

International Financial Reporting Standard: Principle, Practice and Prospect

Banji Fajonyomi, PhD
Professor of Public Administration
Dept of Public Administration
Lagos State University
Ojo, Nigeria

James S. Kehinde, PhD
Dept of Accounting and Finance
Lagos State University
Ojo, Nigeria

Abstract

The international financial reporting standard (IFRS) was introduced by the international Accounting standard board (IASB) to mitigate against the resent past word economic depression which to a reasonable extent was due to differences in financial reports across the globe based on the concepts and the Generally Acceptable Accounting principle (GAAP) and standard used by different nations that may lead to faulty financial decision being taken by various users of the financial reports. This study therefore evaluated the ability of the IFRS to be able to redress the mistake and difference of the past in financial reporting across the globe. The survey method was adopted using structured questionnaire. The chi-square was used to test for the significance of the various constructs and variables adopted for study. The results revealed that the IFRS will bring about standardization in financial reports across the globe. It will also ensure unique reporting styles and will ensure comparability and acceptability of financial reports across nations. The IFRS will also reduce but may not be able to eliminate financial misrepresentation, however, will improve on the true and fairness of financial reports across nations. It will improve on the flow of investment and financial resources across nations of the world. It was recommended that adoptability of the IFRS should be total and be given legal backings across the nations. Also machineries should be put in place to ensure adequate training on the use of the standard. It was also recommended that overreliance should not be placed on the standard without adequate measure to enforce compliance and ensure disciplinary action against noncompliance across the nations of the world, compliance committee should be set up to ensure this across the nations.

Key words: IFRS, GAAP, IAS, true and fairness Financial Reporting Standard

Introduction and Background of Study

The world had been used to various nations using their own Generally Acceptable Accounting Principles (GAAP) and the basic accounting concepts to prepare their financial reports, however, over the years, many and several financial reports have come with discrepancies and differences that render such reports incomparable cross countries, secondly, reconciling these reports may not really be possible and thus, it becomes difficult to use them to make financial decision across nations, moreover, the usage of this GAAP allows for creative accountings and other misrepresentations in the financial reports, it is not surprising, therefore, that the resent financial downturn is partly said to be due to differences in financial reports across nations. The International Accounting Standard Board (IASB) therefore proposed the accounting standards that will be acceptable all over the world against the backdrop of this events and difficulties with the practice indifference nations, thus, the International financial Reporting Standard (IFRS) was proposed the debate and the crusade for the acceptance and the adoption of the IFRS has been on across the globe. The objective of this study therefore, is to evaluate the acceptability of the IFRS, the ability of the IFRS to curb or eliminate the vices of the resent past and to ensure the uniqueness, comparability, the adaptability and the ability of the IFRS to ensure the true and fairness of the financial report across the nations of the world. It also aimed at evaluating the ability of the IFRS to bring about international investments (both direct and indirect) and cross countries financial flow without hinges or with little reconciliations taking Nigeria as the case study.

International Financial Reporting Standards (IFRS) are principles-based standards, interpretations and the framework (1989) adopted by the International Accounting Standards Board (IASB). International Financial Reporting Standards (IFRSs) has both a narrow and a broad meaning. Narrowly, IFRSs refers to the new numbered series of pronouncements that the IASB is issuing, as distinct from the International Accounting Standards (IASs) series issued by its predecessor. More broadly, IFRSs refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB and IASs and SIC interpretations approved by its predecessor International Accounting Standards Committee.

The IFRS Framework describes the basic concepts that underlie the preparation and presentation of financial statements for external users. The IFRS Framework serves as a guide to the Board in developing future IFRSs and as a guide to resolving accounting issues that are not addressed directly in an International Accounting Standard or International Financial Reporting Standard or Interpretation. In the absence of a Standard or an Interpretation that specifically applies to a transaction, management must use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgment management is required to consider the definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses in the IFRS Framework. (Ball R., 2006.).

History of IFRS

In April 2001, the International Accounting Standards Board (IASB), an independent accounting Standard setter based in London, assumed accounting standard-setting responsibilities from its predecessor body, the International Accounting Standards Committee. The IASB is responsible for International Financial Reporting Standards (IFRS).

Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IAS was issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On April 1, 2001, the new IASB took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards IFRS. For the purpose of this paper the following are some IFRS which cover areas in accounting that have not been covered in the IAS before now (Deloitte Global Services, 2011. IASB, 2007, Wikipedia, 2011) IFRS 1 First-time Adoption of International Financial Reporting Standard, 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 Assets, IFRS 7 Financial Instruments: Disclosures, IFRS 8 Operating Segments, IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 13 Fair Value Measurement.

THE IFRS FRAMEWORK

The purpose of every financial report is to ensure certain basic quality of the financial report, the report must have certain quality and conform with prescribed standard this include among others Comparability, verifiability, timeliness and understandability which are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented in financial report, this is what the IFRS tends to put in perspective and ensure that they are the same all over the world these are explained as follows

Comparability

Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability enables users to identify and understand similarities in, and differences among items.

Verifiability

Verifiability helps to assure users that information represents faithfully the economic phenomenon it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

Timeliness

Timeliness means that information is available to decision-makers in time to be capable of influencing their decisions.

Understandability

Classifying, characterising and presenting information clearly and concisely make it understandable. While some phenomenon are inherently complex and cannot be made easy to understand, to exclude such information would make financial reports incomplete and potentially misleading. Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information with diligence.

IFRS and the concept of financial statement

Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The IFRS are therefore put in place to regulate the standard of presentation of this financial information. in the balance sheet and the income statement (Bradshaw, M., *et al* 2010).

International Financial Reporting Standards in Nigeria

The increasing sophistication of the Nigerian industrial and commercial environment compels the imperative of appreciating the risks about the flow of economic capital, both foreign and domestic. The intensification of globalization and the consequential loss of national identity in financial reporting standards leave Nigeria with no choice, but to key into the International Financial Reporting Standards. Investors now request financial statements prepared using these global financial reporting benchmarks.

Nigeria Generally Accepted Accounting Practice (NGAAP) and International Financial Reporting Standards (IFRS)

In Nigeria companies have been complying with Standards issued by The Nigerian Accounting Standards Board (NASB) for a number of years. These standards represent Nigerian Generally Accepted Accounting Practice (“Nigerian GAAP”).there is therefore the need to ensure that entities understand the similarities and differences between IFRS and Nigerian GAAP. The development of IFRS is ongoing, however, the NASB announced its Roadmap to Convergence with IFRS in September 2010. Based on this Roadmap Nigerian listed companies and significant public interest entities (“PIEs”) will be required to comply with IFRS for periods ending after 1 January 2012. Other PIEs will be required to comply for periods ending after 1 January 2013 and small and medium sized entities will need to comply for periods ending after 1 January 2014.(PricewaterhouseCoopers International, 2011)

Data Analysis and Interpretation

Table1

	Variables	Mean	Ranking
1	Var00001	5.00	1st
2	Var00003	4.25	2nd
3	Var00008	4.25	2nd
4	Var000012	4.25	2nd
5	Var00004	4.00	3rd
6	Var000011	4.00	3rd
7	Var00009	4.00	3r d
8	Var000010	4.00	3rd
9	Var00005	3.75	4th
10	Var00002	3.5	5th
11	Var00006	3.5	5th
12	Var00007	3.5	5th

Note to variables

Var00001: The international financial reporting standard (IFRS) describes the basic concepts that underlie the preparation and presentation of financial statement for external users.

Var00002: The IFRS will cub misrepresentation in financial report practices.

Var00003: The understand ability, comparability, verifiability, and timelines quality of financial report will be enhanced by the IFRS.

- Var00004: The IFRS will be a better regulator of standard of presentation of financial report than previous financial Standards
- Var00005: The application of IFRS in Nigeria will make financial report in Nigeria receive international acceptance.
- Var00006: The replacement of the Nigeria Accounting Standard Board [NASB] with Financial Reporting Council to issue and regulate actuarial, valuation, and auditing standards will bring about standardization in financial regulation in Nigeria.
- Var00007: The application of the IFRS in Nigeria will eliminate the incidence of presentation of incorrect financial report.
- Var00008: The application of the IFRS will bring about unique growth in financial reporting world over
- Var00009: The global application the IFRS will facilitate international flow of investment without hinge in the world.
- Var000010: Improper understanding of the IFRS will bring about misleading financial report.
- Var000011: The global compulsory application of the IFRS will destroy local difference and peculiarities.
- Var000012: The IFRS will promote the true and fairness of financial reports.

Interpretation

The mean ranking in table1 revealed that var0001 have the highest mean ranking thus meaning that the international financial reporting standard (IFRS) is compressive and describe the basic concept for preparing the financial report for4 external users, thus, It is the most agreed as the most important factor influencing the effect of international financial reporting standard (IFRS) on the financial report of corporate organization. While var003, var008 and var0012 were next of value in ranking of the constructs, they influence moderately influence the performance of the IFRS in ensuring quality and unqualified financial reports, this mean that the application of the IFRS will promote true and fairness, quality and unique financial report world over. Var005 is of very high value too it ranked 4th in value, it is equally of import as it influence the value of the IFRS, meaning that that financial report in Nigeria will hence receive international acceptance . the variable with the least value were var002, var006 and var007 the variable are of the least value and of less importance in the ranking, in other words the IFRS may not be able to curb misrepresentation and incidence of presentation of incorrect financial report, the replacement of the Nigeria accounting standard board with the Financial reporting council respondents believed will not lead to monopoly in financial market reporting standard system.

Hypotheses Testing

Table 2

No	Variables	Xcal	Xtab	Asymp.sig	test
1	Var0001	31	0.711	0.000	H ₁
2	Var0002	31	0.711	0.000	H ₁
3	Var0003	15.5	0.711	0.000	H ₁
4	Var0004	31	0.711	0.000	H ₁
5	Var0005	20	0.711	0.000	H ₁
6	Var0006	21	0.711	0.000	H ₁
7	Var0007	31	0.711	0.000	H ₁
8	Var0008	15.5	0.711	0.000	H ₁
9	Var0009	16	0.711	0.000	H ₁
10	Var00010	31	0.711	0.000	H ₁
11	Var00011	15.6	0.711	0.000	H ₁
12	Var00012	31	0.711	0.000	H ₁

The test of hypotheses was carried out in table two, using chi- square and the asymptotic significance of the chi-square at 0.05% significant level, all the variables were significant which means that all the constructs are in important factors in testing the significance of the International Financial Reporting Standard(IFRS) on` the value of the financial report

Conclusions and Recommendations

The following are the conclusions form this study

The international financial reporting standard (IFRS) will hence the true and fair nature of the financial report and will reduce creative accounting.

It will also prove the verifiability, timeliness and understandability of the financial report. The international acceptability and uniqueness of the financial statement will be enhanced by the IFRS. It will equally bring about international flow of investment; however, the IFRS may not be able to eliminate financial malpractices.

It was recommended that a committee should be set up to monitor the full implementation of the IFRS and measures should be put in place to ensure compliance with standards. The local content should also reflect in the application of the IFRS.

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