STUDY OF INTERNATIONAL FINANCIAL REPORTING STANDARD AND ITS SIGNIFICANCE

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ABSTRACT

International Financial Reporting Standards (IFRS), previously known as International Accounting Standards (IAS), provide a framework for preparing and presenting financial statements. These standards are issued by the International Accounting Standards Board (IASB). The IAS were initially developed in 1973 by the International Accounting Standards Committee (IASC). Following the dissolution of the IASC, the IASB assumed responsibility for setting international accounting standards on April 1, 2001. IFRS has now become the leading global framework for financial reporting, and more than 100 countries either require or permit its use in preparing financial statements.

1. INTRODUCTION

There is increasing international agreement that International Financial Reporting Standards (IFRS) are a reliable basis for evaluating a company's financial condition across the globe. As globalisation advances, businesses and investors with operations in multiple countries need to familiarise themselves with the accounting principles used in various jurisdictions. While fundamental accounting concepts, such as accrual accounting and the going-concern assumption, are widely accepted, how these principles are applied can vary considerably across different economic and cultural settings, leading to differences in how similar transactions are reported. These discrepancies may arise in areas such as the treatment of goodwill, the definition of a group, the handling of borrowing costs, impairment measurement, and the treatment of deferred taxes. IFRS, which replaced IAS, is a set of standards issued by the International Accounting Standards Board (IASB) to guide the preparation and presentation of financial statements. IAS were first issued in 1973 by the International Accounting Standards Committee (IASC).

2. OBJECTIVES OF IFRS

The purpose of this study is to explore the significance, scope, and legal challenges associated with the voluntary adoption of IFRS by Indian companies and its impact on their economic activities. The specific objectives are as follows:

● To compare existing accounting standards with IFRS.

● To highlight the significance of IFRS 9 in relation to global accounting standards.

● To examine the challenges faced by Indian banks in adopting IFRS.

Hypothesis: A hypothesis represents a testable assumption or an informed guess that suggests a relationship between variables. It serves as an initial explanation for an observed phenomenon and guides the research process. There are two main types of hypotheses:

1. **Null Hypothesis (H0):** This hypothesis proposes that there is no significant difference or relationship between variables, representing the status quo.

2. **Alternative Hypothesis (H1 or Ha):** This hypothesis asserts that there is a significant difference or relationship between variables and is tested against the null hypothesis.

The hypotheses for this study are:

1. IFRS can be implemented in Indian banks.

2. IFRS cannot be implemented in Indian banks.

3. IFRS offers superior accounting standards and policies.

4. IFRS does not offer superior accounting standards and policies.

3. REVIEW OF LITERATURE

Most of the existing literature on IFRS implementation focuses on data from the European Union, with few studies analysing data from other regions.

● **Armstrong et al. (2010):** This study found a positive response to IFRS adoption among firms with high-quality pre-adoption information, indicating that investors expected net benefits from IFRS convergence. Their analysis of 1,084 European Union firms from 1995 to 2006 supports this finding.

● **Cai and Wong (2010):** Their study of global capital markets concluded that countries adopting IFRS experienced greater integration of their capital markets after IFRS adoption compared to the period before adoption.

- **Paananen and Lin (2009):** In contrast to prior studies, they argued that IFRS adoption did not necessarily improve the quality of accounting information. Their analysis of German firms showed that the quality of financial reporting worsened post-adoption, suggesting that this change was driven by modifications in the standards themselves, rather than the initial adoption process.

- **Lantto and Sahlstrom (2009):** Their study of Finnish companies found that IFRS adoption altered key financial ratios. The adoption of fair value accounting rules and stricter accounting requirements were identified as factors contributing to these changes.

- **Chand and White (2007):** Their research on the convergence of domestic accounting standards with IFRS suggested that multinational corporations and large accounting firms might influence the economic resources of countries, often disregarding the broader public interest in the process.

- **Elena et al. (2009):** Their article discussed the challenges of reconciling US Generally Accepted Accounting Principles (GAAP) with IFRS, emphasising that adopting IFRS in the US would represent a significant shift towards a more principles-based approach, increasing reliance on managerial and auditor judgement.

Primary Data: Primary data refers to data collected firsthand for a specific research study. It is valued for its relevance and timeliness. Common methods of collecting primary data include:

1. **Surveys:** Questionnaires or interviews to gather responses.

2. **Interviews:** Direct conversations for in-depth insights.

3. **Observations:** Systematic monitoring of behaviours or events.

4. **Experiments:** Controlled tests to analyse specific variables.

Collecting primary data ensures that researchers obtain precise and contextually relevant information tailored to their study's goals.

Secondary Data: Secondary data consists of information that was previously collected for a purpose other than the current research. Sources of secondary data include:

1. **Published Sources:** Books, journals, newspapers, and magazines.

2. **Government Reports:** Official data released by governmental agencies.

3. **Online Databases:** Repositories of research studies and statistical data.

4. **Company Reports:** Annual reports and financial statements.

   Secondary data is often used for its cost-effectiveness and time-saving benefits, though it is important to assess its reliability and relevance to the current research objectives.

1. Adoption of IFRS 9 impact negatively on Indian banking sector?

	Count	%
Yes	6	6%
No	94	94%

2. Is IFRS accounting helpful in Indian banking sector

	Count	%
Yes	80	80%
No	20	20%

3. The IFRS needed more in the public sector?

	Count	%
Yes	75	75%
No	25	25%

4. DATA ANALYSIS

Data analysis and interpretation reveal important findings concerning the impact of voluntary IFRS adoption on the economic activities of Indian companies and banks. The results show both positive and negative variations in various financial indicators, with some changes being more significant than others. The adoption of IFRS has broad implications not only for those preparing and using financial statements but also for the entire financial reporting infrastructure and the global harmonisation of accounting practices. The drive for uniformity in international accounting standards is largely driven by the globalisation of business and the need for a common framework to support international trade and investment. However, the transition from local accounting standards to IFRS poses several challenges. There is a risk of inadequate preparation, with insufficient knowledge about the new standards, leading to delays in the implementation process. As a result, the transition deadlines have been repeatedly postponed. Implementing IFRS without proper understanding could have detrimental effects. As discussed, IFRS implementation will significantly impact areas such as financial instruments, investments, and will require substantial investments in upgrading information technology systems. Despite this, further analysis and valuation of existing financial instruments and advances are necessary to ensure compliance with IFRS. There is still uncertainty, particularly concerning tax treatment, such as the deductibility of losses arising from revaluation of these financial instruments. Moreover, the Reserve Bank of India has not yet clarified the regulations regarding compliance with the Statutory Liquidity Ratio (SLR) or the maintenance of other reserves through government securities, especially in relation to IFRS compliance or contradictions.

5. CONCLUSION

In conclusion, IFRS plays a vital role in enhancing transparency and consistency in financial reporting, making it easier for organisations to prepare and interpret financial statements and for investors and other stakeholders to make well-informed decisions. While adopting IFRS can be challenging, the long-term benefits are substantial, as it helps improve the credibility of financial information and supports sustained growth and success.

6. REFERNCES

[1]   www.irjmets.com

[2]   www.ijwer.com