2nd sem BBA Corporate accounting study material

Unit 4- International Financial Reporting Standards

Meaning of IFRS- International Financial Reporting Standards (IFRS) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB).

International Financial Reporting Standards (IFRS) set common rules so that financial statements can be consistent, transparent and comparable around the world. IFRS are issued by the International Accounting Standards Board (IASB). They specify how companies must maintain and report their accounts, defining types of transactions and other events with financial impact. IFRS were established to create a common accounting language, so that businesses and their financial statements can be consistent and reliable from company to company and country to country.

Relevance of IFRS in India- IFRS are designed to bring consistency to accounting language, practices and statements, and to help businesses and investors make educated financial analyses and decisions. The IFRS Foundation sets the standards to “bring transparency, accountability and efficiency to financial markets around the world… fostering trust, growth and long-term financial stability in the global economy.” Companies benefit from the IFRS because investors are more likely to put money into a company if the company's business practices are transparent.

IFRS or International Financial Reporting Standards are a set of accounting standards that are adopted worldwide, by companies, to prepare and present their financial statements. IFRS is uniform across industries and it prescribes a set of guidelines to be followed, if a company chooses to publish its financial statements.

The importance of IFRS in India is convergence. It helps in making the financial statements of Indian companies comparable with that of other companies of the same industry across the world.

With many Indian companies competing on a global scale for revenues and technology, this is mandatory so that a stake holder can actually compare the companies for the value that they provide to the stake holder.

Another wonderful aspect is the lesser workload for the purpose of consolidation of numbers. Financial statements of two units, prepared under sam guidelines are far more easier to consolidate than two financial statements prepared under two different sets of standards.

Merits of IFRS-

1. Focus on investors ie The first factor is that IFRS promise more accurate, timely and comprehensive financial statement information that is relevant to the national standards. And the information provided by financial statements prepared under IFRS tends to be more understandable for investors as they can

understand the financial statement without the necessity of other sources which makes investors more informed.

2. Loss recognition timeliness

Recognising the loss immediately is one of the key features of IFRS as it is not only the benefit for the investors, but also for the lender and other stakeholders within the company.

3. Comparability

The convergence to IFRS has improved the comparability of financial statements in the EU. This has been achieved through having the same reporting standard under a single market, the EU.

4. Standardization of accounting and financial reporting

The most mentioned factor about the advantages of IFRS has been the standardization of financial reporting which eventually improves the comparability of financial statements in major financial markets. This also removes the trade barrier, as this was one of the key factors as why the EU has been trying to adopt single reporting standards.

5. Improved consistency and transparency of financial reporting

This factor can also be mentioned as one of the crucial advantages of converting to IFRS as it makes the EU member countries to be consistent not only on macroeconomic aspects, but also on financial reporting which improves relationship between investors and companies among member countries.

6. Better access to foreign capital markets and investments

As thousands of companies in Europe and other joining countries across the world has already created a huge base for IFRS adoption, it also improves the companies to access to financial markets by having the financial statements prepared under one reporting standards.

Limitations of IFRS-

1. The most noteworthy disadvantage of IFRS relate to the costs related to the application by multinational companies which comprise of changing the internal systems to make it compatible with the new reporting standards, training costs and etc.

2. It would increase the cost of implementation for small businesses- Large businesses would absorb the cost of adopting the International Financial Reporting Standards thanks to their need to produce these reports outside of the U.S. already. Only small businesses which provide local goods and services would receive the brunt of this expense since they'd be forced to change as well. Since there are fewer resources available for SMEs, it would take them more time and effort to train their staff in this method.

3. It would lead to concerns with standards manipulation.

The flexibility of IFRS can create numerous benefits, but it also creates a disadvantage with this feature. Organizations can choose to use only the methods that they wish to incorporate in their reporting, allowing their financial statements to show the results they desire

4. t would increase the amount of work placed on accountants.

The implementation of a new system of global accounting standards would require a complete revision of the domestic accounting processes and strategies.

5. there is a cost to conversion (mainly one-off) In general, the requirements are more complex.