



FINANCE REPORTING

International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)



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Executive Summary

[International Accounting Standards \(IAS\) and International Financial Reporting Standards \(IFRS\)](#) - Advantages and disadvantages of having a common set of global reporting standards

[Overview](#)

The IFRS standards were put in place in 2005 and thus replaced the IAS standards which have been in place since 1973. International Financial Reporting Standards (IFRS) is an accounting policy for the preparation of financial reports. It allows companies room for flexibility and maneuvering in their financial reporting as they follow principles rather than rules. In this report you will discover what International Accounting Standards and International Financial Reporting Standards are and its advantages and disadvantages

[Pros and Cons](#)

There are many disadvantages in adopting from IAS to IFRS including...

- Lack of detail, does not allow reviewers to compare to industry standards
- High adoption costs re-education and training
- Less stringent standard

But the transition to IFRS has many advantages including...

- A globally harmonized system, common rules, and standardization
- Easier comparison of economic results
- More prudent management, using common language that is understood by various partners
- Greater Transparency

[Highlights](#)

Following the research that has been carried out to analyse the use of IFRS or IAS in businesses today it was found that the widespread acceptance of IAS & IFRS still requires more analysis of the implications for the accounting profession and also the examination of technical structure and the harmonization of accounting as a whole. In countries with institutional environments and diverse accounting the flexibility of principles-based approach enables the application of IAS and IFRS. IFRS is a preferred model and is the current and updated version of the IAS

Introduction

In 2005 the **International Financial Reporting Standards (IFRS)** were put in place and replaced the International Accounting Standards which have existed since 1973. The main aim of these standards is to promote international trade through a harmonized accounting statement model. **International Financial Reporting Standards (IFRS)** is a policy used in accounting to prepare financial reports. IFRS follow principles which allows companies flexibility in producing financial statements **Appvizer 2022**.

The **principles** include:

- the balance sheet approach (priority of the balance sheet over the income statement),
- the primacy of substance over form,
- the regulation of neutrality,
- the priority given to the investor's vision,
- the important place given to interpretation,
- the precautionary form.

Many countries around the world have seen many advantages to adapting the International Accounting Standards (IACC) and the Financial Reporting Standards (FRS). The interlinking of various investment exchanges help enables entities and individuals around the world buy and sell financial securities on an international level **Gillespie & Swan 2021**. Adopting uniform standards reduces the costs across borders of doing business by reducing the requirement for supplementary information. Information is made more comparable and these aids enhancing analysis and evaluation of financial statements (**Adekoye, 2011**). The International Accounting Standards Committee (IASC) was originally founded in 1973 by a group of professional accounting practitioners **Madawaki 2012**, this was to help bridge the the gap between accounting standards in many countries. The (IASB) is a private organisation of a global scale where the main aim is to create and issue universal financial statements preparing and reporting standards. The main objective of implementing and creating IFRS was to achieve the convergence and standardization across many different accounting standards which were being used in different countries. International Financial Reporting Standard (IFRS) is applied across the globe by many companies, it's unique, uniform and easily understandable accounting standard is acceptable in most firms and is a powerful tool to bring uniformity to financial reporting by companies at the global level. The American Journal of Economics and Business Innovation seeks to highlight different dimensions and the pros and cons of using the International Financial Reporting Standard across borders. The result of the studies carried out have confirmed that IFRS assimilation will improve transparency, comparability across the spectrum **Abdul & Abdullah 2022**. Having many differences in accounting standards in each country can make it difficult to understand for analysts, investors, and creditors in understanding the financial statements presented to a different standard. For the last two decades IFRS has been a global concern, in recent years IFRS has become more widely accepted, practiced and dominant in the world. Many countries have been working towards implementing IFRS because it allows consistency in reporting the financial condition and users of the financial statements aspire high quality standards, transparency, and comparable information' (**Collings, 2012**). Over 100 countries have adopted the IFRS as accounting standards and most other countries are on the pathway to adopting it (**Tsakumis, Campbell Sr, & Doupnik, 2009**). In 2010 the IFRS process was adopted worldwide, with mandatory adoption in Brazil followed by, other countries with great economic significance. i.e. in 2011, Canada; in 2012, Mexico and Russia (Armstrong, Barth, Jagolinzer, & Riedl, 2010) **Adnan & Khan 2021**.

Main Findings

Many developing countries have been converting to International Financial Reporting Standards and there has been no doubt that this has been a huge task and very challenging to make this change. Based on research carried out on taken on IFRS adoption in Nigeria, a few of the following recommendations were suggested where Nigeria would benefit from adopting IFRS. It would strengthen education, professional accounting, and training, establish an independent body to embed and monitor auditing and accounting codes and standards and lastly, we need to ensure that the required resources are put in place to support the sustainable implementation of IFRS for it to be a success. Also, it was suggested having focus groups available to respond promptly and be available to support with any concerns from users and provide ongoing training support through implementation **Odo 2018**. In the last few decades, international harmonization of accounting standards has been a global trend. The main goal is to remove any barriers that can hinder investors comparing the accounting information of companies from different nations and allowing them to keep their costs down. Research has shown that adoption of IFRS is done unequally in many countries, ranging from full or part adoption and in some countries a lot of resistance. International Standards can be compromised if the IFRS are not adopted the same extent around the world. According to Nobes and Zeff, one of the limitations of mandatory use of IFRS is a phrase used "all the major countries" which does not include China, Japan and the United States which are three of the world's largest economies. The adoption of the IFRS has slowed down considerably as the initial interest and enthusiasm becomes less. In China (**GAAP**) Generally Accepted Accounting Principles are used (GAAP is known as a collection of commonly followed accounting rules and standards for financial reporting) but Chinese companies generally accepted all three types of accounting and also had to choose to adopt part of the IFRS. According to **Investopedia 2022** research shows that 167 jurisdictions now required the use of IFRS Accounting Standards for most publicly listed companies. IFRS Standards are permitted in many parts of the world including South Korea, Brazil, India, Australia, Turkey, Israel and many more. Many companies in India have adopted IFRS ahead of time including companies such as Wipro (IT Firm), Tata Motors, Bombay Dyeing. Since 2007 IFRS has become mandatory for listing in the European and for companies with exposure in European markets through debt or equity, it is essential to have transparency to be able to raise capital cheaply and have a proactive approach **Pal 2021**. Companies such as Samsung, Adidas, and Sony use IFRS and although McDonalds believes there are benefits maintaining GAAP, they are also looking into incorporating some elements of IFRS into the United States but rather than a full adoption of IFRS they feel a well-balanced approach to incorporating IFRS to GAAP **International hub 2011**. One of the advantages of IFRS compared to GAAP is the focus it has on investors in many ways, such as more accurate and comprehensive financial statements, standardization of reporting standards and more importantly reduces cost for investors. The original goal was for all large and medium sized companies to use the revised standards from 2012 and this goal still remained unachieved with very little movement and change. In January 2008 in the United States the Financial Accounting Standards Board predicted that it would take approximately five years to completely adopt to IFRS in the United States. The United States has chosen not to adopt to the IFRS after more than twelve years but also have also now started to resist **Bengtsson 2022**.

A study was carried out on the International Financial Reporting Standards (IFRS) in Indonesia and Turkey and looking at determinants that will affect with the adoption in these two countries and identify any difficulties. The shrinkage of the world and the spread of globalization with improving technology has also impacted businesses. Businesses have tried to minimise the barriers to global investment by prioritizing the IFRS development. The importance of international standards accepted by international investors at the international level has been understood in order to reduce the barriers to global investment in order to expand global investment. Implementation of IFRS can be challenging and not an easy task due to countries having their own economic problems and system constraints with international relations agreements. Studies were carried out on IFRS applications in Indonesia and Turkey and the findings were that IFRS-14 Regulatory Deferral Calculations could not be applied in Indonesia as transactions regulated in IFRS 14 are not legally permitted by Indonesian law, it states the government is fully responsible for managing natural resources such as electricity, natural gas, and water in a publicly owned company for the benefit of society. IFRS implementation in Indonesia and Turkey are very different due to having legal background/laws their countries. **BASKAN September 2022**. Another study was carried out to examine whether the change in

accounting standards to principles based IFRS from rules-based local GAAP can influence an audit or to complete a more favourable audit opinion. The results that adopting IFRS may use the flexibility of IFRS to their advantage and use auditors that are more likely to give clean opinions. However, auditors may refuse to yield to client pressure for Organisational Behaviour, because of the greater potential audit risk under principles-based standards. It suggests that the principles based IFRS increase the scope of OS, and auditors tend to accept OS clients by weighing up its costs and benefits. **Nguyen, Phan & Maheshwari 2022.**

Research was also carried out review the possibility of future implementation of the International Financial Reporting Standards (IFRS) in Libya. A survey of over 300 responses and a number of interview scripts was evaluated from an identical questionnaire that was completed in 2015 and 2018. The results confirmed that a high number of respondents said they had sufficient knowledge and awareness of the IFRS reporting tool and believed that IFRS will have a positive impact. The main main factors which affect implementation in Libya are instability of government (61%) and corruption (59%) 'also language barriers selected by 44%. Based on Institutional Theory as the underlying framework of the research, I find that stakeholders of IFRS, such as corporations, investors, policymakers, and national regulators, can in the future take advantage of the normative pressures for the adoption and implementation of IFRS in Libya. Is of Libyan education **Abdurahaman 2021.**

Conclusion

To conclude, although various research has confirmed that adopting IFRS will bring transparency, uniformity, and reliability, result in an increase in foreign direct investment, and a reduction in the cost of capital, that has not always been the outcome of many other studies. More research is to be carried out by taking more varied types of industries across the globe highlighting different dimensions of the International Financial reporting standard adoption towards uniformity in terms of comparability, verifiability, timeliness, understandability, and acceptability **Abdul, Monem & Nahar 2022.** International Accounting Standards and International Financial Reporting Standards is a well-researched area and many organizations and policy makers and are yet to understand how IAS/IFRS and regulations impact on their quality of financial reporting. A study was carried out in Zimbabwean, this country has a history of poor quality of financial reporting. The results showed that they were unable to find systematic evidence when a desktop study was carried that adoption of IFRS results improved financial reporting quality for adopters. The results were consistent in demonstrating that the quality of financial reporting decreased for companies that mandatorily adopted IFRS and consistent less earnings management for firms that voluntarily adopted IFRS. IFRS. REFERENCES: 1. Armstrong, C.S., Barth, M.E., Jagolinzer, A.D. & Riedl, E.J. (2010), "Market React **Newman, Edmore & Milondzo 2016.** The evidence from another study was to examine the effect of International Financial Reporting Standards (IFRS) on earnings quality more than ten years ago after France mandatory adopted IFRS. The results showed a reduction in earnings quality that continued for a decade after IFRS adoption. It was found that the fair value principle worsened earnings volatility, mainly due to a decline in earnings. However, results also showed that there has been an improvement in earnings reliability after IFRS adoption which may suggest that the international standards were able to constrain managerial opportunism **Benkraiem, Saad & Lakhai 2021.** Finally, research was carried out on many Indonesian companies which confirmed that adoption of IFRS increased the quality of financial reporting **Yurisandia 2015**

Recommendations

International Financial Reporting Standards (IFRS) & International Standards (IAS) provides an internationally recognised and high-quality set of accounting standards around the world. It creates efficiency, accountability, and transparency to the financial markets by enhancing the quality and comparability of financial information. This will also enable market participants and enabling investors to make more informed economic decision's by reducing the information gap between the monies invested from a provider have more trust with whom they have invested their money. IFRS is good for the economy as it assists investors in helping them identify risks and opportunities around the world improving the allocation of capital. Using a trusted single accounting standard will help reduce the cost of capital and international reporting costs for businesses.

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