International Financial Reporting Standards: An Analysis of Academicians' Perceptions

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Abstract - Accounting Standard Board (ASB) of the Institute of Charted Accountants of India (ICAI), New Delhi issues accounting standards for its application by the Indian concerns. ASB has issued 30 Accounting standards till now. ICAI has issued convergence report for convergence to IFRS with effect from April 1, 2011. The move comes as a relief for many Indian firms that could have been forced to re-audit their financial statements as per IFRS or halt operations. Thus, the major Problem to cope up with convergence is the lack of awareness among practicing accountants, academicians, finance managers and finance controllers. To cope up with this pressure, the only solution is to train the trainers and most importantly the academicians. That is why, this paper attempts to study the extent of awareness of academicians to take this convergence smoothly and flawlessly.

Key Words: Accounting standards, International Financial Reporting Standards, Financial statements

I. INTRODUCTION

India has begun integrating with global financial markets. When Companies are crossing national boundaries, reporting financial statements under IFRS is necessary to facilitate cross-border transactions and make comparisons easier. As per the IASB, Financial statements may not be described as complying with IFRSs unless they comply with all of the requirements of each applicable standard and each applicable interpretation. The understanding and Implementation of IFRS is not easy, the transition will be a tough challenge for the country as it requires a shift in the academic approach, along with regulatory challenges. The major problem that companies are likely to face is a talent crunch since, even in the current scenario, there is a scarcity of qualified resources and the convergence will only exaggerate the problem. The most important factor is to provide appropriate training to accounting staff and to teach accounting to new students based upon IFRS. Thus, the major Problem to cope up with convergence is the lack of awareness among practicing accountants, academicians, finance managers and finance controllers. To cope up with this pressure, the only solution is to train the trainers and most importantly the academicians. That is why, this paper attempts to study the extent of awareness of academicians to take this convergence smoothly and flawlessly. International Financial Reporting Standards comprise:

- International Financial Reporting Standards (IFRS)-standards issued after 2001
- International Accounting Standards(IAS)-standards issued before 2001
- Interpretations originated from the International Financial Reporting Interpretations Committee(IFRIC)-issued after 2001
- Standing interpretations Committee (SIC) –issued before 2001
- Framework for the preparation and presentation of Financial Statements

II. NEED OF CONVERGENCE ACCOUNTING STANDARDS WITH IFRS

The term convergence can be considered to design and maintain national accounting standards in a way that financial statement prepared in accordance with rational AS are in convergence with IFRS. IAS requires that financial statements to comply with all requirements of IFRS Different countries have adopted their own Accounting Standard. Differences in accounting standard exist due to different accounting rules of measurement, different interpretation of similar rules, and varying degree of financial statements. Financial statements prepared in one country are not accepted in other countries. Differences in accounting standards followed by individual countries create difficulty in operation of today's international business that is growing at a fast pace. Hence there is need of harmonising different policy and practices followed in different countries for ensuring consistencies, value in terms of contents, uniformity and comparisons. Need of convergence of AS with IFRS is needed to attract cross border capital inflows. Globalised economic conditions demand fairly high standard of accounting information, transparency adequate disclosure and enhanced decision making. Firms that adopt IAS are capable of raising capital at lower cost. Convergence of accounting standard with IFRS is crucial for companies for effective participation in global market.

III. INTRODUCTION OF NEW INDIAN ACCOUNTING STANDARDS

ICAI has issued 13 accounting standards between 2000 to 2004, as compared to 16 standards between 1977 to 1999.Keeping up with the pace of recent development in the business world, the ICAI has issued 13 Accounting standards relating to disclosure requirements, these are as follows:

AS 17: Segment Reporting
AS 18: Related party Disclosure
AS 19: Lease Accounting
AS 20: Earnings per share
AS 21: Consolidated Final Statement
AS 22: Accounting for taxes on Income
AS 23: Accounting for Investments in

AS 24: Discontinuing Operations.
AS 25: Interim Financial Reporting
AS 26: Financial Reporting of Interests in joint ventures.
AS 27: Intangible assets.
AS 28: Impairment of Assets

AS 29: Provisions, Contingent Liabilities Associates in Consolidated Financial statements and Contingent Assets.

The differences between Indian accounting Standards and International Accounting Standards or International Financial Reporting standards have been narrowing, especially in the case of standards issued since the late 1990s.Some of the differences are attributable to the need for conformity with the Companies act and due to there is no corresponding Indian standard on the subject. Advantages of IFRS are as follows:

1. The Assets be shown at market value and hence assets and liabilities will show a true and fair value. Fair value is the amount for which an asset could be exchanged or a liability settled.
2. IFRS provides more compatibility among sectors, countries and companies. Due to its universal appeal, it can both improve and initiate new relationships with investors, customers and suppliers across the globe.
3. No expertise Knowledge is necessary as non-professionals can also understand the financial reporting with little accounting knowledge.
4. It will help to evaluate and analyze the existing relation between financial statements.
5. IFRS provides impetus to cross border acquisitions, enables partnership and alliances with foreign entities.
6. IFRS gives better access to global capital markets and reduced the cost of capital.

IV. LITERATURE REVIEW

- Ball (2005) observed that concern about substantial differences among the countries implementation of IFRS, which may have risk uniformity. The researcher also feels that simply having uniform standards may not produce the required impact of uniform Financial reporting if the approach and objectives of accounting differ.
- Wong and Wong (2005) examined the impact of not amortizing goodwill and identifiable intangible assets with indefinite lives on some commonly used valuation multiples of New Zealand listed Companies. Result indicates that non-amortization of goodwill and identifiable intangible assets with indefinite lives have a significant downward effect on the EV/EBIT and PE multiples.
- Silva and Couth (2007) measured the impact of IFRS on financial information of Portuguese public companies and noted that the PER and EPS ratios indicate depreciation in the position of stakeholders with the new accounting standards
- Hboxma (2008) studied that the most significant discrepancy between the sets of standards in accounting treatment of business combination, provisions, financial instruments and business assets with reference to both net income and shareholder`s equity while the individual accounting differences in property ,plant and equipment show a significant difference only on shareholder`s equity.
- Daske et al. (2008) analysed the effect on market liquidity and cost of capital in 26 countries using a large sample of 3100 firms that are mandated to adapt IFRS. It was found that on an average, market liquidity increase around the time of introduction of IFRS.
- Pickering et al. (2008) analysed the views of preparation of financial reports on the costs and benefits of making the transition from Australian GAAP to Australian equivalents of IFRS. The finding of this report revealed that a major difficulty of implementation was the uncertainty regarding interpretation of the standards and complexity of the standards themselves. This resulted in increase in time and cost spent in discussion with auditors.

- Callao et al. (2009) that the first application of IFRs has different effects on the financial reporting among countries.
- Lantoo and Sahlstrom (2009) studied the impact of IFRS on continental European country (Finland) and the result of the study highlighted that the adoption of IFRS changes the magnitude of key accounting ratios.
- Carmona and Trombetta (2008) analysed that the logic and implications of the principles based system and suggested that the principles based approach to the standards and its inner flexibility enables the application of IAS/IFRS to countries with diverse accounting traditions and varying institutional conditions. Furthermore, he said that "the principles based approach involves major changes in the expertise held by accountants and in their educational background, training programs and in the organisational and business models of accounting firms."
- Garth Coppin (2009) observed that changes in the accounting standards due to changing business practices and how they affect the company`s financial reporting mechanism. It is expected that globalisation and impact of reforms will impact on harmonisation and reporting, also the impact of International Accounting Standards (IAS) on Indian Accounting and reporting.
- Prodeepta K. Samanta et al.(2009) studied that ross Border capital flows in today`s liberalized economic conditions demand fairly high standards of accounting information in corporate financial reporting. Differences in GAAPs of two countries exist due to the prevalence of different accounting rules of measurement, different interpretations of similar rules and varying degrees of financial statements.
- Sangeeta Makhija et al. (2009) observed that country level adoption of IFRs could be both economically more efficient and make the accounting much more credible to outsiders who need to rely on it.
- Pradeep, (2009). workout that there are sufficient empirical evidences that Indian companies, those wish to raise capital from abroad are making a beeline to publish accounts under US GAAP and lists the Key differences between the US GAAP and the Indian standards.

V. Objectives

1. To study the degree of awareness among academicians about convergence of Indian GAAP to IFRS.
2. To attempts to study the extent of perception of academicians to take the convergence smoothly and flawlessly.

VI. Research Methodology

The study is based only primary data. Fifty respondents were selected who teach accounting & finance papers only from Haryana and National Capital Region (NCR). There were 16 lectures (L), 12 Senior Lectures (SL), 15 Assistant professor (AP) and 7 professors (P) in sample survey. A structured questionnaire containing 18 questioned regarding various aspects of awareness of convergence of Accounting Standards and IFRS has been developed. To know the response of respondents, questions were asked telephonically and questioned were sent through email. To analyse the data, percentile and Chi-square method has been used.

Chi-Square(X2): Chi-Square(X2) test is a non-parametric test that was first applied by Karl Pearson. It does not make any assumption about the population from which sample is drawn. It is used to test whether the difference between observed frequencies and expected frequencies is significant or not.

$$X^2 = \sum \frac{(O-E)}{E}$$

Where O= Observed Frequencies; E = Expected Frequencies;

$E = \frac{(R \times C)}{N}$ where R= Row total, C= Column total, N= Grand total

Degree of freedom (v) = (r – 1)(c- 1)s been used.

VII. Analysis and Results

Awareness among the academicians and the concept of IFRS:

Table 1: Response about awareness of the concept of IFRS

Concept	Frequency	Percent
IFRS –Standards issued after 2001	45	90.00
IFRS- standards issued before 2001	32	64.00
Interpretation issued by IFRIC after 2001	10	20.00
Interpretation by SIC issued before 2001	05	10.00

Framework for the preparation and Presentation of Financial Statements	03	6.00

Source: Field Data

Table 1 reveals that:

- According to 90 percent respondents IFRS stands for those standards issued after 2001.
- About 64 percent respondents assume standards issued before 2001 as IFRS.
- 20 percent assumes the interpretations issued after 2001 by International Financial Reporting interpretations Committee (IFRIC) are considered as IFRS only.
- The interpretations issued before 2001 by the Standing Interpretations committee (SIC) are considered to be the part of IFRS only by 12 percent of respondents while 3 percent respondents consider framework for the preparation and presentation of financial statements as the part of IFRS.

Table 2: Designation –Wise response for the concept of IFRS

Designation	Option 1	Option2	Option 3	Option 4	Option 5
	F	F	F	F	
L	14 (87.50)	4 (25.00)	0 (0)	0 (0)	0 (0)
SL	11 (91.66)	8 (53.33)	2 (16.67)	0 (0)	1 (0)
AP	15 (100)	10 (66.67)	4 (26.27)	1 (6.67)	1 (6.67)
P	7 (100)	6 (86.67)	5 (70.12)	4 (57.11)	4 (57.11)
Total	47	28	11	5	6

Source: Field data

Note: F stands for frequency

Table 2 reveals that:

- In lecturer's category, 100 and 25% respondents were aware that IFRS includes standards issued after and before 2001 respectively. But, none of them considers interpretation issued by IFRIC as IFRS, the interpretation of SIC and other framework as the part of IFRS concept.
- In senior lecturers category 91.66 percent respondents were aware that IFRS compromises standards issued after 2001 and 53.33 percent were aware that standards issued before 2001 are the part of IFRS as well as 16.67 respondents were aware about interpretation issued by IFRIC after 2001, but not a single respondent in this category who knows that interpretations issued by SIC and other framework are the part of IFRS concept.
- In assistant professor c category, 100 percent respondents were clear that the IFRS concept means standards issued after 2001 and 66.67 percent of them understand the standards issued before 2001 as the part of IFRS. Only 26.67 percent of assistant professor took interpretations originated by IFRIC issued after 2001 as the part of IFRS concept while only 6.67 percent respondents of this category considered interpretations of SIC and other framework as part of the IFRS concept.
- 100 percent academicians in professor category were aware that IFRS comprises standards issued by IASB after 2001 and standards issued before 2001 while 70 percent professors were aware those interpretations issued both by IFRIC and 57 percent were aware about SIC and framework for preparations of financial statement is the part of IFRS.
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- 47 and 28 respondents take IFRS as standards issued before and after 2001 and a very small percentage of academicians understand about the interpretations of SIC and IFRIC etc.

Table 3: Response of Academicians for the implementation plan of IFRS

Concept	Frequency	Percent
IFRS are going to be enforced in three phases	49	98
Phase 1: for listed companies having net worth of Rs. 1000crores or more and for all public interest entities	41	82
Phase 2: for listed companies with a net worth of Rs. 500-1000 crores	9	18
Phase 3: for listed companies having a net worth of Rs. 500 crores or less than that	5	10

Source: Field Data

Table 3 revels that:

98 percent respondents in total were aware that the IFRS are going to be implemented in three phases in our country while 82 percent were aware that the 1st phase of introducing IFRS is due in April 2011 in listed companies having net worth of RS 1000cr or more and also for all public interest entities. Surprisingly, it was observed that a very small no. of academicians were aware about the complete details of implementation plan of IFRS in our country with only 18 percent and 10 percent response respectively for 2nd and 3rd phases.

Table 4: Designation wise awareness about the implementation plans of IFRS

Designation	Option1		Option 2		Option 3		Option 4	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
L	14	30.43	12	30.00	1	10.00	0	00.00
	(87.50)		(75.00)		(6.25)		(0)	
SL	11	23.91	9	22.50	2	20.00	1	12.50
	(91.67)		(75.00)		(16.67)		(8.33)	
AP	14	30.43	12	30.00	3	30.00	2	25.00
	(93.33)		(80.00)		(20.00)		(13.33)	
P	7	15.22	7	17.50	6	60.00	5	62.50
	(100)		(100)		(85.71)		(71.43)	
Total	46	100	40	100	10	100	8	100

Source: Field Data

Table 4 revels that:

- More than 87.5 percent academicians in all categories were aware that the IFRS were going to be implemented in 3 phases in India while 100 percent of professors were aware of this fact.
- There is little difference between the percentage of awareness of implementation plan while there is high variation regarding awareness among academicians regarding option 3 and option 4.
- 100 percent of respondents in professor category were aware about this stage with a clear descending order i.e. 80 percent for assistant professor, 75 percent for senior lecturers and 75 percent from lecturers for option 2.
- It was seen that there is a clear difference in awareness level for different category of academicians.

Table 5: Response on deviation of existing Indian GAAPs from IFRS

Concept	Frequency	Percent
No Deviation	2	4
Some Deviation	44	88
Complete deviation	4	8
Total	50	100

Source: Field Data

Table 5 reveals that only 4 percent respondent assumes that there is no deviation between Indian GAAP and IFRS while 8 percent respondents accept complete deviation between the two. There were 88 percent respondents who observe that there is some deviation between Indian GAAP and IFRS.

Table 6: Designation wise response for preparedness to cope up with the convergence

Designation	L		SL		AP		P		Total	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
Certified Course on IFRS	0	16	0	12	0	15	2	5	2 (4)	48 (96)
Training on IFRS	0	16	O	12	1	14	1	6	2 (4)	48 (96)
Presentation& participation in conference, seminar, short-term courses on IFRS	1	15	2	10	3	12	5	2	11 (22)	39 (78)
Paper publication on IFRS	O	16	1	11	3	12	6	1	10 (20)	40 (80)
Subscription of Journal or E-journal	3	13	3	9	4	11	3	4	13 (26)	37 (74)

Source: Field Data

Table 6 reveals that:

- It was observed that only 4 percent have done certified course and any training on IFRS. Only 2 professors have undertaken the certification course on IFRS while one professor and one assistant professor have undergone training on IFRS.
- Only 22 percent of respondent have attended conferences or seminars or short-term courses or workshops on IFRS. Among 11 respondents, there were 5 professors, 3 assistant professor, 2 senior lecturer, and 1 lecturer.
- Out of 50 respondents, only 10 respondents (20 percent) have published their paper on IFRS. Among these 10 respondents, there were 6 professors, 3 assistant professor, 1 senior lecture.
- It was seen that there were 13 respondents (26 percent) who have subscribed some e-journal or journal or books etc. anything at all to prepare for convergence.

VIII. HYPOTHESIS:

H0: There is no difference in awareness level for different category of academicians.

H1: There is difference in awareness level for different category of academicians.

X2 = $\sum \frac{(O-E)}{E}$

Where O= Observed Frequencies; E = Expected Frequencies;

E = $\frac{(R \times C)}{N}$ where R= Row total, C= Column total, N= Grand total

Degree of freedom (v) = (r – 1)(c- 1)s been used.

Here, calculated value of X2 is 31.48 and Table value X2 at α 5% with 4. As calculated value is more than table value so, Null hypothesis (H0) is rejected and alternated hypothesis is accepted. So, it may be concluded that there is difference in awareness level for different category of academicians

IX. SUGGESTIONS AND RECOMMENDATIONS

- For initiating conversion of AS to IFRS will require formulation of human Capital strategies. The company will have to assess the level of in-house experience /expertise and the types of training that will be need.
- There is great need of organising training sessions for academicians.
- Academicians should use of journals, e-journals or books as much as possible so that they cope up with the challenges of convergence.
- Attitude of company towards interim reports is reflected in terms of key management represented as result conference. Presence of top management authorities at the time of disclosure of reports will help companies in gaining confidence of investors.
- It should be overcome the problem of slow pace of conversion in India. Indifference attitude of ASB, Lack of openness, reference for status quo, Government inclusion in Financial Reporting Area, Lack of Accounting Research are critical issues.
- It is suggested that companies should disclose balance sheet as this statement is of immense importance for investors for making projection about the financial health of the company.
- It is recommended that statement of change in owner`s equity should also be prepared as a part of IFR.
- Cash flow statements should be prepared as it gives an insight about the inflows and outflows of cash and cash equivalent and may help in future forecasting of cash.
- Adopting the IFRS will need careful study of the changes and its impacts.
- The company willing to adopt conversion will require thoughtful communication plan for the board of directors, shareholders and other key stakeholders.
- Indian Companies are lacking in providing some important information like material event, estimated changes, effect of changes etc. By giving such information, Indian companies can improve their standard of disclosing practices.
- The process of conversion will demand well designed and efficient change management initiated and championed by a company`s leadership.

X. CONCLUSION

The Study reveals that there is a clear difference in awareness level for different category of academicians. A very small percentage of academicians make efforts to contribute in research in IFRS area. There is a need of to be changed in academic curriculum in accounting principles. There is slow pace of conversion in India due to Indifference attitude of ASB, Lack of openness, reference for status quo, Government inclusion in Financial Reporting Area, Lack of Accounting Research. The convergence with IFRS may bring significant variations in the value of total non-current assets, total current assets, total assets, equity, total liabilities, revenue, operating profit/Loss and profit/loss after Tax.

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