Benefits and Challenges of Adoption of International Financial Reporting Standards

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Abstract:-**The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions especially investors who seek diversification and investment opportunities across the world. The application of the principal qualitative characteristics and the appropriate accounting standards normally results in financial statements that provide fair presentation. However, these accounting standards differ from one country to another thereby producing difference in financial statement quality across countries and creating difficulty in comparison and transparency in financial information. The need to harmonize accounting standards which will decrease information asymmetry between stakeholders and the companies necessitates the development of IFRS.This study focuses on identifying the benefits and challenges associated with adoption of International Financial Reporting Standard.**

Keywords: **Accounting standards, Stakeholders, Information asymmetry, Economic decisions, Financial statements**

I. INTRODUCTION

The key to economic development is a sound financial reporting system aimed at making information available for decision making. Over the years, many and several financial reports have come with discrepancies and differences due to application of different accounting standards that render such reports incomparable across nations. Secondly, reconciliation of these reports may not really be possible and thus it becomes difficult to use them to make financial decision across nations.

Consequently, when comparing financial statements under two different accounting standards, the information provided by annual statements may be communicated differently and might even be misleading. (Daske, Hail, Leuz & Verdi, 2000).

As we globalise, the significance of convergence with International Financial Reporting Standards (IFRS) increases because **financial information prepared and audited according to National Accounting Generally Accepted Accounting Principles (NGAAP) no longer satisfies the needs of users whose decisions are more international in scope.** Hence, a lot of countries have already move from the Generally Accepted Accounting Principles (GAAP) towards the International Financial Reporting Standards (IFRS), of which common accounting rules define what information must be disclosed in financial statements and how transactions must be reported.

IFRS standards are International Financial Reporting Standards (IFRS) that consist of a set of accounting rules that determine how transactions and other accounting events are required to be reported in financial statements. They are designed to maintain credibility and transparency in the financial world, which enables investors and business operators to make informed financial decisions.

IFRS standards are issued and maintained by the International Accounting Standards Board and were created to establish a common language, so that financial statements can easily be interpreted from company to company and country to country

According to Izedonmi (2011), the need and feasibility for a uniform global financial reporting framework has been on for many years. He identified the following factors supporting the adoption of IFRS:

1) Continuous integration of world economy;
2) Increased interdependence of the international financial markets;
3) Absence of barriers of capital flows across national boundaries;
4) Increased mobility of capital across national boundaries;
5) Multiple listing by companies in capital markets within and outside their home jurisdiction;
6) Continuous demand by stakeholders for quality information and greater disclosures.

Having an international standard is especially important for large companies that have subsidiaries in different countries. Adopting a single set of world-wide standards will simplify accounting procedures by allowing a company to use one reporting language throughout. A single standard will also provide investors and auditors with a cohesive view of finances.

The adoption of IFRS framework according to Schachler (2012) has assumed such universal relevance because of the anticipated benefits expected in terms of transparency, uniformity, reliability and comparability of the accounting numbers in financial statements of companies.

A number of challenges are experienced by countries in their adoption of IFRS, its world-wide adoption has been promoted on the premise of its perceived benefits which are considered to outweigh its disadvantages.

In order to successfully implement the IFRS within the emerging economies, it is essential to identify and analyse the potential benefits and challenges that may occur during and after this process to obtain the highest impact from the positive aspects.

II. STATEMENT OF THE PROBLEM

The compliance challenge with the adoption of IFRS has been a significant focus of many organizations' conversion efforts. Many firms perceived that IFRS adoption has resulted in an ongoing increase on annual accounting and compliance costs.

Consequently, it is found that some companies continue to follow the accounting treatments under past Generally Accepted Accounting Principles. Hence it becomes necessary to outline the benefits and the associated challenges to enhance understanding of stakeholders about the decision involving adoption of IFRS.

III. OBJECTIVE OF THE STUDY

The objective of the study is to identify benefits and challenges associated with the implementation of International Financial Reporting Standard (IFRSs)

IV. LITERATURE REVIEW

4.1 Historical Review

The International Accounting Standards Committee (IASC) was established in 1973 as an accounting regulatory authority to bridge the gap between accounting standards among countries. Its pronouncements are known as International Accounting Standards (IAS). In April 2001, International Accounting Standards Board (IASB) took over the setting of International Accounting Standards from the International Accounting Standards Committee (IASC). This new body now describes its pronouncements under the label "International Financial Reporting Standards"(IFRS) while it continues to recognise the IASs issued by the defunct IASC (IFRS Foundation, 2010). One of the goals of the IASB is to develop high quality international accounting standards that will be easily understandable and enhance transparency in financial reporting globally (IASB, 2010). This is hoped to be achieved through the elimination of differences in accounting policies and principles between countries.

IFRS are accounting principles issued by International Accounting Standards Board (IASB) its adoption is believed to enhance greater transparency and disclosures in financial statements (Epstein, 2009, Adam, 2009). This will eventually lead to the harmonisation of financial statement across borders.

IFRS originated in the European Union, with the intention of making business affairs and accounts accessible across the continent. The idea quickly spread globally, as a common language allowed greater communication worldwide. Although not all countries of the world uses IFRS, participating countries are spread all over the world, rather than being confined to one geographic region.

According to Carson, E., and Dowling, C. (2010), financial information prepared and audited according to a national accounting standards may not be useful to users due to the high level of globalisation of businesses and financial markets.

The adoption of IFRS will save multinational corporations the expense of preparing more than one set of accounts for different national jurisdictions, the professional status of accounting bodies will be enhanced and the big accounting firms will benefit in their efforts to expand the global market for their services.

4.2 Benefits of IFRS Adoption

A good number of studies carried out in different countries have highlighted the benefits of having single set of financial reporting standards across the globe. According to(Irvine & Lucas, 2006), various studies conducted on the adoption of IFRS at country level indicated that countries that adopted IFRS experienced huge increases in Direct Foreign Investment (DFI) flows across countries

Research conducted in countries like Great Britain, Italy and Germany, by Iatridis (2010); Paglietti (2009); Pannanen and Lin (2009) revealed that, the implementation of IFRS has improved the quality of accounting information. Kunle, Omoruyi & Hamed (2011) posited that the adoption of IFRS will foster common benchmark in financial information across international borders with the aim of generating greater momentum for economic development. Ng, Tsang and Yang (2013) argue that, IFRS is capable of financial transformation because it comes with it accountability and transparency in fair value measurement and investment efficiency. Imhoff (2003) also described the objective of the IFRS standards as a yardstick that enables organizations to provide stakeholders with relevant, reliable and timely information and that such information contributes towards the achievement of orderly capital markets around the world. Gordon (2008) listed the benefits from adaptation of IFRS over the world to include: better financial information for shareholders and regulators, enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, better management of global operations and decreased cost of capital.

IFRS leads to high-quality, transparent, and comparable financial information. This is useful for International organisations, as it helps investors, creditors, financial analysts, and other users of financial statements thoroughly assess the performance of their investment. (Carson and Dowling, 2010; Latifah, I., Asfadillah, C. & Sukmana.R., 2012).

Generally, among the benefits identified in several studies performed are:

i) The increase in the level of comparability between the financial statements and the improvement of the transparency level.
Businesses using similar standards to prepare financial statements enhance transparency and can more accurately compare with each other. This is very useful when comparing businesses that are based in different countries, as they may otherwise have different methodologies and rules in preparing these documents. This greater comparability has aided investors and other market participants to make informed economic decisions.
ii) IFRS Standards strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. As a source of globally comparable information, IFRS Standards are also of vital importance to regulators around the world.
iii) It creates more flexibility. Using a philosophy that is based on principles, instead of rules, this set of standards will have the goal of arriving at a reasonable valuation with various ways to accomplish tasks. This would give businesses the freedom to adopt IFRS to their specific situations, which will result in financial statements that are more easily read and useful.
iv) The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards.
v) IFRS Standards contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs.

4.3 Challenges of IFRS Adoption

Few of the studies have given contradictory views questioning the relevance of IFRS adoption in developing and emerging economies.

Rong-Ruey, D (2006) argued that one single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures. In countries where the quality of governance institutions is relatively high, IFRS adoption is likely to be less attractive as high quality institutions represent high opportunity and switching costs to adopting international accounting standards.

Sawan, N and Alsagga, I (2013) have found that cultural, political and business differences may also continue to impose significant obstacles in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures.

Michas (2010) Alp and Ustuntage (2009) and Zhang et al. (2007) are of the view that, the implementation of IFRSs by developing countries comes with a lot of challenges. Some of the challenges include the complexity of the standards, fair value issues, cost, regulation, lack of technical skills and knowledge in standards, inadequate education and training of accountants (Schachler et al., 2012; Laga, 2012; Masoud, 2014). According to Obazee (2007), challenges are cultural issues, mental models, legal impediments, educational needs and political influences.

A study by Ionaşcu et al (2011) revealed that lack of active markets needed for fair values determination may reduce the quality of accounting information presented in financial statements prepared in accordance with the IFRSs. Another challenge identified was that because IFRSs is principle-based, it may create avenue for earning management (Hong 2008; Chand, Patel & Patel 2005; Jeanjean & Stolowy 2008). According to Rong- Ruey Duh (2006), the challenges of IFRS adoption includes the ability of accountants to interpret standards, and the knowledge level of financial statement users, preparers, auditors and regulators in accounting information.

According to Obazee, 2007 as reported by (**Odia,.J.O. and Ogiedu, K.O. 2013)** The principal impeding factors in the adoption process of IFRS in Europe, America and the rest of the world are not necessarily technical but cultural issues, mental models, legal impediments, educational needs and political influences

The implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, and managerial incentive (Ball, Robin & Wu 2000).

From the foregoing, it can be deduced that the obstacles met in the process of IFRS implementation in the emerging economies include the following:

- the lack of relevant specific knowledge and of practical experience;
- the need of training and consultancy services;
- difficulties encountered in using the fair value concept;
- the transition costs.

V. METHODOLOGY OF THE STUDY

The paper used current international publications from highly reputable journals and documentary materials from the internet with focuses on the analysis of the benefits and challenges in the process of adoption of IFRS standards involving a predominant review of existing literature thereon.

VI. CONCLUSION

The quality of a company's accounting numbers is determined by the extent of accounting standards application. One of the goals of the IASB is to develop high quality international accounting standards that will be easily understandable and enhance transparency in financial reporting globally (IASB, 2010).

IFRS are issued by the International Accounting Standards Board (IASB), and they specify exactly how accountants must maintain and report their accounts.

This move to IFRS which is the new standards set by IASB is no doubt a major initiative in accounting and reporting history. The impact of IFRS goes beyond financial reporting. It also borders on key decisions of company. (Adamu Garba Zango, Hasnah Kamardin, Rokiah Ishak, 2015)

The point of IFRS is to maintain stability and transparency throughout the financial world. This allows businesses and individual investors to make educated financial decisions, as they are able to see exactly what has been happening with a company in which they wish to invest.

The adoption of IFRS framework according to Okpala (2012) has assume such universal relevance because of the anticipated benefits expected in terms of transparency, uniformity, reliability and comparability of the accounting numbers in financial statements of companies.

If the International Accounting Standards Board (IASB) continues to improve the quality of IFRS, we would expect financial reporting under IFRS to become increasingly value relevant and reliable (Mary et al., 2013).

Though it is claimed that cost of implementation was very high and accounts and business managers' faced some challenges in the implementation of the standards, the benefit derived from its implementation outweighed the challenges.

Therefore, it is pertinent for practicing and other professional accountants to take up the challenge and try to keep track in anticipation of the ever pressing demands for high quality report. Additionally, IFRS demand frequent review of the regulatory framework of firms across jurisdictions and a countrywide intensive capacity building program to facilitate and sustain the process of adoption as quickly as possible knowing that IFRS ship is already navigating around the globe as a single set of high quality universal accounting standards.

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