Analysis on Current Issues about IFRS

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Abstract: In the modern business environment, many businesses are required or encouraged to establish a good financial reporting system in place with the objective of operating the businesses successfully. Taking such an objective into consideration, accounting professionals and accounting regulators in the international accounting industry have been trying to put a financial reporting system that is harmonized and robust in place over the last couple of decades. International Accounting Standards Board (IASB) developed the well-known International Financial Reporting Standards (IFRS) which were officially adopted by members of European Union in 2005. After 2005, many other countries have decided to use IFRS as their accounting standards as well. However, while the implementation of IFRS has provided benefits and convenience for those countries, it has also attracted a certain degree of criticisms for the associated issues. In this paper, the definition of IFRS is firstly introduced. Secondly, the benefits of implementing IFRS are discussed, which is then followed by the discussion of issues and criticisms associated with the implementation. Finally, a conclusion is provided at the end of this essay.

1. Definition and Objectives of IFRS

According to Jones (2013), IFRS is designed by the regulators as a common international language for businesses in the global market, thus those who implement IFRS would provided their accounts in a more understandable and comparable way across the international boundaries. Soderstrom and Sun (2007) argued that the development of IFRS is to some extent caused by the growing internationalisation in business trading and other activities, and it is particularly important for businesses who operate or have activities in a number of different countries. In recent years, more and more countries have replaced their original national accounting standards by IFRS. As suggested by Ball (2006), rules involved in IFRS require accountants to follow in order to provide financial statements that are understandable, comparable, relevant and reliable for both internal and external users of the documents. Jones (2013) stated that there are currently more than 100 countries which allow or require businesses to implement IFRS, the number is still growing and more countries are expected to implement IFRS by the year of 2015. The objective of IFRS is to provide a standard framework that can be used internationally for businesses to prepare and disclose their financial statements. Furthermore, Jones (2013) suggested that instead of setting rules for specific reporting methods, IFRS provides general guidance for how to prepare those financial statements.
2. Benefits of Implementing IFRS

In order to discuss how IFRS contributes to making accounting the world’s first global profession as Ian Mackintosh suggested in 2014 and why so many countries have decided to use IFRS as their accounting standards, it is necessary to understand the benefits associated with implementing IFRS. In general, it is suggested by many authors that because of the increasing globalisation of financial markets and of businesses, the comparability of companies’ financial statements can be increased by adopting a single set of accounting standards for preparing those documents. What is more, many have suggested that IFRS reduces the cost of preparing financial statements for companies across the international market (Ball, 2006).

Firstly, Ball (2006) argued that IFRS is able to help businesses to provide more accurate and comprehensive financial statements which includes relevant information to the national standards. What is more, it is suggested that under the rules of IFRS, financial statements are able to provide information that is more understandable for investors, which allows them to make better decisions without seeking other sources of information about the businesses. DeFond et al (2011) further suggested that such traits of IFRS also allow the reporting standards to become better quality and simpler to new or small investors as they are able to stand in the same position with other professional investors under the rules of IFRS. It is added by Madawai (2012) that those new or small investors are facing less risks after implementation of IFRS as other investors are not able to take advantage because of the simplified and more understandable information provided in financial statements.

Secondly, many have supported implementation of IFRS for offering more flexibility. According to Armstrong et al (2010), IFRS is designed to focus on a principles-based philosophy rather than a rules-based philosophy. This indicates that each standard in IFRS is designed to achieve a reasonable valuation with a number of available approaches and methods to do so. Therefore, IFRS provides greater flexibility for businesses to prepare their financial statements by allowing them to select the most suitable approach to do so according to their own situations. Jones (2013) further argued that this also contributes to providing more easily read and useful information for investors.

Thirdly, IFRS offers greater comparability. Jones (2013) suggested that when businesses use the same standards to prepare their financial statements, it is easier to compare those financial statements with each other more accurately. Particularly if those businesses are located in different countries, it is difficult to compare their financial statements as they may use different rules or methods to prepare the documents. By implementing IFRS, it makes accounting a more internationalized profession as Armstrong et al (2010) suggested. In addition, DeFond et al (2011) also added that greater comparability allows investors to make better decisions on how to invest their funds.

3. Criticisms of IFRS

On the other hand, many have argued that while IFRS provides a number of benefits, the costs of implementing IFRS can not be ignored - especially for developing countries. There are a number of criticisms that IFRS has generally received from the public. Firstly, Ball (2006) argued that IFRS is not internationally accepted. For example, the United States has not yet accepted IFRS as its accounting standard, and there are other countries also continue to consider such implementation. Therefore, if a business is located outside the United States but has to do business in America, then accounting may be more complicated for them as they are often required to provide one set of financial statements by using IFRS and another set by using the American Generally Accepted Accounting Principles (GAAP).

Secondly, Soderstrom and Sun (2007) argued that implementing or changing to IFRS generates
costs for businesses. It is also argued by Fox et al (2013) that small businesses tend to be more affected by a country’s implementation of IFRS in the same way that larger businesses are. This is because small companies have less resources available compared to large companies, thus when implementing the changes the small businesses are more affected. As suggested by Jones (2013), often smaller businesses need to hire qualified accountants or bring consultants from outside the company to implement such change, thus those businesses tend to suffer more financial costs than larger businesses in such case.

Many research studies have been carried out by researchers on the effects of IFRS on developing countries. This is a similar scenario to small and large companies - developing countries tend to suffer more costs than developed countries. Madawaki (2012)’s research showed that as a developing country, Nigeria has decided to implement IFRS in order to obtain the benefits the accounting standards offer. However, certain challenges were faced by Nigeria during the process of implementation. Firstly, there was a lack of development in a legal and regulatory framework; secondly, awareness campaign was another issue for Nigeria; and thirdly the country needed training of personnel. Therefore, implementation of IFRS for developing countries may be more costly both in financial and timely matters. Zehrim and Abdelbaki (2013) argued that such a level of cost may be one of the reasons that other developing countries are still considering whether to implement IFRS.

4. Conclusion

To sum up, IFRS is designed to provide a number of benefits for accounting standards in the international market, including more flexibility, greater comparability and better quality in the financial statements of businesses. Investors are one of the beneficiary groups in the market as IFRS makes financial statements more understandable and comparable for them. While more and more countries have decided to accept IFRS as their accounting standards, it is suggested that IFRS has significantly contributed to making accounting an international profession. However, certain criticisms also associate with the implementation of IFRS, including not being internationally accepted and costly for both small businesses and developing countries. Madawaki (2012)’s research on Nigeria showed evidence that developing countries take more time and suffer more financial cost during the process of implementing IFRS.

References