

Awareness of International Financial Reporting Standards (IFRS)

Y. Jayasri, R. Shruthi

Student, B.com (International Accounting & Finance) Loyola Academy UG & PG College, (Autonomous) Alwal, Secunderabad, Telangana Contact no: 8978468426 Mail Id: yeminedijayasri48@gmail.com
Student, B.com (International Accounting & Finance) Loyola Academy UG & PG College, (Autonomous) Alwal, Secunderabad, Telangana Contact No:7075055767 Mail Id: regotishruthigoud@gmail.com

Abstract: *Globalization has changed the close economy into open economy. Now a day's national economy is integrating in international market with other countries by spreading their trade and business outside their own country. For the integrity of different country's business together in the world market it was necessary for the business to adopt a common set of accounting standards since accounting is the language of a business. International Financial Reporting Standards (IFRS) adopted by International Accounting Standards Board (IASB) is a standardized format of financial reporting that is gaining momentum worldwide and is a single consistent accounting framework and is likely to become predominant GAAP in times to come. In this world of globalization in which Indian economy has also flourished, adopting IFRS would not only make Indian companies at par with other global companies but shall also increase India's marketability globally in terms of foreign investments.*

In changing scenario, India cannot cut off itself from the developments taking place worldwide. The Institute of Chartered Accountants of India (ICAI) has announced its decision to adopt IFRS in India with effect from 1 April, 2011. The standards will have significant impact on capital markets but students and investors know remarkably little about these standards. Many European countries shifted to IFRS as early as 2005. More than 100 countries have completely converged into IFRS. An understanding of Indian Generally Accepted Accounting Principles (GAAP) and IFRS standards is an urgent need for today's students as they are the future accounting professionals working in various companies. In this backdrop, the study seeks to explore the degree of awareness about the newer concept of accounting standards called as the IFRS, its Objectives, Monitoring board and functioning of IFRS, Differences between Indian GAAP and IFRS, Beneficiaries of convergence with IFRS.

Keywords: *Indian GAAP, ICAI, IFRS, awareness, convergence, monitoring board of IFRS.*

I. Introduction

Accounting has been integral function of micro and macro institutions. Propelled by the internationalization and globalization at an economic and organizational 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 common set of ground rules enhance comparability and help to reduce frauds and misrepresentation but they do not necessarily lead to the type of reports that would be most useful in internal decision making. For example, if a company wants to sell land to finance a new store, they need to know the current market value of the land. However, GAAP requires that the land be stated at its original, historical cost in the financial reports. The more relevant data for decision making- the current market value is ignored under GAAP. In view of the various limitations of GAAP, most companies throughout the world are now communicating with their stakeholders using a different set of rules called International Financial Reporting Standards (IFRS).

Introduction of IFRS

IFRS is a set of International accounting standards stating how particular types of transactions and other events should be reported in financial statements. The two main professional bodies- Institute of Chartered Accountants of India (ICAI) and Institute of Company Secretaries of India (ICSI), play a prominent role in incorporating international standards into accounting education. At present a certificate course on International Financial Reporting Standards is provided by ICAI.

Knowledge of IFRS will make them better understand the information presented in financial statements of companies. It will also make them aware of expected changes in financial accounting and the reporting rules

of the new standards, and understand the implications of such changes for business entities and users of financial statements.

Need for convergence

1. Each country has its own set of rules and regulations for accounting and financial reporting.
2. So when any company decides to raise the capital from the markets other than the country in which it is located, then the company should be in a position to understand the differences between the rules and regulations governing financial reporting in the foreign country and their own country.
3. Therefore adoption to IFRS makes the company accounts understandable and comparable across international boundaries.

Differences between IFRS and GAAP

- IFRS is a globally accepted standard for accounting and is used in more than 110 countries. On the other hand GAAP has different set of rules for accounting than most of the world. This makes it more difficult when doing business internationally.
- **Inventory methods:** Under GAAP, a company is allowed to use LIFO (Last In First Out) method for inventory estimates whereas in IFRS , LIFO method is not allowed. The LIFO valuation for inventory does not reflect an accurate flow of inventory and results in low income levels.
- **Fixed assets:** According to GAAP fixed assets are valued as “historical value of assets **minus** depreciation if any”. IFRS has a different model for fixed assets, which is based on the “fair value of current date **minus** depreciation and impairment losses if any’

Example: If a company wants to sell land to finance a new store, then they need to know current market value of the land as per IFRS. But GAAP requires the land to be stated at its original, historical cost in the financial reports So GAAP ignores the **current market value**.

- **Presentations and disclosures:** IAS 1 prescribes minimum structure of financial statements and contains guidance on disclosures under IFRS. Whereas, there is no separate standard for disclosure. For Companies, format and disclosure requirements are set out under Schedule VI to the Companies Act. Similarly, for banking and insurance entities, format and disclosure requirements are set out under the laws/ regulations governing those entities.

Monitoring board of IFRS

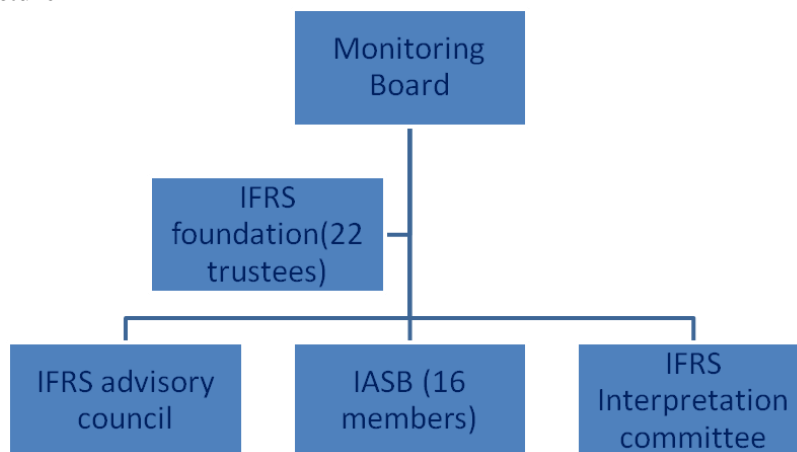
IFRS Foundation

About the foundation

The International Financial Reporting Standards Foundation(formerly International Accounting Standards Committee Foundation) is an independent body that oversees that oversees the International Accounting Standards Board (IASB).

The IASB is committed to developing , in the public interest, a single set of high quality, understandable and enforceable global accounting standards (known as IFRSs) that require transparent and comparable information in general purpose financial statements. In addition, the IASB cooperates with accounting standard setters to achieve convergence in accounting standards all over the world.

Governance structure



Monitoring Board- This board oversees the IFRS foundation trustees, participates in the trustee nomination process and approves appointments to the trustees.

IFRS Foundation-22 trustees are appointed by an independent nominating committee. Trustees are individuals from a range of professional backgrounds (incl. auditors, preparers, users, academic and other officials serving the public interest) from Asia/ oceanic regions, Europe, North America and else were.

The foundation appoints members of:

1. IASB
2. IFRS Interpretation committee and
3. IFRS advisory council

II. Need of the study

The introduction of IFRS represents a fundamental change in financial reporting, it said, planning for it, generating the necessary awareness, educating stakeholders and managing the required changes will take considerable management commitment and time to achieve a successful transition. Due to globalization, Foreign capital has crept into the domestic market. The different disclosure requirements for listing purposes have hindered the free flow of capital. This has led to failure in comparison of financial statements of Companies of different countries. In order to have one accounting language, many countries around the globe have switched to IFRS and following their track. ICAI also decided to implement IFRS in India from April 2011. The requirement is to have an understanding of the new accounting standards which are going to be implemented soon along with the awareness level of the employees and the clients of various companies. The students who are pursuing graduation and professional courses like CA (Chartered Accountant), ACCA (Association of Chartered Certified Accountant), CS (Company Secretary), CMA (Cost Management Accountant) etc. will be working in the MNC companies in the near future. Thus there is a requirement that these students should be aware of this new concept of accounting. This paper tries to assess the degree of awareness among them and suggest whether there is a requirement of tutorials in this subject to be given to the students.

III. Objectives Of The Study

Following are the objectives of the paper:

1. To make a review of the studies conducted on the effects of convergence of domestic accounting standards and International Financial Reporting Standards (IFRS)
2. To find out the extent of awareness among B.com graduates of commerce and management in LOYOLA ACADEMY DEGREE & PG COLLEGE about the new concept of IFRS in the subject of accounting and awareness regarding the process of convergence of accounting standards with IFRS in India.

IV. Research methodology

The type of research is descriptive. Convenience sampling has been adopted for the survey. Data has been collected from the primary as well as secondary sources. The survey has been conducted through the questionnaire method. The questionnaires has been directly filled by the respondents. Almost all the questions are close-ended. The respondents are the students of the department of commerce i.e. B.com (Hons, computers, generals). The sample size selected was 300 but due to unwillingness and unawareness only 250 students responded to the questionnaire. Secondary data sources include committee reports, official records, journals and books published on the subject. The data collected through the questionnaires are presented in the following ways:

- Tables
- Bar charts
- Pie charts.
- Column charts

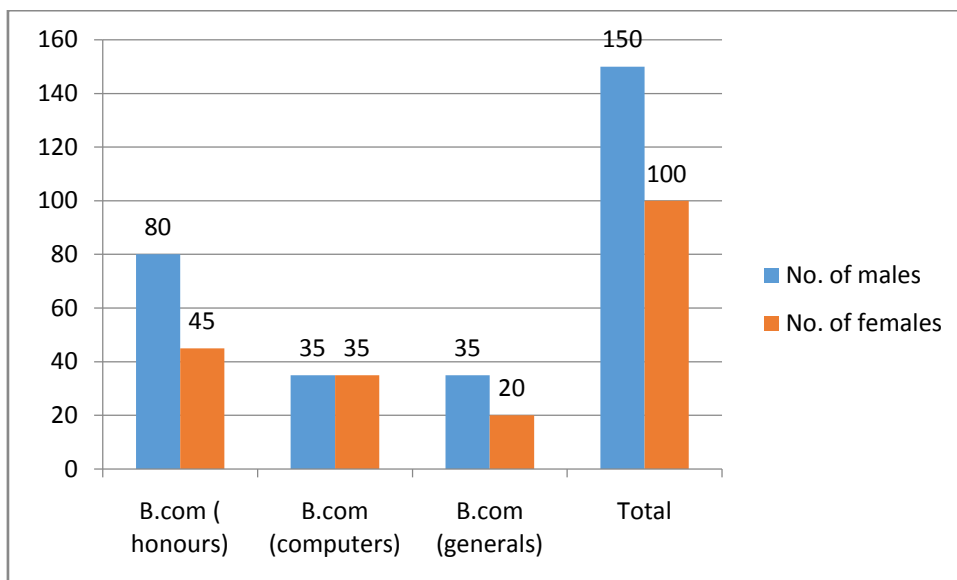
V. Data Analysis And Discussion

With the help of questionnaire an attempt has been made to find out the extent of awareness regarding IFRS among B.com graduates students of Commerce & Management in Loyola Academy Degree & PG college. Both male and female students were taken as respondents. Table 1 describes the characteristics of the survey participants.

Table 1: Respondent Characteristics

Courses/ No. of students	B.com (honours)	B.com (computers)	B.com (generals)	Total
No. of males	80	35	35	150
No. of females	45	35	20	100

As per the table total no. respondents are 250.

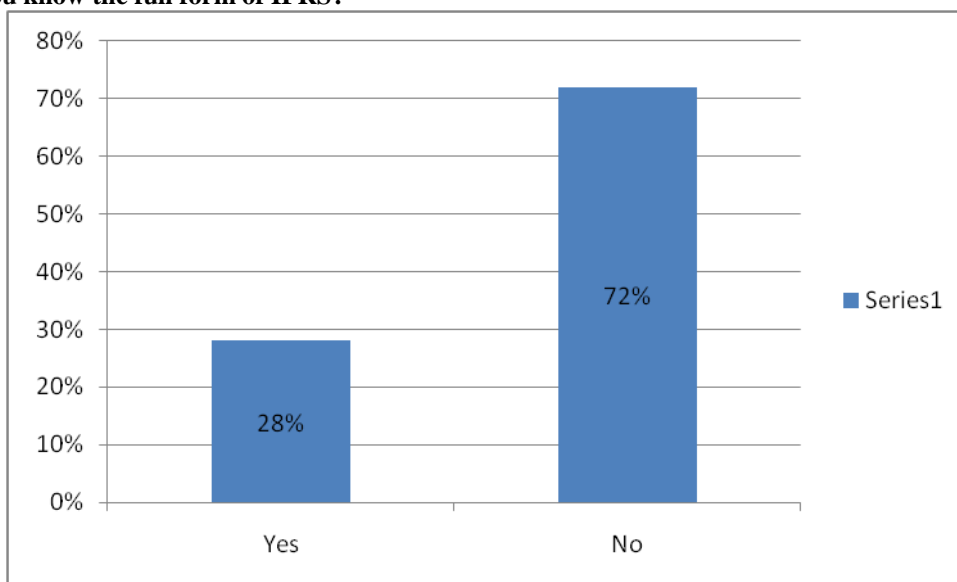


Analysis: Out of the total respondents questioned 40% (100 out of 250) are female students and 60% (150 out of 250) are male students.

Questionnaire analysis- Awareness about new Accounting Standards (IFRS)

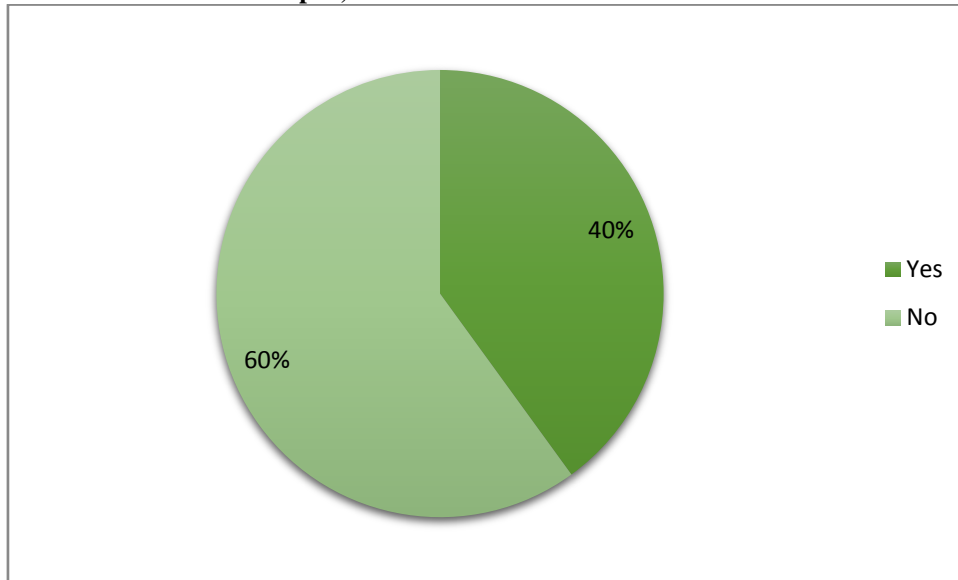
In analyzing the questionnaire, pie charts, bar diagrams have been used and results have been displayed in % rather than counts, following is the analysis of questionnaires-

1. Do you know the full form of IFRS?



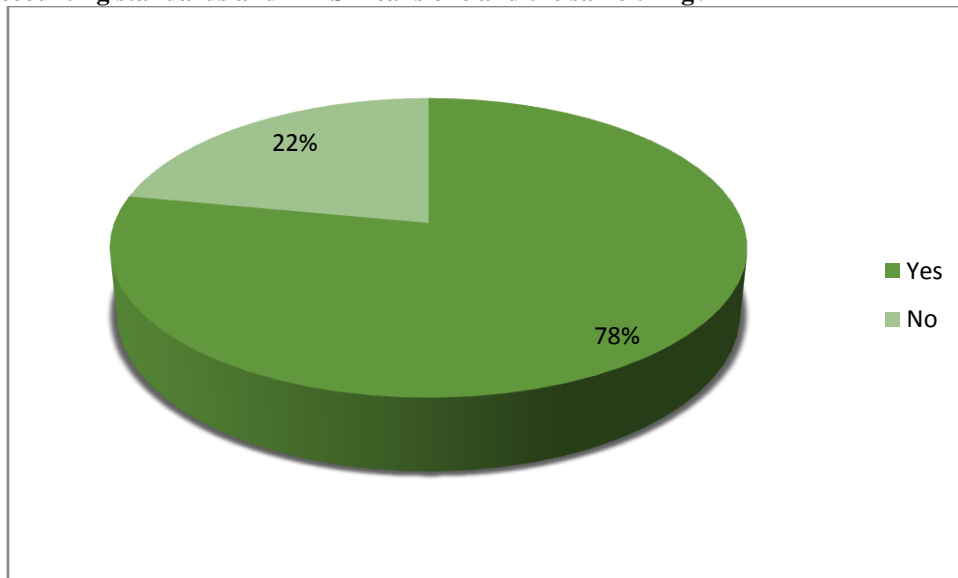
By asking this question to the respondents that what is the full form of IFRS is, majority of the respondents are unaware about it as above chart shows 72% (i.e. 180 out of 250) don't know about it while only 28% (i.e. 70 out of 250) are aware of this.

2. Are you aware that ICAI has announced the mandatory convergence of Indian Accounting Standards with IFRS from 1st April, 2011?



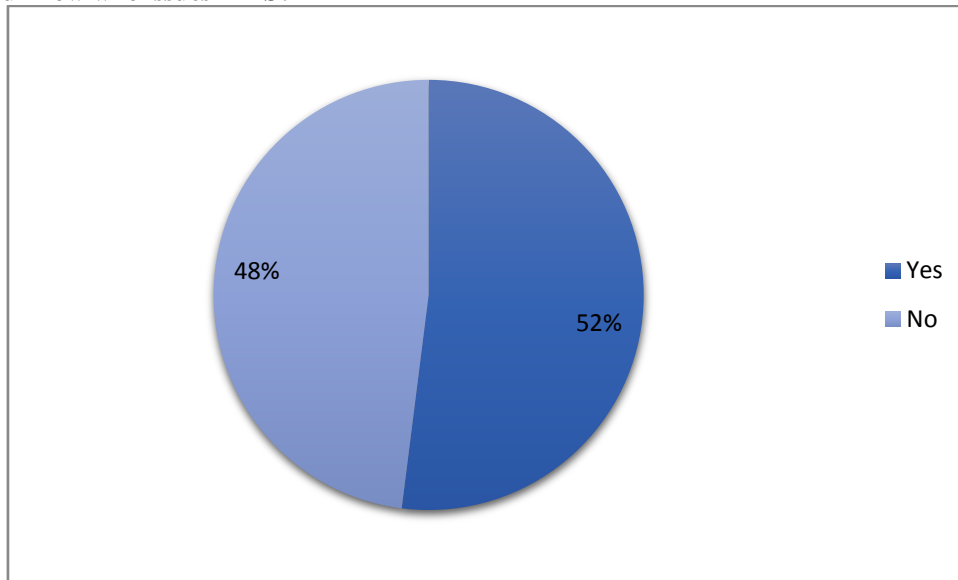
By asking this question to the respondents that when Institute of Chartered Accountants of India (ICAI) has announced the mandatory convergence of Indian Accounting Standards with IFRS, only 40% of the respondents are aware of it (i.e. 100 out of 250) and the remaining 60% respondents (i.e. 150 out of 250) are unaware of this.

3. Are accounting standards and IFRS means one and the same thing?



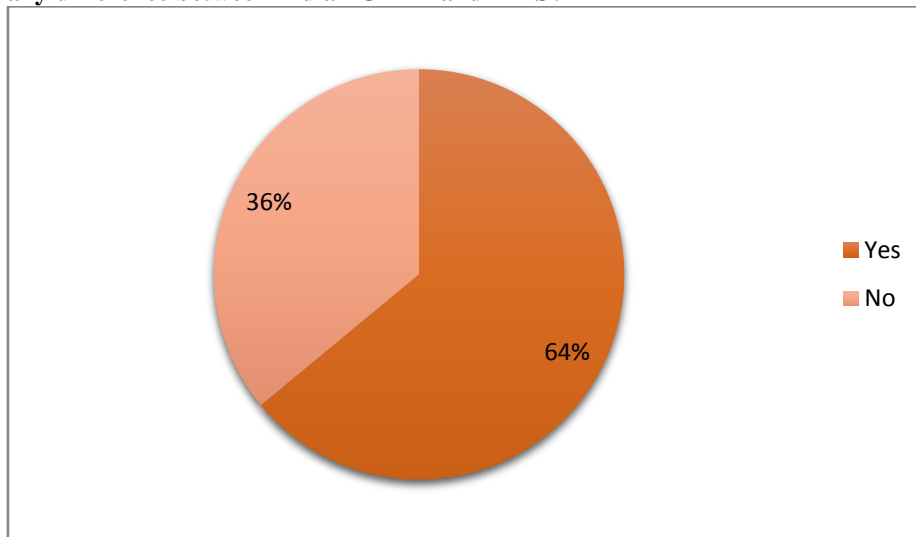
By asking this question to the respondents that IFRS and ASs means one and the same thing, a large number of respondents are unaware and responded incorrectly saying 'YES' which is 78% (i.e. 195 out of 250) and remaining 22% know about this (i.e. 55 out of 250) and responded correctly saying 'NO'.

4. Do you know who issues IFRS?



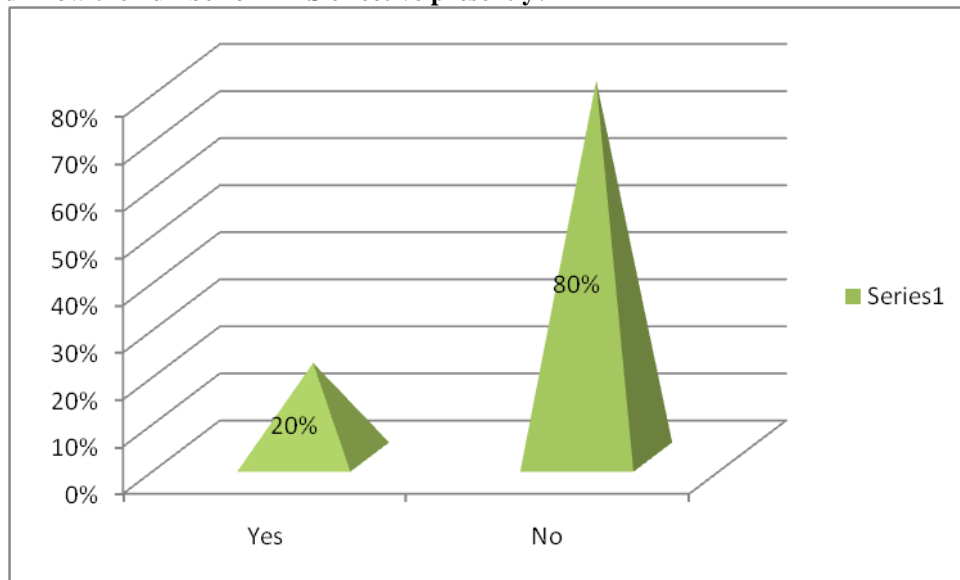
By asking the question to the respondents that who issues IFRS , almost more than 50% of the respondents are aware of it and responded correctly; as above chart shows 52%(130 out of 250) are correct and 48% are unaware of this and responded incorrectly.

5. Is there any difference between Indian GAAP and IFRS?



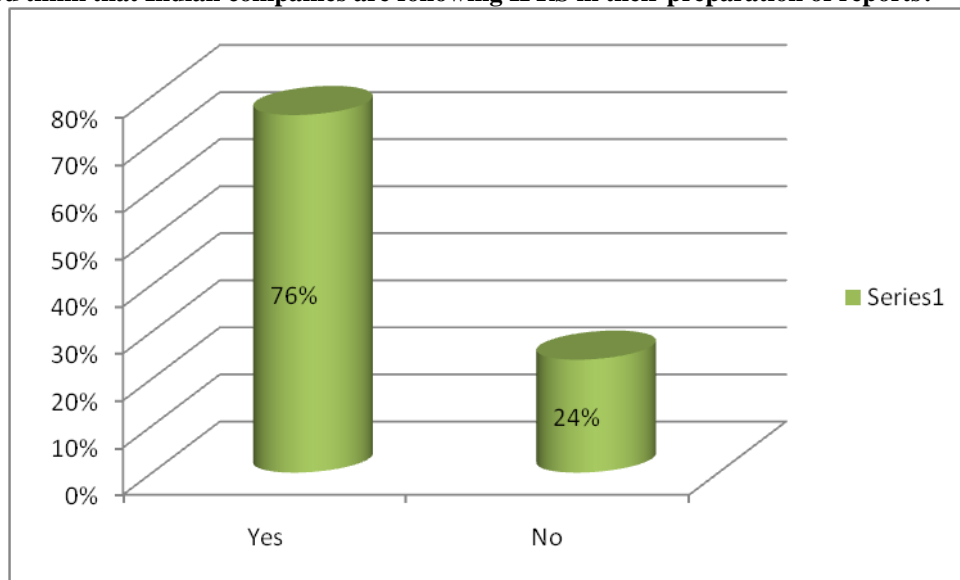
By asking this question to the respondents that is there any difference between Indian GAAP and IFRS, 64% of the respondents know the fact and responded correctly. Rest 36% are unaware and responded incorrectly.

6. Do you know the number of IFRS effective presently?



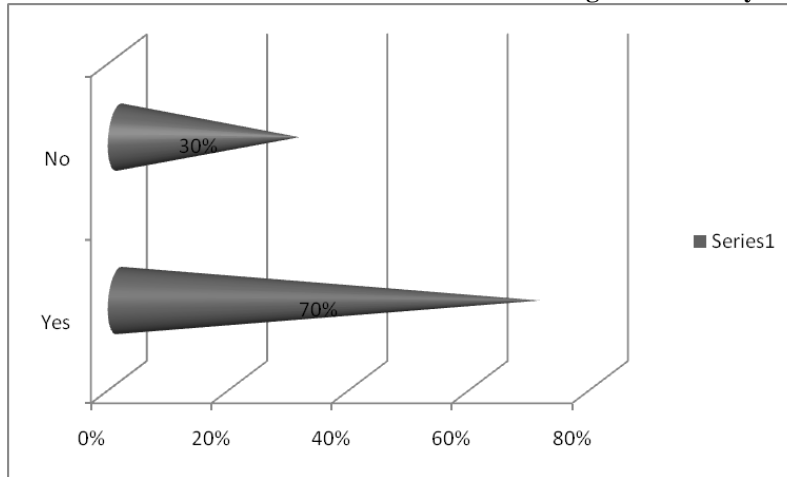
By asking this question to the respondents about the number of IFRS effective presently, majority of the respondents i.e. 80% (200 out of 250) are not sure about it and the rest 20% (50 out of 250) know it and responded positively.

7. Do you think that Indian companies are following IFRS in their preparation of reports?



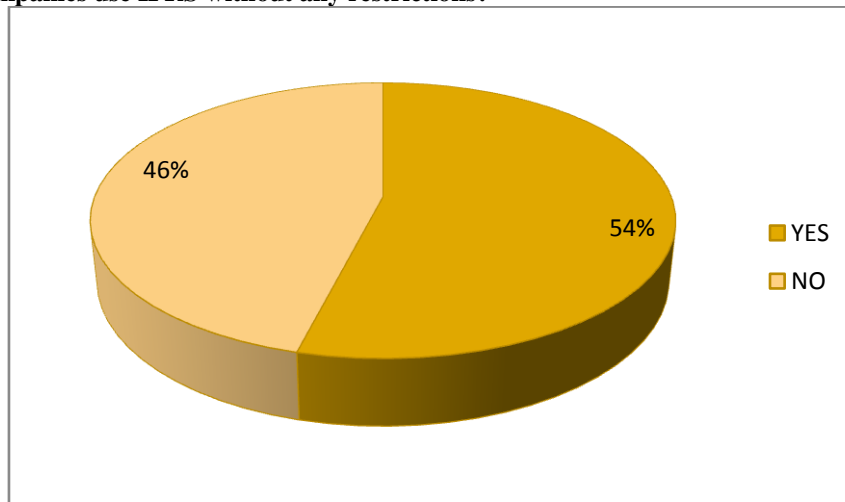
By asking this question to the respondents whether Indian companies are following IFRS in financial reporting, majority of the respondents are unaware of it and responded incorrectly about it ; as above chart shows 76% responded incorrectly about it saying 'YES' while 24% are aware of this and responded correctly by saying 'NO'.

8. Do you think Globalization has created the need for IFRS to bring in uniformity on global level?



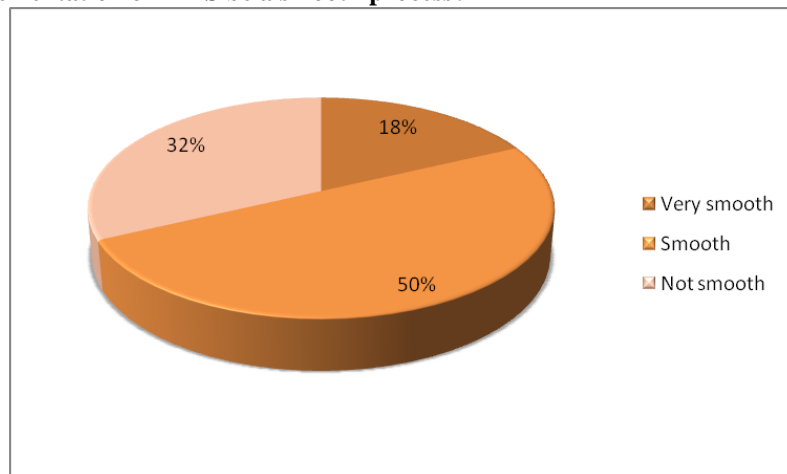
In response to the question that globalization has set an impetus for IFRS, we found that majority of the respondents responded correctly; as above chart shows that 70% responded correctly about it while 30% are unaware of this and responded incorrectly.

9. Can all companies use IFRS without any restrictions?



In response to the above question, we found that 54% of the respondents responded correctly while the rest 46% are unaware of this and responded incorrectly about it.

10. Will the implementation of IFRS be a smooth process?



The implementation of IFRS will not be a smooth process though the majority of the people i.e. 50% say the implementation will be somewhat smooth. Only 18% says that it will be very smooth and rest 32% says that implementation will not at all be a smooth process. According to them the reason behind this is lack of knowledge, awareness, complexity of standard, lack of training etc. still the efforts are made to make it somewhat smooth.

VI. Conclusions

The survey has given us an idea about the state of awareness of IFRS among the graduates in LOYOLA ACADEMY DEGREE & PG COLLEGE. Majority of the respondents are aware about some of the basic concepts of this new issue in Accounting Standards but it was also felt that a significant percentage of the respondents were not able to respond correctly. Moreover, majority of the respondents are not aware about the convergence of IFRS and the Indian Accounting Standards. Further, not all of the respondents are clear about the contents of IFRS. Clarity of content is very important if we want to make our accountants and auditors competitive in the global scenario. A good number of students don't know the full form of IFRS means they have no idea as to what these standards are all about. Most of the students said that there is no difference between Accounting Standards and IFRS, which again shows that they do not know what IFRSs are all about. Respondents also stated that they have no tutorials for any of the contemporary issue in any subject. Therefore, it was felt that there is a requirement of tutorials regarding the knowledge of this issue in Accounting Standards among the graduates of Commerce and Management in Loyola academy degree and PG college. Courses related to contemporary issues should be delivered across all educational institutions so that students are made aware of the newer concepts of the subjects.

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