



RELEVANCE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN THE GLOBALIZED ECONOMY-AN EMPIRICAL STUDY

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Abstract: *There are many accounting standards in the world. As accounting is a language of the business, each country is using a version of its own generally accepted accounting principles also known as GAAP. These allow firms to report their financial statements in accordance to the GAAP that applies to them. The complication lies within whether the firm does business in multiple countries. How can investors deal with multiple standards, which ones are accurate, and how can corporations be compared based upon their financial statement, The answer to these questions lies within the adoption of the International Financial Reporting Standards, or IFRS, which is being developed and supported by the International Accounting Standards Board (IASB) for the objective to implement the uniform accounting standard in all the countries across the world. Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies, although approximately 90 countries have fully confirmed with IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports.*

Keywords: *Need, Implementation, Development, Beneficiaries of IFRS in India, and company's perception towards IFRS.*

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INTRODUCTION

Over the years, most countries have developed a set of accounting principles accounting rules that serve as a common basis for reporting the financial status of businesses to the public operating within their borders. These common accounting principles are formally referred to as Generally Accepted Accounting Principles (GAAP). It is unique to each country. Their purpose is to provide a common and accepted standard for evaluating and comparing the financial status of businesses. The national accounting standards applicable to the India are often referred to as Indian GAAP. It is derived from a composite of principles, standards, and preferred practices established by Indian regulators. GAAP system different from one country to another country. Say for example Indian GAAP different from European GAAP. European GAAP differs from US GAAP. This type of different GAAP systems create big gap in between different country's accounting system and it create confusion in the minds of foreign investors who ability to invest their money on different profitable investment sectors across the world.

A set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements or Recognized international accounting standards do exist and are formally known as the International Financial Reporting Standards (IFRS). IFRS includes the standards and interpretations issued by the International Accounting Standards Board (*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.*) as well as the International Accounting Standards (IAS) and interpretations of the International Accounting Standards Committee. "high-quality" international accounting standards that are transparent, understandable, and enforceable, and that are rigorously applied. The Foundation also seeks to use the standards it develops through the IASB as the basis for the convergence of national accounting standards and IFRS into a single set of high-quality international accounting standards.



REVIEW OF LITERATURE

Nams Shah his study entitled as “**Financial Premisis**” state that International Financial Reporting Standards (IFRS) provides a set of principles to be followed while accounting for transaction and events in financial statements. Unlike GAAP it provides management greater discretion and flexibility in preparing financial statement. Now a day’s foreign investors expect to have uniform accounting standard across all countries. In present scenario, when companies located in any country are trading globally, there is a need for global accounting standard.

Wikipedia says about “**International Financial Reporting Standards (IFRS)**” 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.

Sai Venkateshwaran his study entitled as “**The Road to IFRS in India**” state that, International Financial Reporting Standards (IFRS) is fast becoming the global accounting language. Over 100 countries have now adopted IFRS and many more have committed to make the transition in the next few years. The benefits of global standards are widely acknowledged. For companies, however, the conversion to IFRS is a major change both for the finance function and for the wider business.

Bhuvanesh Sharma his study entitled as “**IFRS - Challenges and Need for India Inc**” say that, The International Financial Reporting Standards (IFRS) aims to make international financial reporting comparisons as easy as possible because each country has its own set of accounting rules. For example, U.S. GAAP is different from Canadian GAAP and both are far apart from India GAAP. Synchronizing accounting standards across the globe is an ongoing process in the international accounting community. It creates confusion to accounting users.

STATEMENT OF THE PROBLEM

Emergence of the Global Economy and growing integration of world's capital markets, financial reporting has undergone significant changes. Many market participants are considering the question of whether it is possible or desirable to move toward a single “*globally accepted financial reporting standard*” so that these entities' can speak a uniform



global "language" for financial reporting, even though IFRS gain more importance for India, Still some of the Companies are neglecting implementation of IFRS due to lack of knowledge about IFRS how it will be beneficial to companies. So this study mainly tells about how IFRS beneficial in India.

OBJECTIVES OF THE STUDY

To study on the advantage of IFRS for foreign Investor's point of view

- To provide a brief introduction about IFRS
- To analyze the beneficiary satisfaction level of corporate sectors about IFRS.
- To study on the importance of IFRS in Indian investment.

RESEARCH METHODOLOGY

In order to reach the above stated objectives the study has covered both primary and secondary data. The primary data was collected through questionnaires. Secondary data was collected through published sources like magazine, books, journals and websites.

THE IASB, HAS FOUR STATED GOALS IN REGARDS TO IFRS,

- a. To develop global accounting standards requiring transparency, comparability and high quality in financial statements
- b. To encourage global accounting standards
- c. When implementing global accounting standards, to take into account the needs of emerging markets
- d. Converge various national accounting standards with the global accounting standards

It is believed that IFRS, when adopted worldwide, will benefit investors and other users of financial statements by reducing the cost of investments and increasing the quality of the information provided. Additionally, investors will be more willing to provide financing with greater transparency among different firms' financial statements. Furthermore, multinational corporations serve to benefit the most from only needing to report to a single standard and, hence, can save money. It offers the major benefit where it is used in over 120 different countries.



IMPLEMENTATION AND DEVELOPMENT OF IFRS IN INDIA

➤ Implementation

According to the Companies Act, 1956. Under Section 211(3C), there will be two separate sets of Accounting. The two sets would be as described below:

First set- it would comprise of the Indian Accounting Standards which are converged with the IFRS (IFRS converged standards). It shall be applicable to specified class of companies;

Second set- it would comprise of the existing Indian Accounting Standards (Existing Accounting Standards) and would be applicable to other companies including small and medium companies (SMCs).

Table No.1 showing applicability of First set of IFRS standards to specified class of companies in phase manner in India

Phase	Effective date	Specified class of companies
I	April 1, 2011	<ul style="list-style-type: none">• Companies in Nifty 50• Companies in Sensex 30• Companies shares or other securities listed on stock exchanges outside India• Companies (whether listed or not) having net worth in excess of Rs 1,000 crores
II	April 1, 2012	<ul style="list-style-type: none">• All insurance Companies
III	April 1, 2013	<ul style="list-style-type: none">• Companies (whether listed or not) having net worth in excess of Rs 500 crores but less than Rs. 1, 000 crores.• All scheduled commercial Banks• Urban cooperative Banks having net worth in excess of 300 crores• NBFCs-NIFTY 50 or SENSEX 30• NBFCs listed or not having networth exceeding 1000 crores
IV	April 1, 2014	<ul style="list-style-type: none">• All listed companies with net worth less than Rs 500 crores• Urban cooperative Banks having net worth 200 to 300 crores• NBFCs: Unlisted but having net worth between 500 to 1000 crores• NBFCs: all Listed

ICAI in October 2007, the IFRS should be applicable to Public Interest Entities (PIE). PIE has been defined to include:

- a) All listed companies
- b) All banking companies



- c) All financial institutions
- d) All scheduled commercial banks
- e) All insurance companies and all NBFC.

The Institute of Chartered Accountants of India (ICAI) has already given a tentative roadmap for implementation of IFRS standards to the Corporate Affairs Ministry. All companies having net worth of over Rs 1,000 crore should implement IFRS from April 1, 2015. Those having net worth of over Rs 500 crore and up to Rs 1,000 crore, IFRS has to be implemented from April 1, 2016 and for companies, having net worth of below Rs 500 crore but listed, the timeframe would be April 1, 2017.

➤ **Development**

IFRS was published by the IASB in June 2003 but in India it came into existence on 2011. It sets out most of the transitional requirements that an entity applies when it first adopts IFRS and also specifies various disclosures to explain the effects of transition to IFRS.

The objectives of IFRS are

- I. To maintain transparency for users of financial statement such as investors, stakeholders and public
- II. To comparable over all periods presented,
- III. To provides a suitable starting point for accounting under IFRS, and can be generated at a cost that does not exceed the benefits to users.

The Indian GAAP is influenced by several standard setters and influenced by Statute, namely Companies Act 1956, Income Tax Act 1961, Banking Regulation Act, Insurance Act etc and directions from regulatory bodies like RBI, SEBI, and IRDA.

SCOPE OF THE STUDY AND ANALYSIS

In order to achieve our research objectives selected 20 Indian companies to know they are willing to apply the IFRS. As the IFRS increase comparability of the financial statements, and that makes the companies eligible to access foreign finance, from international markets. So we wanted to see, if the main reason why Indian companies apply the IFRS, is the foreign financing opportunity or anything else



Table No 02. Showing companies that are willing to apply IFRS

Opinion	Frequency	Percentage
Yes	16	80%
No	04	20%
Total Companies	20	100%

Primary source

From the above table shows that, 80% of the companies are liked to implement IFRS in their companies and they are keen interested to get beneficial from IFRS such as grab the opportunity of foreign capital, maintain transparency in financial statement, show the reputation and improve the brand image of the company in international levels and etc. only 20% of the respondent company's directors are showing negligence or reluctance towards implementation of IFRS in their company because of some reasons, such as negligence towards foreign investment, to maintain national sovereignty and few companies believe that, their country's GAAPs are golden standards so it's enough for their business, and they may have fully satisfaction towards existing GAAP system.

Now here concentrate towards why 80% of the investors interested in IFRS implementation in their company. Here consider only 16 Respondents Company's level of satisfaction about IFRS.

Table no 03. Showing reasons behind the company for ready to apply IFRS

Sl. No.	Particular	Strongly Agree		Neutral		Agree		Total	
		No. of counts	%	No. of counts	%	No. of counts	%	No. of counts	%
01	Attracting Foreign Investment	15	93.75	nil	00	01	6.25	16	100
02	Maintain Transparency, accurate in accounting statement	12	75	03	18.75	01	6.25	16	100
03	Build Good Image of the company In international level	11	68.75	02	12.50	03	18.75	16	100
04	Improvement of international trade	12	75	01	6.25	03	18.75	16	100
05	To minimize the								



confusion to accounts evaluator, such as accountants, auditors, actuaries, and financial analyst and etc.	07	43.75	05	31.25	04	25	16	100
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Source: Primary data

Out of 100% of respondents, 93.75 % of the respondent companies willing to implement IFRS in their companies because of attract the foreign investment. According to them when companies are implement IFRS in their companies it will useful to foreign investors for analyze the financial statement and they can get accurate knowledge about companies. It will not make confusion in the minds of the investors at a time analyze financial statement around the world.

75% of the respondents are strongly agreed with IFRS provide accurate, transparent financial statement all over the world. IFRS is nothing but similar or accounting standard all over the world so it will reduce difference in between different country’s GAAP system.

Out of 100% of respondents, 75 % of the respondent companies are keen interested in implementation of IFRS because it will be directly or indirectly impact on development of international trade. 68.75% of the respondent companies are strongly believe in IFRS implementation in their companies financial accounting statement because it will bring good reputation to the business in international level and rest of the members are given positive view but according to them, there is no much impact of IFRS on improvement of brand image.

43.75% of respondents companies are strongly agree with IFRS implementation in accounting procedure because they want to try to minimize the risk of accounting evaluator viz, auditor, chartered accountants, actuaries and etc.

NEED OF IFRS IMPLEMENTATION IN INDIA

Following arguments in favour of IFRS implementation in India

1) Reducing Costs and Time:

The Indian companies which are operating in two or more countries of the world are preparing financial statements separately for each country which is wasting time and money. Thus, the implementation of uniform accounting practice will reduce time and cost.



2) Quality of Information

Implementation of uniform accounting practice will provide much better quality of information

3) Globalization impact

The impact of globalization causes spectacular changes of development of MNC's in India. This has created the need for a single accounting or uniform accounting practices bring more accurate, transparent and satisfying the needs for demanding user.

4) Access of capital from overseas

Major Indian companies raising capital from foreign investment in the form of FII and FDI. Foreign investors require information about financial statement. Uniform accounting standard helpful to know about company's performance thoroughly through financial statements, but foreign investors fail to get knowledge about different GAAP system.

BENEFITS OF IFRS IMPLEMENTATION IN INDIA

- 1) IFRS provide better, transparent, accurate financial information to stakeholder, shareholders of the company and Indian regulatory system.
- 2) With the help of IFRS, investors can increase ability to secure cross border listing
- 3) IFRS limiting multiple accounting standards, conventions, principles, procedure. Establish single accounting standards.
- 4) It's helpful to access capital from worldwide and increases the efficiencies of global capital management.
- 5) Uniform accounting standard enabled investors to understand investment opportunity as against multiple set of national accounting standard.
- 6) Minimize the barriers of MNC's and reduce the risk associated with dual filings of accounts.
- 7) Minimize the cost on preparation of multiple financial accounting statements.
- 8) IFRS facilitates global investment opportunities inbound and outbound and also reduced cost of capital.

FINDINGS

- One of the major point is that, the need of IFRS only for multinational companies but what about domestic companies?. Domestic companies are not ready to implement



IFRS in their accounting practice. They feel IFRS is useless to their organization and they satisfied with existing GAAP system.

- In India usage of IFRS in accounting implemented by only few companies. so even accounting preparer, and evaluator (such as accountants, auditors, actuaries, and financial analyst) facing problem with respect to preparation of IFRS. Because how they can understand without knowing thoroughly about IFRS principle, standards and etc.
- Even US believe that, US GAAP is golden standard and it's better then IFRS. so its begin conflicts with respect to implementation of IFRS. There is no use IFRS if all countries are not followed IFRS similarly.

SUGGESTIONS

- ❖ Two hands come together at same time it creates soundness, unless using two hands at different direction. In the same way all the countries want to follow and implement IFRS, it become worth full. So all the countries want to implement IFRS strictly,
- ❖ Financial statement preparers and auditors will have to become knowledgeable about the international standards. Others, such as actuaries and valuation experts who are engaged by management to assist in measuring certain assets and liabilities, are not currently taught IFRS and will have to undertake comprehensive training. Professional associations and industry groups have begun to integrate IFRS into their training materials, publications, testing, and certification programs, and many colleges and universities are including IFRS in their curricula. Some textbooks are already covering IFRS
- ❖ Expansion and wealth maximization is objectives of each and every business. even domestic industries also expect the same. In the future they may also enter into international trade. If they implement IFRS now itself means there is no need to take headache about implementation of IFRS after get entry to international business.

CONCLUSION

Business can present its financial statements on the same basis as its foreign competitors, making comparisons easier. Furthermore, companies with subsidiaries in countries that



require or permit IFRS may be able to use one accounting language company-wide, hence it will be helpful to foreign investors for analyzing the accounting statements and get knowledge about company performance. IFRS removing the confusion from the minds of investors because it gives accurate, transparent single accounting statements. Need of IFRS in India arises along with development of MNC's in India.

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