and the National Advisory Committee of Accounting Standards. This paper is a roadmap designed for India for convergence to IFRS, discussing the strategy and approach to be implemented. It provides along with the introduction to the discussing need, the objectives and effectiveness of switching to IFRS. An evaluation of Indian Accounting Standards in comparison to IFRS is also a part of this paper

2.2 Recent Changes:

Recent changes in the Indian accounting norms have resulted in significant changes in the balance sheet. Recent developments in the accounting field have resulted in quite a few unfamiliar items appearing on these financial statements. One of the biggest additions has been due to the fact the balance sheet has a new item in the form of deferred assets, or deferred tax liability, depending on the situation in which the company finds itself. This results from the difference between taxable income and accounting income. Significantly, this Item now forms a crucial part of the balance sheet of most corporations. It can be found on either side of the balance sheet depending on how it is shown.

Another head is the employee stock option. The value of the stock option is equal to the aggregate of the fair value of the options granted and is amortized on a straight-line method over the vesting period. Further, as and when the option is exercised by an employee the same will be accounted for as paid-up capital to the extent of the face value and as share premium to the extent of excess market price over face value on the grant date.

2.3 Proposed New Accounting Norms:

The Government Accounting Standard Board (GASAB) was set up in 2002; the process to introduce about 48 accounting standards for preparation of the financial statements by the central and state governments over the next few years. The objectives are to make government account more transparent so, the disclosure level will be increased drastically and the format for presenting statements will be reworked, to make them easier to read. For example: the first of the standards, the standards on guarantees, given by the governments. The disclosure requirement has been in the process of notification. The next important norms are exposure drafts for three standards- (i) accounting and classification of grant-in-aid (ii) presentation of financial statements and (iii) cash flow statements. Three exposure drafts are accepted to be clear very soon.

The GASAB is also in the process of preparing exposure drafts on loans and advances made by the government, foreign currency loss/gain by exchange variations and debt and borrowings of governments. However, these changes require wholehearted support from all government officials. The accounting bodies are now proposing a common reporting standard for the preparation of annual accounts. The move is gaining momentum within the Asia-Pacific region with the Confederation of Asian Pacific Accounts (CAPA) an association of National Accountancy Organization in the region.

The newly-elected CAPA president, Robin Harding said the countries would need to work towards convergence of the international standards with their own to ensure that inference drawn from a financial statement by anyone anywhere was the same. Adoption of a common standard will ensure that the interpretation made from reading a statement by anyone anywhere in the world is no different from the interpretation made by another person in another part of the world. For Indian companies, the adoption of the IFRS along with IAS will have less paperwork in the form of restatement of accounts when they plan to approach investors overseas.

The adoption of IFRS will make the consolidation of financial statements of foreign subsidiaries of holding companies much easier. Currently, companies are required to follow the accounting and reporting standards prescribed by the host country when preparing their accounts. For Indian companies' adoption of the IFRS along with IAS will have less paperwork in the form of restatement of accounts when they plan to approach investors overseas. The adoption of IFRS will make the consolidation of financial statements of foreign subsidiaries of holding companies much easier. Currently, companies are required to follow the accounting and reporting standards prescribed by the host country when preparing their accounts.

2.4 Compliance of Accounting Norms and Role of ICAI:

To bring about a greater level of standardization in the accounting procedures followed by companies in the globalised scenario, the Department of Company Affairs (DCA) plans to make it mandatory for companies to comply with the accounting standards prescribed by the Institute of Chartered Accounts of India (ICAI). The following are the accounting norms prescribed by ICAI:

- ❖ Mandatory powers vested with ICAI
- ❖ Accounting standards redefined

- ❖ Auditors to certify compliance
- ❖ Companies must disclose all material departures from accounting standards
- ❖ Firms have to give reasons for the departures and impact of such a departure

2.5 Suggestions:

While many accounting standards need refinement to conform better to IAS, there is also an urgent need to review standards on amalgamations and mergers. The key changes suggested include:-

- ❖ Presentation of financial statements with supplementary disclosure of Balance sheet.
- ❖ Every financial statement should be accompanied by cash flow statements.
- ❖ There should be a clear distinction between current and fixed assets and liabilities.
- ❖ Depreciation should be charged taking into account the economic benefit provided by that particular asset over a stipulated period. There should not be any guesswork in determining the period for which depreciation will be charged to P/L account.
- ❖ Insisting on the specialized industries to adopt the formats which are more appropriate in full disclosure of accounting aspects rather than adopting the old methods.
- ❖ In the case of manufacturing industries, especially the industries producing chemicals, pesticides, alcohols, paints, etc, a system of environmental accounting standards should be evolved for sustainable development of the natural resources.

2.6 IFRS and Role of an Accountant:

IFRS not only help the investors, industries and economy but also the professionals. The accounting department aims to prepare its financial

statements whereas the audit department certifies the true and fair view of the financial statements for its national and international clients. Accounting professionals have no choice other than immediately converging with the IFRS with an increase in the need for internationally acceptable accounting principles.

2.7 Scope of IFRS:

IFRS is gaining recognition through globalization and fast e-communication. They have become an essential need for an accounting professional. The scope of IFRS is:

IASB Standards are known as International Financial Reporting Standards (IFRS).

- ❖ All International Accounting Standards (IAS) and Interpretations issued by the former IASC and Standing Interpretation Committee (SIC) continue to be applicable unless and until they are amended or withdrawn.
- ❖ IFRS apply to the general purpose financial statements and other financial reporting by profit-oriented entities – those engaged in commercial, industrial, financial and similar activities, regardless of their legal form.
- ❖ IFRS apply to individual companies and their consolidated financial statements.
- ❖ A complete set of financial statements includes a balance sheet, an income statement, a cash flow statement, a statement showing either all changes in equity or changes in equity other than those arising from investments by and distributions to owners, a summary of accounting policies and explanatory notes.
- ❖ IFRS will present fundamental principles in boldface type and other guidance in non-bold type (the 'black letter' / 'grey letter' distinction). Paragraphs of both types have equal authority.

- ❖ The provision of IAS one that has conformity with IAS requires compliance with every applicable IAS and interpretation requires compliance with all IFRS as well.

2.8 Key Steps for Adoption of IFRS:

The IASB has published an implementation plan outlining the key activities for the adoption of IFRS. One of the key actions is the progress review which determines the date for the changeover, the objectives of which are: (a) to evaluate the changes in the environment as a convergence strategy is developed to revise the previous plans, and (b) to assess the state of awareness in the Canadian business community for the changeover. The changes in the new system will bring out ideas to capture new data and procedures differently. They also create opportunities to re-examine accounting policies to evaluate the advantages accessible in IFRS. They help to understand the changes likely to occur in financial statements. The changeover brings in the organization to know about the effects of the standards and their evaluation.

3. Convergence of Indian Standards with International Standards:

As per the survey conducted by Ernst & Young, 95% of the chief financial officers have opined that the country's accounting standards and governance practices must be converged with global standards. But 64% have preferred convergence with IFRS and 36% US GAAP.

In 2007, a presentation on Trade and Development by an intergovernmental working group was made at a UN conference. According to the presentation, there were originally 41 IAS out of which 12 standards have been withdrawn leaving 29 Accounting Standards to be followed. In addition to these, seven IFRS standards have been issued totalling 36 standards to be complied with. When compared with these standards, 26 Indian Accounting Standards are similar but with some

minor changes. India is also moving towards convergence of accounting standards along with other countries.

3.1 Revisions Effective from 1 January 2024:

The following amendments have been made to all the reporting periods beginning on or after 1 January 2024. It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- ❖ Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- ❖ Non-current Liabilities with Covenants (Amendments to IAS 1)
- ❖ Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- ❖ Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) **-21-**

The IASB has issued amendments to IAS 1 to clarify its previously issued guidance and rectify the prevailing issues:

3.1.1 The amendments elaborate on guidance set out in IAS 1 by:

- ❖ Clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period
- ❖ Stating that management's expectations around whether they will defer settlement or not does not impact the classification of the liability
- ❖ Adding guidance about lending conditions and how these can impact classification
- ❖ Including requirements for liabilities that can be settled using an entity's instruments.

3.1.2 The amendments set out in „Non-current Liabilities with Covenants (Amendments to IAS 1)

State that at the reporting date, the entity does not consider covenants that will need to be complied with in the future, when considering the classification of the debt as current or non-current. Instead, the entity should disclose information about these covenants in the notes to the financial statements. The IASB wants these amendments to enable investors to understand the risk that such debt could become repayable early and therefore improve the information being provided on the long-term debt.

3.1.3 Additional Guidance in IFRS 16 on Accounting for Sale and Leaseback Transactions:

Previously 16 only included guidance on how to account for sale and leaseback transactions at the date of the transaction itself. However, the Standard did not specify any subsequent accounting when reporting on the sale and leaseback transaction after that date.

As a result, without further requirements, when the payments include variable lease payments there is a risk that a modification or change in the leaseback term could result in the seller-lessee recognising a gain on the right of use they retained even though no transaction or event would have occurred to give rise to that gain.

They require entities to disclose:

- ❖ The terms and conditions of the arrangement
- ❖ The amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the providers, and stating where the liabilities are included on the statement of financial position
- ❖ Ranges of payment due dates

3.1.4 Liquidity Risk Information:

These additional disclosure requirements address investors wanting more visibility around supplier finance arrangements, which in some jurisdictions around the world are better known as reverse factoring arrangements.

Conclusion:

Corporate reporting plays a pivotal role in the world of accounting by providing transparency and accountability to stakeholders. Through systematic disclosure of both financial and non-financial information, companies establish trust and credibility with investors, regulators, and the wider public. In an era of interconnected global markets, the demand for consistent and comparable corporate reporting has become increasingly critical. International Financial Reporting Standards (IFRS) have emerged as a fundamental requirement in today's business landscape due to varying accounting standards across countries. Standardized frameworks like IFRS and Generally Accepted Accounting Principles (GAAP) facilitate cross-border investments and enhance market efficiency.

However, achieving convergence with IFRS is a complex process that hinges on effective change management and risk mitigation strategies. Companies that respond swiftly and adeptly to these developments stand to benefit from enhanced quality, clarity, and credibility in this new global reporting paradigm. Ultimately, corporate reporting stands as the bedrock of modern accounting, serving as a key indicator of organizational performance, integrity, and reliability. As businesses navigate a dynamic and intricate global environment, robust and dependable corporate reporting remains indispensable. It serves as a crucial benchmark that ensures companies meet stakeholder expectations and contribute to the stability and transparency of the global economy.

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