International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Vol. 6 Issue 3, March-2017, Impact Factor: 1.544

A Paradigm Shift in Financial Reporting Standards

Dr. Ch. Krishnudu

Assistant Professor, Dept. of Business Management, SKIM, SK University, Ananthapur

INTRODUCTION

The International Financial Reporting Standards (IFRS) are rapidly emerging as a globally accepted accounting frame work with over 100 countries mandating or permitting IFRS.IFRS was implemented in January 2005 with more than 8,000 European listed companies adopting them; with its inherent benefits in the global economy countries like Australia, Hong Kong, China and the Middle East have mandated IFRS compliance for listed companies. The Institute of charted Accountants of India has announced a coverage declaration for all public interest entities from 1 April 2011.

Need for the Study:
In the era of Globalization, Liberalization and Privatization it is very important to have a worldwide common language for financial reporting to present the financial statements on uniform basis. Most of the companies in the world deal their financial operations through stock exchanges. It is essential for the companies to get list with Stock Exchanges. Hence, for maintain consistency in entire global wide reporting standards increases. IFRS, formerly known as International Accounting Standards (IAS), clearly addresses this issue; its goal is to create comparable, reliable, and transparent financial statement that will facilitate greater cross-border capital raising and trade.

Operating Mechanism of IFRS
The goal of IFRS is to provide the world's integrating capital markets with a common language for financial reporting. An Independent standard setting board consisting of 14 members from nine countries, including the United States will do a thorough, open and transparent due process with investors, regulators, business leaders and the global accounting professionals at every stage and a collaborative efforts will be done to form a financial reporting standard which suits with the worldwide standard-setting community. The Members consists major accounting firms, private financial institutions and industrial companies, central and development banks and other international and professional organizations throughout the world.

Objectives of the study:
1) To Know about International Financial Reporting Standards
2) To Study the operating Mechanism of IFRS
3) To study and interpret various issues arising from IAS and IFRS

The international accounting standard committee foundation is not-for-profit, a private sector body that raises funds to support operations of the International Accounting Standard Board as an independent accounting standard-setter.

The IASC Foundation staff has been prepared, the list is: Till date, IASB has issued 30 IAS and 8 IFR. It has also issued 11 SICs and 17 IFRICs to provide guidance on some interpretation issues arising from IAS and IFRS.

IFRS 1: First-time Adoption of International Financial Reporting Standards.
IFRS 2: Share-based Payment.
IFRS 3: Business Combinations
IFRS 4: Insurance Contracts
IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations
IFRS 6: Exploration for and Evaluation of Mineral Resources
IFRS 7: Financial Instruments: Disclosures
IFRS 8: Operating Segments

Advantages of IFRS:
Converting to IFRS is a complex process; however these standards have important and positive consequences for individuals and organizations that adopt them.

1. For Investors: Greater investment opportunities will be available to investors as much information is available for decision making and reports as easy to compare among the competitors.
2. For Companies: Possibility for consistent reporting standard from subsidiaries in many different countries. Cost of capital can be reduced from greater cross-border capital raising and trade.
3. For National Regulatory bodies: More and proper disclosure is possible in this system of reporting for market participants. Hence, it is easy for national and international market regulatory bodies to control the market participants.

IFRS 1: First-time Adoption of International Financial Reporting Standards.
The objective of this IFRS is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information. An entity shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs. This is the starting point for its accounting under IFRSs. In general, the IFRS requires an entity to comply with each IFRS effective at the end of its first IFRS reporting period. The IFRS grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. It also prohibits retrospective application of IFRSs in some areas, where it requires the judgments by management.

IFRS 2: Share-based Payment.
The objective of this IFRS is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions. It includes the share based payment transactions like the expenses associated with transactions in which share options are granted to employees, transfers of equity instruments of the entity's parent, or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity.

IFRS 3: Business Combinations
The objective of this IFRS is to enhance the relevance, reliability and comparability of the information that an entity provides in its financial statements about a business combination and its effects. It does that by establishing principles and requirements for how an acquirer provides all the necessary information in about the business combination.

The IFRS requires the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that occurred during the current reporting period or after the reporting date but before the financial statements are authorized for issue. After a business combination, the acquirer must disclose any adjustments recognized in the current reporting period that relate to business combinations that occurred in the current or previous reporting periods.

IFRS 4: Insurance Contracts: IFRS is the first guidance from the IASB on accounting for insurance contracts-but not the last. A comprehensive project on insurance contracts is under way. The board issued IFRS 4 it saw an urgent need for improved disclosures for insurance contacts and some improvements to recognition and measurement practices in time for the adoption of IFRS by listed companies throughout Europe and elsewhere in 2005.

Accounting policies
The IFRS exempts an insurer temporarily (until completion of phase 11 of the insurance project) from some requirements to consider IAS 8 accounting policies changes in accounting estimates and errors in selecting accounting policies for insurance contracts. However , the standard Prohibits provisions for possible claims under contracts that are not in existence at the reporting dates (such as catastrophe and equalization provisions).

Requires a test for adequacy of recognized insurance liabilities and an impairment test for reinsurance assets
Requires an insurer to keep insurance liabilities in its balance until they are discharged or cancelled or expire and prohibits offsetting insurance liabilities against related reinsurance assets and income or expense from the related insurance contracts.

Changes in accounting policies
IFRS 4 permits an insurer to change its accounting policies for insurance contracts only if as a results its financial statements present information that is more relevant and no less reliable or more reliable and no less relevant in particular an issuer can't introduce any of the following practices although it may continue using accounting policies that involve them:

Measuring insurance liabilities on an undiscounted basis

Measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current marked market based fees for similar services

Rating agency analysis of IFRS 4

Fitch ratings – a leading global fixed income rating agency –has analyses the implication of IFRS 4 insurance contracts and has concluded the Fitch "does not expect any rating actions as a direct result of the move to IFRS. However the Fitch cannot rule out the possibility that the additional disclosure and information contained in the accounts could lead to rating changes due to improved perceptions of risk based on the enhanced information available .The special report mind the GAAP. Fitch view in insurance IFRS provides an overview of IFRS4 and the issues being addressed in phase11 of the IASB Insurance project assess the implication including increased volatility greater use of discounting and fair values changes to income recognition and enhanced disclosers and discusses the changes effect rating analysis .

IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations

IFRS 5 achieves substantial convergence with the requirements of IFRS 144 accounting for the impairment or disposal of long lived assets with respect to the timing of the classification of operations as discontinued operations and the presentation of such operations. With respect to long lived assets that are not being disposed of the impairment recognition and measurement standards in SFAS are significantly different from those in IAS 36 impairment of assets however those differences were not addressed in the short term IASB-FASB convergence project.

IFRS 6: Exploration for and Evaluation of Mineral Resources:

The objective of this IFRS is to specify the financial reporting for the exploration for and evaluation of mineral resources. Exploration for and evaluation for mineral resources is the search for mineral resources, including minerals oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

It permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of IAS 8. Thus, an entity adopting IFRS 6 may continue to use the accounting polices applied immediately before adopting the IFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies.

IFRS 7: Financial Instruments: Disclosures:

The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate:

a) the significance of financial instruments for the entities financial position and performance: and
b) The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks. The qualitative disclosures describe management's objectives policies and processes for managing those risks. The quantitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entities key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

IFRS 8: Operating Segments:

This IFRS specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34 Interim Financial Reporting, requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. The IFRS requires an entity to report financial and descriptive information about its reportable segments. It also requires an entity to report a measure of operating segment profit or loss and of segment assets and also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the chief operating decision maker. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements

Abbreviations

SICs: Standing Interpretations Committee
IFRIC: International financial Reporting Interpretations Committee

CONCLUSION

The study sheds light on the undeniable need for a profound paradigm shift in financial reporting standards to meet the evolving demands of the modern business landscape. The traditional, rule-based approach has served its purpose, but the complexities of today's global economy require a more principles-based and forward-looking framework

REFERENCES

[1]. Amram, Martha, and Nalin Kulatilaka. 1999. Real Options: Managing Strategic Investment in an Uncertain World. Boston: Harvard Business School Press.
[2]. Ang, Andrew, Robert J. Hodrick, Yuhang Xing, and Xiaoyan Zhang. 2006. The Cross-Section of Volatility and Expected Returns. Journal of Finance 61: 259–99.
[3]. .
[4]. Copeland, Tom, and Vladimir Antikarov. 2001. Real Options: A Practitioner’s Guide. New York and London: Texere.
[5]. Dempsey, Mike. 2013. The Capital Asset Pricing Model (CAPM): The History of a Failed Revolutionary Idea in Finance? Abacus 49: 7–23.
[6]. Fama, Eugene F., and Kenneth R. French. 2015. A five-factor asset pricing model. Journal of Financial Economics 116: 1–22.
[7]. Gleißner, Werner. 2010. Unternehmenswert, Rating und Risiko. WPg 63: 735–43.
[8]. Werner. 2014. Kapitalmarktorientierte Unternehmensbewertung: Erkenntnisse der empirischen Kapitalmarktforschung und alternative Bewertungsmethoden. Corporate Finance 4: 151–67.
[9]. Graumann, Matthias. 2014. Die angemessene Informationsgrundlage bei Entscheidung. Das Wirtschaftsstudium (WISU) 3: 317–20.
[10]. Graumann, Matthias, Holger Linderhaus, and Jens Grundei. 2009. Wann ist die Risikobereitschaft bei unternehmerischen Entscheidungen “in unzulässiger Weise überspannt”? BFuP-Betriebswirtschaftliche Forschung und Praxis 5: 492–505.
[11]. Hagemeister, Meike, and Alexander Kempf. 2010. CAPM und erwartete Renditen: Eine Untersuchung auf Basis der Erwartung von Marktteilnehmern. DBW-Die Betriebswirtschaft 70: 145–64.
[12]. Haugen, Robert A. 2004. The New Finance—Overreaction, Complexity, and Uniqueness, 3rd ed. Hoboken: Pearson Prentice Hall.
[13]. Hering, Thomas. 2000. Das allgemeine Zustands-Grenzpreismodell zur Bewertung von Unternehmen und anderen unsicheren Zahlungsströmen. Die Betriebswirtschaft 60: 362–78.
[14]. Jegadeesh, Narasimhan, and Sheridan Titman. 2011. Momentum. Annual Review of Financial Economics 3: 493–509.
[15]. Karami, Behzad. 2014. Unternehmensbewertung in Spruchverfahren beim “Squeeze Out”. Wiesbaden: Springer.
[16]. Knabe, Matthias. 2012. Die Berücksichtigung von Insolvenzrisiken in der Unternehmensbewertung. Lohmar: EUL Verlag.
[17]. Lo, Andrew W. 2004. The Adaptive Markets Hypothesis: Market Efficiency from an Evolutionary Perspective. Journal of Portfolio Management 5: 15–29.