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THEORETICAL PERSPECTIVE FOR IMPLEMENTING OF INTERNATIONAL FINANCIAL REPORTING SYSTEM (IFRS)

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INTRODUCTION:

Accounting is the lingua franca of the business .Accounting has been integral function of micro and macro institutions. As an efficient tool of financial assessment, accounting is used in both households and corporate business units. It serves as a mode of communication to those who are interested in it. Financial statement are prepared, and guided by the accounting thought, regulations and standards issued and prescribed and written by experts, documents issued by expert accounting body or by the government or other regulatory body. Propelled by the internationalization and globalization at an economic and organization level, the body of knowledge of accounting has expanded widely. Financial reporting is changing, accounting has always been a reactive service, changing and developing to meet the practical needs created by the environment in which it operates. These days when most business operation are largely organized across the national boundaries ,therefore accounting thoughts , practices and regulation are required to be harmonized . As business is international and its process are changing very fast. From slow beginning **I**nternational **F**inancial **R**eporting **S**ystem (**IFRS**) has become now generally accepted regulator at this international level. This paper reflects a theoretical framework for implication of **IFRS**. In this paper an attempt is made to find out the extent of applicability of **IFRS** and the level of complexity faced by various professional and firms regarding its implementation.

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BACK GROUND OF IFRS:

The **I**nternational **A**ccounting **S**tandards **B**oard (**IASB**) founded on July 1, 2000 is the successor of the **I**nternational **A**ccounting **S**tandards **C**ommittee (**IASC**) founded in June 1973 in London. On April 1, 2001, the **IASB** took over from the **IASC** the responsibility for setting International Accounting Standards. It is responsible for developing the **I**nternational **F**inancial **R**eporting **S**tandards (**IFRS**), (new name for the International Accounting Standards issued after 2001) and promoting the use and application of these standards. The **IASB** (**I**nternational **A**ccounting **S**tandards **B**oard) is an independent standard setting board, appointed and overseen by a geographically and professionally diverse group of Trustees of the **IASC** Foundation who are accountable to the public interest. It is supported by an external **S**tandards **A**dvisory **C**ouncil (**SAC**) which advises the **IASB** on various technical and strategic issues, for example; selection of topics for future development into standards. In addition the **IASB** is also supported by the **I**nternational **F**inancial **R**eporting **I**nterpretations **C**ommittee (**IFRIC**) which is mandated to interpret the standards and produce binding guidance when divergences occur in the application of the standards. In the public interest, the **IASB** is developing a single set of high quality, understandable and enforceable **I**nternational **F**inancial **R**eporting **S**tandards (**IFRS**) for general purpose financial statements. The standards developed by the **IASB** follow an accurate due process involving various stakeholders that include accountants, users of financial statements and regulators to mention but a few. The due process ensures through public debate and exposure that the views of the various stakeholders are incorporated in the requirements mandated by the **IASB** in the form of the final standards. Many countries committed to the objective of global "harmonization". The aim of the **IASB** is to issue principles based standards that can be applied across the globe. Convergence with **I**nternational **A**ccounting **S**tandards (**IAS**s) / **I**nternational **F**inancial **R**eporting **S**tandards (collectively referred to as **IFRS**s), issued by the **IASB** has gained momentum in recent years all over the world. The reason for this is obvious as the capital markets become increasingly global in nature; more and more investors see the need for a common set of **I**nternational **A**ccounting **S**tandards (**IAS**).

OBJECTIVE OF IFRS:

The main objectives of IFRS are:

1) To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements to help capital markets and other users make economic decisions.
2) To promote the use and accurate application of those standards; in fulfilling the objectives associated with the standards.
3) To take account of, the special needs of small and medium-sized entities and emerging economies.
4) To bring convergence of national accounting standards and International Accounting standards and International Financial Reporting Standards (IFRS) to high quality solutions.

IMPORTANT REASONS FOR IMPLEMENTING THE IFRS:

1) It offers a superior form of economic information on business performance and now could be the basis for internal as well as external accounting information systems.
2) It represents a switch from for tax and statute orientation to a shareholder orientation and it should be of greater relevance and importance to controllers and to managers more generally.
3) It enables integrated financial and management accounting systems that should be preferred on grounds of efficiency in data collection and processing.
4) It could be connected to the integrative potential of modern business computing systems in operating the new accounting system.

QUESTIONS WHICH YOU SHOULD BE ABLE TO ANSWER BEFORE IMPLEMENTATION OF IFRS:

- What is the strategy for changeover to IFRS? (e.g., embed IFRS throughout the accounting process vs. use IFRS only at a consolidated level; use the changeover as catalyst for other change, such as streamlining processes or enhancing controls.)
- Have the leaders of business units, treasury, HR, IT, tax, and investor relations been engaged and educated on the possible implications for them of the IFRS changeover?
- What is management's rationale (pros and cons) in selecting specific accounting policies?

QUESTIONS YOU SHOULD BE PREPARED TO ANSWER:

- Are the major risks and opportunities associated with the IFRS changeover being identified, evaluated, and documented?
- How is management learning about and assessing what other companies in our industry and our competitors are doing in their move to IFRS? Would industry consultation and/or consensus be desirable in any areas?

WHAT DOES THE IMPLEMENTATION OF IFRS PROCESS REQUIRE?

The most important message for IFRS implementation is that, it is never too early to start the transition process, especially because, when the firms present their first IFRS financial statements, they will need to present comparative IFRS information for the prior years. The process therefore should begin no later than the start of the year before IFRS adoption is mandated, and preferably earlier, to ensure that all data required are captured. The IFRS implementation process should be treated like any other major business project, and not as a technical accounting issue. A forceful project plan from the outset was thus a prerequisite for a smooth transition to IFRS. It is very important that, all staff involved in the accounting process need to be made aware of how the change to IFRS will impact their work. The choice is between recruiting experienced, IFRS knowledgeable employees or relying on external advisors i.e. auditors, subject to independence constraints, and other professional and training firms. As IFRS knowledge is needed on an ongoing basis after implementation, recruitment or the systematic training and retention of existing employees may be regarded as the most desirable option. Using in house expertise also means that the ability to take quick corrective action as delays and problems identified would be enhanced. The firms should also take a call to limit double reporting and take a view on no (or minimal) change to IFRS.

I. Systems:

Systems will need to be upgraded sometimes, for example to deal with the extensive fair value data required under IFRS, particularly regarding to financial instruments. If system's changes are to be made, these, need to be specified early on in the project, in order to allow time for development, testing and corrective action, and also to ensure that the system is ready for operation when required. The time taken to achieve this should not be underestimated. Many firms met project deadlines by "workarounds" the use of spreadsheets to produce certain figures and disclosures which were not embedded in the accounting systems. At the same time as this may have been necessary in the first instance, it is generally not desirable because firms had to do more work the following year to bring information within their normal accounting systems. There is also an increased risk of error.

II. Training:

It is very important to train all staff involved in adoption of IFRS. This is not only limited to finance teams , but extends to budget holders and any other internal or external stakeholder who needs to understand and interpret IFRS accounting information, or who is rewarded based on such information.

III. **Governance:**

The board of directors / officers should be involved from the start of the process. IFRS adoption has the potential to significantly affect earnings and net assets, and senior management needs to be aware of this fact early on inviting the regulatory intervention. The firm's auditors should also be consulted early on in the process, where key judgments and estimations would be required; to avoid last-minute revisions of the financial statements will be necessary.

IV. **Disclosures:**

Once faced with producing the first annual report and accounts under IFRS, it became evident that the disclosure requirements of IFRS are far more extensive than those of GAAP and, many firms did not fully comply with IFRS requirements. It is generally recognized that the quality of disclosures improved in the second year of IFRS implementation.

V. Business issues:

The firm must consider the effect that IFRS adoption will have on, among other things:

- Management compensation structures (profits may become more unstable under IFRS adoption, especially if the firm is exposed to the extensive use of fair values for financial instruments).
- Taxation implications.
- Key performance indicators, which may need to be amended as a result of the switch to IFRS.

INVOLVED PARTIES DURING CONVERGENCE TO IFRS:

In implementing of IFRS, several segments are involved as follow:

I. **Standard setting bodies:** standard setting bodies have an important political, social, moral, and economic responsibility. These regulatory bodies have to consider the possible impact on all of these aspects by introducing a change new accounting standard.

II. **Users of financial reports:** users of financial report will lobby with standard setting bodies to influence the outcome of the standard setting process in favor of the organization in terms of comparability and transparency.

III. **Management of the companies:** the preparers will lobby as well with standard setting bodies to influence the outcome in favor for individual firms.

IV. **Public Auditors:** public auditors will provide possible solutions to standard setting bodies to resolve and clarify accounting issues, in order to improve clarity of the applicable standards. In addition, this segment will lobby with standard setting bodies to realize the best possible outcome for the capital market and the profession for maximum transparency and comparability of firms. Public auditors lobby with standard setters in order to reduce the complexity of the standards in advantage to current clients and themselves.

V. **Academics**: academics perform consequently empirical research on the impact of change in accounting standards and will consequently have constructive input for standard setting bodies, with possible economic consequences resulting from certain changes implemented in the past.

STEPS TO IMPLEMENTATION OF IFRS:

There are 7 steps to implementing of IFRS that should be considered:

1) Strategy, 2) Leadership, 3) Communication, 4) Resources, 5) Knowledge, 6) Project management, 7) Time.

1) Strategy:

The firm can approach this in two different ways:

- Prepare financial statements of subsidiaries under national standards and convert to IFRS at consolidation.
- Implement IFRS as an accounting process across the whole firm.

2) Leadership:

Leadership in IFRS transition must come from the top of the organization. Depending on strategy; it's likely that IFRS will change behavior. Therefore, senior management must show leadership and sponsorship of the project. The implementation of IFRS is invariably a compulsion from the regulators. This means that there is a need to prioritize the work, and that requires leadership from the top of the organization. Clearly, the relationship with external stakeholders needs to be managed. In the private sector, these amounts to analysts at stockbrokers, bondholders, shareholders and other providers of finance, in the public sector, whilst these stakeholders don't exist, there remains a dialogue with the higher echelons of the public sector structure.

3) Communication:

As all projects, communication with interested stakeholders is necessary for both the internal and external stakeholder groups and how IFRS will impact on business decisions.

4) Resources:

The team needs to be a formally constituted project team that meets with the requirements of the firm, Clearly, technical accountants that are well versed in IFRS are required, but also a project sponsor (probably the CFO, and non-finance representatives of the business who know how it works, If the project is large enough, permanent staff may be seconded to the implementation project or outside resource brought to bear.

5) Knowledge:

The following knowledge reserves in the firm are required:

I. A good overview of the firm's operations and business issues, together with events and transactions that typify the firm's activities
II. Familiarity with the reporting processes currently in place and the technology that's used to support them
III. An understanding of the methodologies and tools that will be used to implement IFRS within the firm's reporting processes

The project team will bring together the people who are the reserves of this knowledge that must work together as an effective team that achieves the goal of IFRS implementation. Typically, the skills required would include technical accounting, treasury, tax, legal, actuarial and systems specialists, and human resource and project management specialists to run the project.

6) Project management:

There are a number of key phases into which the project can be divided to ensure that it can be managed properly to achieve a successful conclusion:

A. Raise Awareness.

All those that are affected by IFRS implementation need to be aware of its existence, with the whole firm mobilized behind it. The key areas are as follow:

I. The effect on current accounting and reporting and the current state.
II. Complexity of impact upon systems and processes and their current state.
III. The complexity of impact upon people.

Fragmented or conglomerate firm may have different degrees of state and impact. Examples include firms with international structures and public bodies with disparate activities and finance structures.

B. Assess:

The firm needs to assess the impact areas and how to get it right first time, based on the differences between local GAAP and IFRS. This assessment needs to be made on the systems for management as well as statutory reporting and budgeting as well as reporting. Once the assessment is made, management is able to determine a cost-effective path that has minimum disruption to the firm. The team making this assessment is multi disciplinary. The method to employ in making this assessment is a gap analysis between local GAAP and IFRS in terms of accounting and disclosures, systems and processes and on the training needs for individuals. This produces an implementing plan and budget and the formulation of additional benefits that a revision of systems and process can give in.

C. Design:

This is the process for closing the gaps to harmonize local GAAP with IFRS, but may also include the redevelopment of the reporting pack, enhancing or speeding up the reporting process, planning and implementing the necessary systems changes and developing the necessary training programs for technical and operational staff. The plan needs to build in a dry-run, data collection and testing and analysis. All of these points need to be built into a project management plan with established milestones over the implementation time period..

7) Time:

Time is as much of a critical success factor as the other points above since invariably there is a stipulation that IFRS is to be implemented by a certain date. The more time that is allowed, the more opportunity there is to iron out any problems arising.

IMPLEMENTATION OF IFRS AND ITS ADVANTAGES:

1) It would benefit the economy by increasing growth of international business.
2) It would encourage international investing and thereby lead to more foreign capital inflows into the country.
3) Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions. IFRS would enhance the comparability between financial statements of various firms across the globe.
4) Better understanding of financial statements would benefit investors who wish to invest outside their own country.
5) The industry would be able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards.
6) It would reduce different accounting requirements prevailing in various countries there by enabling enterprises to reduce cost of compliances.
7) It would provide professional opportunities to serve international clients.
8) It would increase their mobility to work in different parts of the world either in industry or practice

IMPLEMENTATION OF IFRS AND ITS CHALLENGES:

1) Increase in cost initially due to dual reporting requirement which entity might have to meet till full convergence is achieved.
2) In many countries, the accounting framework is deeply affected by laws and regulations. Changes may be required to various regulatory requirements under The Companies Act, Income Tax Act, etc. so that IFRS financial statements are accepted generally.

3) If IFRS has to be uniformly understood and consistently applied, all stakeholders, employees, auditors, regulators, tax authorities, etc would need to be trained.

4) Entity would need to incur additional cost for modifying their IT systems and procedures to enable it to collate data necessary for meeting the new disclosures and reporting requirements.

5) Differences between country's GAAP and IFRS may impact business decision / financial performance of an entity.

6) Limited pool of trained resource and persons having expert knowledge on IFRSs.

SIGNIFICANT OBSTACLES TO ACHIEVING CONVERGENCE ARE FOLLOWING:

- Disagreements with the requirements of certain significant IFRS, for example, financial instruments and other standard based on fair value accounting.
- Tax driven nature of the national accounting system and the tension wield on the capital markets and firms which desire to adopt IFRS.
- Complicated nature of particular standards may have as a result the limited implementation of IFRS to listed firms, widening the gap between IFRS and the national accounting standards used by small and medium-sized entities (SME) s.
- Insufficient guidance on first time implementation of IFRS.
- Limited capital markets.
- Satisfaction with national accounting standards among investors/users.
- Translation difficulties.

DETERMINE WHEN TO QUANTIFY THE IMPACT OF IFRS:

To understand the impact of IFRS on financial results, most people know that being able to work through the numbers is generally more effective than having to rely on words alone. When should a firm provide quantified information about the impact that IFRS is likely to have, both on transition and ongoing? This question triggers considerable discussion, but the answers appear to fall into two clusters.

- Some financial executives take a conservative stance. They strongly believe that fims should disclose quantitative information only when management is absolutely confident that the information it can provide is complete and accurate.
- In contrast, other financial executives are willing to provide quantitative insights at an earlier point. They are prepared to provide information, when they have it, on the

potential quantitative impact of specific accounting policies being considered. They will, however, require that their disclosures be subject to certain conditions. For example, they may indicate that management has confidence in the process used to reach these decisions and reasonable confidence in the numbers being provided, and also include in the disclosure appropriate cautionary language about key assumptions and that amounts are unaudited.

For each firm, determining the right time to provide quantitative disclosure will require a fine balance management's comfort with the level of accuracy and completeness of the information versus stakeholders' need for information to understand the likely impact of IFRS. As noted earlier management's initial plans about when to provide quantitative information may be further complicated by peer firms or competitors making information available earlier than anticipated. Also, regulators clearly expect this information to be provided as soon as possible. Effective disclosure controls and procedures as well as the firm's disclosure committee should certainly demonstrate their value this year. For example, any messages being delivered by investor relations to the market definitely need to be aligned with any quantitative IFRS related disclosures provided. Audit committees should be prepared for interesting and challenging discussions. Directors should be able for considering how effectively their firm is communicating with stakeholders about its move to IFRS.

ECONOMIC CONSEQUENCES OF IMPLEMENTATION OF IFRS:

IFRS was invented to set a formalized method for recording and reporting the economic activities of businesses. If the capital market become more assure that the financial statements of a firm represent a true and fair view of their financial performances, there will be a liquid market to trade securities on. In addition, due to increasing transparency the cost of capital can be reduced. Market liquidity is affected by lower transaction costs and a narrower bid ask spread. The introduction of IFRS was focused on improving transparency and comparability of firms, and consequently the economic benefits are possible results to firms for adopting these reporting standards. The direct measurements of economic consequences of IFRS are not simple matters. IFRS adoption will have a favorable impact on economic benefits in many instances as follows:

- It has impact on economic, social, or political scale. In public policy considerations, such as domestic economic growth and stability or promoting the competitiveness of an economy in the globe, should be included in standard setting decisions.
- It will have impact on judgment and economic decisions and capital market.
- It is important for decision making activities for a management team as adopter in the firm.
- It impacts on accounting reports on the decision making behavior of business, government, unions, investors, and creditors.
- It would affect the wealth distribution.
- It would improve general public confidence in financial markets, due to more transparency resulting in a more efficient allocation of capital resources.
- The increased credibility of the financial statements of a single entity, resulting in an improved accessibility to capital markets and possible lower costs of capital.
- It can increase utilities.
- It will increase management efficiency as a result of accountability to shareholders, investors and others who could make better informed evaluations and comparisons.
- Prepares of financial statements can take actions directly in response to changed accounting standards in only own interest situations.
- In reality there are much more users of financial statements than just investors and creditors who give more feedback to adopters.
- It causes change in the competiveness of one country to another, or between continents. This is due to a change in accounting standards for that specific region.

CONCLUSION:

The implementation of International Financial Reporting System (IFRS) needs to take into account all of the forces affecting corporate behavior and all of the layers of the corporate reporting process. The process as a whole needs to contribute to wealth creation. The arguments in favor of IFRS implementation (i.e. the benefits to firms and investors of lowering the costs of cross border transactions) apply equally to monitoring and enforcement activities. Indeed, it could be argued that much of the effort devoted to IFRS implementation will be wasteful if there are inconsistent or duplicative national approaches to monitoring and enforcement. Inconsistency will constrain the improvements in investor confidence; duplication will increase costs for both firms and investors. The benefits from cooperation amongst national regulators are already well understood in the banking, securities and insurance markets. There are well established international organizations at the global and European levels which make it easier for the national authorities to cooperate and to adopt common approaches. It is reasonable for them to request a consistent regulatory framework in which to operate. A single worldwide regulatory approach or regulatory organization is neither feasible nor desirable because the national differences in the factors affecting the design and intensity of monitoring and enforcement activities (e.g. firms and securities law, the strength of the accounting profession, the extent to which investors are able to exert influence over firms, etc.) are likely to persist for a long time. However, it is more realistic to hope that, over time, there could be agreement on common principles and on cooperation arrangements. International agreement on IFRS would make cross border regulatory cooperation easier and more effective. As yet, however, there are no equivalent organizations for the national audit regulators. Given the recent creation of independent audit regulators in a number of countries, and the likelihood of this number increasing in future, it is believed that there would be merit in the establishment of an international mechanism to facilitate exchange of information and the development of IFRS which would help to reduce the risk of inconsistency or duplication .

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