

International Financial Reporting Standards - A Tool for Harmonising the Financial Reporting

Abhishek N.*, M. S. Divyashree**

Abstract

Accounting is a media which communicates the business and financial information of each and every organisation so as to cater to the needs of various interested parties. Business involves undertaking a series of activities, which may be financial or non-financial, to achieve its prime goal. Irrespective of the nature of the business activity, it is important to note that all the information in relation to the activities undertaken by them must be communicated so as to ensure the transparency and accountability towards its stakeholders. To achieve the quantitative and qualitative communication of business and financial information, it is necessary to follow standardized, comprehensive, and unified accounting standards and guidelines. One such standard is International Financial Reporting Standards. The present study is intended to analyse the perception of users of financial statement from financial analysts and investors. Based on the primary data, it is found that users of financial statements are having positive perception towards harmonisation of accounting standards and they opined that it enhances the quality of financial reporting.

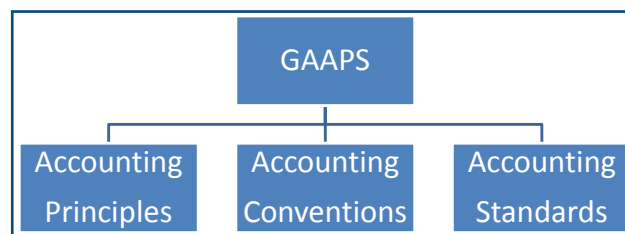
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Background

Accounting is a media which communicates the business and financial information of each and every organisation so as to cater to the needs of various interested parties. Business involves undertaking series of activities, which may be financial or non-financial, to achieve its prime goal. Irrespective of the nature of the business activity, it is

important to note that all the information in relation to the activities undertaken by them must be communicated so as to ensure the transparency and accountability towards its stakeholders. To achieve the quantitative and qualitative communication of business and financial information, it is necessary to follow standardized, comprehensive and unified accounting standards and guidelines. These standards and guidelines are popularly known as GAAPs (Generally Accepted Accounting Principles), which comprise of accounting principles, conventions, and standards.



Source: Author complied

Fig. 1

Principles are those fundamental assumptions used for reporting the financial events of the business organisation, where conventions are the customs and traditions, which are followed by the accounting community to accounting the transactions. Whereas accounting standards are the fundamental guidelines, framework, policies, procedures and rules governing the recognition, measurement and disclosure of monetary elements of the business organisation. These are fundamental to accounting environment both at the domestic and global levels. This ensures the uniformity, comparability, transparency and quality of accounting information as well. But the degree of uniformity of financial information disclosures totally depends on how accounting regulatory set up works to implement the global standards in their environment and it clears that by operating global standards across

* UGC-SRF Scholar, DoS in Commerce, University of Mysore, Mysore, Karnataka, India.
Email: abhishekalmighty93@gmail.com

** Assistant Professor, GFGC Bilikere, Karnataka, India.

different countries, it is impossible to ensure quality and comparability of business and financial information and it also requires adequate regulatory supports. (Ball et al., 2003; Daske et al., 2008). So, it is clear that quality and comparability of financial information can be achieved only when the accounting regulators are committed to implement the global standards in their environment.

The accounting regulatory bodies are the institutions that comprise of accounting experts and involve in the setting up of accounting standards and implementing the same in the accounting environment they are actually operating. At the global level, IASB (International Accounting Standards Board) is the accounting regulatory which involves in setting up of IFRSs (International Financial Reporting Standards). At the domestic level, ICAI (Institute of Chartered Accountants of India) is the accounting regulatory, which looks after the accounting standards to be applicable to the Indian companies. Nowadays, majority of the countries of the world are collaborating with global accounting regulatory, i.e., IASB, to implement global accounting standards in their country. India is one among such countries to take such step to implement global accounting standards in Indian context. Implementation of IFRS, i.e., global accounting standards, ensures the higher quality of financial reporting than the earlier domestic GAAPs and it also provides benefits by offering financial transparency, minimizes the information asymmetry, easier international comparison, increased foreign inflows, and reduces the cost of capital as well (Levitt, 1998; IASB, 2002).

Principle-based vs. Rule-based Accounting Standards

There are mainly two types of accounting standards, namely, Principle-based and Rule-based accounting standards. Principle-based accounting standards are most widely used accounting standards across the world. This standard involves in adjusting accounting principles to the company's business and financial transactions rather than adjusting companies business and financial transactions to the accounting principles. This accounting standard allows the accounting professionals to use their intellectual capacity and which is Meaning of this sentence is not clear. Kindly rephrase. IFRS and Ind-As (Indian Accounting Standards) are the principle-based accounting standards having the dynamic nature of making financial reporting

more qualitative than ever, whereas rule-based accounting standards are the accounting standards which are based on certain rules which are to be followed while preparing the financial statements. These standards are widely used in the USA and do not allow the accounting professionals to think beyond the rule set by the regulatory authorities. As compared to rule-based accounting standards, principles-based accounting standards contributes more towards fulfilling the needs of stakeholders as it is dynamic in nature.

By the use of accounting standards, it is possible to harmonise the financial reporting both at the domestic and national levels. Harmonisation of accounting standards means removing the diversity and bringing uniformity in accounting standards (Tay, 1989). The concept of harmonisation emerged in 1960s when countries of the world were moving towards globalisation (Gray et al., 1984). Harmonisation of accounting standards importantly benefits for various users of financial statements such as shareholders and financial analysts by providing the information they actually need for making investment decisions. (Rivera, 1989). It is also importantly noted that even after the implementation of IFRS in some countries there exists diversity in financial reporting due to the weak accounting regulatory environment (Soderstrom and Sun, 2007). It clears that by implementing IFRS, the countries of the world can enjoy the benefits of harmonisation such as comparability, transparency, and high quality of financial reporting, which enable the more inflow of foreign capital to the country. This can be achieved only when the accounting environment prevailing in the country is strong. The present paper is intended to analyse the role of IFRS in harmonising the accounting standards in Indian context by considering the perception of various stakeholders.

The organisation of the paper in the successive sections is Literature Review, Data and Methodology, Results and Discussions, Findings, Conclusions and Direction for Future Research.

Literature Review

This section deals with study of earlier researches to determine the research gap to conduct the present research.

Aria et al., (2018) conducted a study to analyse an impact of IFRS on increasing foreign inflows and the

comparability of financial reports at cross-country level. For the purpose of the study, they analysed the annual reports of 18 countries across the globe. The results of the study revealed that the IFRS-based financial reporting positively impacts on the comparability of the financial statements and also increases the foreign investment to the economy.

Trabelsi, (2016) opined that the implementation of IFRS in emerging economies are difficult as they are not ready with suitable regulatory and other infrastructure needed for this purpose.

Ahmed and Ali (2015) evaluated the level of harmonisation of accounting standards in Bangladesh, India, and Pakistan, with the help of content analysis of financial reports of 370 non-financial companies of these countries. They found that the level of harmonisation is dramatically improved over the period of time in the selected countries for the study.

Nguyen and Tran (2012) analysed the recent accounting regulations made to induce international harmonisation in Vietnam and found that the accounting regulators are in a very serious mode at the time of implementing the accounting standards and this made the countries' accounting system more uniform.

Bhattacharya (2011) concluded that the IFRS and audit functions are having close relationship as they are having the 'substance over form' which has to be applied while making the judgements on estimations made by the management of the business organisations.

Siqi Li (2010) found that IFRS reporting mandate evidently reduces the cost of equity for the adopters. They also emphasized that the quality and comparability of the information is the key issue after the mandatory implementation of IFRS and it is the key issue to be addressed by the future researchers.

Alfred Wagenhofer (2009) analysed the challenges and political influences on setting up of global accounting standards and they found that the standard setting strategies adopted by the IASB are risky in nature. Evidently, they also concluded that the standards are most suitable to listed companies and not for unlisted companies.

Jahangir Ali (2006) evaluated the accounting disclosure harmonisation in selected countries like India, Pakistan,

and Bangladesh. For this purpose, researchers have analysed 566 non-financial companies' annual reports and found that high harmonisation in disclosure aspects such as inventories, cash flow analysis, and consolidated financial statements. There is also a lower level of harmonisation in the disclosure aspects such as income tax, leases, retirement benefit costs, etc.

From the review of earlier researches, it evidently found that most of the studies have focused on analysing the benefits of harmonisation of global standards, evaluating the level of harmonisation by the implementation of IFRS and the challenges involved in harmonising accounting standards and no studies have focused on stakeholders' perception on harmonisation of accounting standards in Indian context and it is evidently found that there is a need for studying the impact of IFRS-based reporting on the quality of financial reporting (Siqi Li., 2010). So, the present study is intended to analyse the perception of stakeholders on harmonisation of accounting standards and the impact of IFRS based reporting on the quality of financial reporting.

Need For the Study

In India, IFRSs implementation roadmap is completed almost by extending its coverage to NBFCs (Non-Banking Financial Companies) from this year. But after the complete implementation, the next question is how the stakeholders of information are capable of being understood IFRSs-based information for their individual decisions. So, the present study is needed to analyse the stakeholder's perception on IFRSs-based financial reporting quality and its consequences on their role to be played while making their decisions and also to analyse its importance in harmonising the accounting environment in Indian scenario.

Research Questions

Based on the research gap, the following research questions are framed:

- What is the perception of stakeholders of financial statements on harmonisation of accounting standards?
- Does implementation of IFRS in India enhanced the quality of financial reporting in India?

Research Objectives

To answer the above questions, the following objectives were framed:

- To analyse the perception of stakeholders of financial statements on harmonisation of accounting standards.
- To examine the impact of IFRS implementation on the quality of financial reporting in India.

Hypotheses

Based on the objectives, the following hypotheses were framed for the study:

- H_0 - Stakeholders of financial statements are not having positive attitude towards harmonisation of accounting standards.
- H_0 - IFRS implementation does not impact on the quality of financial reporting in India.

Research Methodology

For the purpose of achieving research objective, the study is in the nature of empirical. Data were collected from both primary and secondary data. Primary data were collected through the survey method which is the technique of collecting the data which have the potential to enhance the generalisation of results of the research (Dooley, 2001) with the help of structured questionnaire prepared on 5-point Likert scale from stakeholders of financial statements such as investors and financial analysts. Investor's details were collected from stock brokers of Mysore city and financial analyst's details were collected from internet through linkedin.com. The sampling method is convenience sampling which is non-probability sampling and most suitable

Results and Discussion

Table 2: Results of One-Sample T-test on the Perception on Harmonisation of Accounting Standards

<i>Perception on Harmonization of Accounting standards</i>	<i>N</i>	<i>Mean</i>	<i>Standard Deviation</i>	<i>T</i>	<i>Sig. (Two-tailed)</i>
Harmonisation makes the accounting environment of the country acceptable at the global level	29	4.0345	1.08505	5.134	.000
It attracts global stakeholders	29	4.1034	1.20549	4.929	.000
It facilitates to comparison of financial results of a company with international firms	29	4.3103	1.31213	5.378	.000

for the circumstances in which it is difficult to find the respondents and is a speed, less-expensive, and more convenient to the researchers (Gravetter and Forzano, 2012). So, based on the availability of respondents, a survey is conducted. The gathered data are analysed with the help of one-sample t-test which is most suitable for the circumstances in which size of population is less than or equal to 30 (McMillan and Schumacher, 2010).

With the help of details of financial statements, users' questionnaires were distributed individually, through emails and by post. The respondent's information is shown in Table 1.

Table 1: Respondents Information

<i>Sl. No.</i>	<i>Stakeholders of financial statements</i>	<i>No. of questionnaires distributed</i>	<i>No. of Responses collected</i>	<i>Rate of Response</i>
01.	Investors	25	18	72%
02.	Financial Analysts	25	11	44%
	Total	50	29	58%

Source: Author Compiled

The responses from investors are collected with the help of stock brokers of Mysore city such as Angel Brokers, Zerodha, and Alpha traders. From these brokers, we collected the email ids of the investors and 25 questionnaires were mailed to them firstly. And after 20 days, again a reminder mail was sent and finally 18 investors responded. The responses from financial analysts (Chartered accountants, Company secretaries, Cost and Management Accountants who are situated in Mysore city) are collected. 25 questionnaires were personally distributed to financial analysts and only 11 responses were collected. Out of 11 responses, four are from chartered accountants, five from company secretaries, and two from CMAs.

<i>Perception on Harmonization of Accounting standards</i>	<i>N</i>	<i>Mean</i>	<i>Standard Deviation</i>	<i>T</i>	<i>Sig. (Two-tailed)</i>
It creates the opportunity for obtaining investment from foreign investors	29	4.3448	.72091	10.046	.000
It helps the country's economic growth	29	4.3448	.85673	8.453	.000
Harmonisation of accounting standards helps to reduce information asymmetry	29	4.2414	1.29987	5.143	.000
It helps to predict the future financial performance	29	4.5862	.73277	11.657	.000
It enables for accurate investment decision making	29	4.5517	.63168	13.229	.000
It reduces the vulnerability of financial position of the firms	29	4.4828	.68768	11.611	.000
It eliminates uncertainty of the future performance of the company	29	4.5172	.68768	11.881	.000

Source: Primary Data

Table 2 shows the results of one-sample t-test at the 5% significance level regarding the perception of stakeholders on harmonisation of accounting standards. The p-value of all the variables is showing less than 0.05 hence null hypothesis – “H₀- Stakeholders of financial statements are not having positive attitude towards harmonisation

of accounting standards” – is rejected and alternative hypothesis – “H₁ - Stakeholders of financial statements are having positive attitude towards harmonisation of accounting standards” – is accepted. It means that the harmonisation of accounting standards supports the users of financial statements in making their decisions.

Table 3: Results of One-Sample T-Test Regarding Perception of Stakeholders on Impact of IFRS Implementation on Quality of Financial Reporting

<i>Perception on impact of IFRS implementation on Quality of financial reporting</i>	<i>N</i>	<i>Mean</i>	<i>Standard Deviation</i>	<i>T</i>	<i>Sig. (Two-tailed)</i>
IFRS implementation improves the transparency of financial reporting	29	4.7241	.59140	15.700	.000
IFRS implementation improves the comparability of information	29	4.5517	.68589	12.183	.000
Recognition, Measurement and Disclosure of financial statements are comprehensive under IFRS	29	4.6897	.60376	15.071	.000
IFRS-based financial reporting increases the confidence of the users	29	4.3103	1.16813	6.041	.000
IFRS-based reporting helps in predicting the trends of the business	29	4.3793	.77523	9.581	.000
IFRS-based reporting enables to provide unbiased information to the stakeholders	29	4.5862	.62776	13.607	.000
It helps to disclose detailed and sufficient information comprehensively	29	4.4828	.63362	12.602	.000
It supports to draw conclusions on business and financial of affairs by the users of information	29	4.4828	.68768	11.611	.000
IFRS reporting helps to verify the reported results with assumption made as per accounting	29	4.3448	.81398	8.897	.000
IFRS helps to disclose the business and financial results at the fairvalue	29	4.5517	.68589	12.183	.000

Source: Primary Data

Table 3 shows the results of one-sample t-test at the 5% significance level regarding the perception of stakeholders on the impact of IFRS implementation on the quality of financial reporting. The p-value of all the variables is

showing less than 0.05, hence the null hypothesis – “H₀- IFRS implementation does not impact on the quality of financial reporting in India” – is rejected and alternative hypothesis – “H₁- IFRS implementation is impact on the

quality of financial reporting in India” – is accepted. It means that the quality of financial reporting has improved from the implementation of IFRS in Indian scenario.

Findings

This section provides the detailed findings of the study, which are segregated into two categories such as findings based on the objectives and findings based on observation.

Findings based on the objectives:

- With respect to first objective, it is evidently found that the harmonization of accounting standards positively supports the users of financial statements such as investors and financial analysts as their perception supports this result.
- With respect to second objective, it is evidently found that the quality of financial reporting is improved as per the perception of the users of financial statements such as investors and financial analysts.

Findings based on the observation:

- It is found that the benefits of harmonisation can be enjoyed to its full extent only when the regulatory authorities put their effort to implement global standards like IFRS strictly in their accounting environment. In India, ICAI and the MCA (Ministry of Corporate Affairs) have implemented Ind-AS (IFRS-based standards) successfully. Now, the users can easily compare the Indian companies' results with foreign companies' results.
- It is also noted that for harmonisation of financial reporting, merely mandating of any particular standard will not yield good results and it requires a separate reporting mode that can be done through XBRL (Extensible Business Reporting Language) and which is mandatory for the selected group of companies and not mandatory for small- and medium-scale organisations. The economy of the country will not exclude this group of organisations, so it is necessary for implementing IFRS as well as XBRL for this group of organisations to further advance the harmonisation in India.
- Further, it is observed that during the literature survey, if the IFRS is mandatory for all the organisations in the phased manner then stakeholders will benefit with the help of lower information asymmetry in the market and they can easily get access to the information they need.

Conclusion

Global accounting standards are the key tools, which help in removing diversity and bringing uniformity in financial reporting across the globe and make the world a single village. Due to this, MNCs can enjoy various benefits and can get multinational investments. IFRS is the global standard for financial reporting, which helps the country to reap the benefits of globalisation. The present study concludes that IFRS and harmonization of accounting standards are interdependent because the level of harmonization totally depends on the level of implementation of IFRS; so here, the key role to be played is regulatory authorities. India is having good regulatory setup, which implemented IFRS-based accounting standards, i.e., Ind-AS, successfully.

Implications of the Findings

The outcome the study will provide the guidelines to the accounting regulatory authorities to move forward with rth implementation of IFRS for SMEs in future days.

Limitations

The study is focused on the perception regarding harmonization and IFRS implementation and does not study the reporting patterns and annual reports of the companies.

Future Direction of Research

Future research can be done by analysing the annual reports of the companies to determine the level of harmonisation that exists in the financial reporting pattern.

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