

# The international financial reporting standard in the uk



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International Financial Reporting Standards are a set of regulations issued by the International Accounting Standard Board, an independent organic structure located in London, United Kingdom. In the period 1973-2000, the International Accounting Standard Board ( IASB ) and the International Accounting Standard Committee ( IASC ) , an organisation formed in 1973 by professional accounting organic structures in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland, and the United States, issued the international criterions. Those criterions were known during the mentioned period as the International Accounting Standards ( IAS ) ( Ball 2005 ) .

From April 2001 onwards, the IASB became the functionary organic structure for publishing regulations and criterions sing accounting and fiscal issues under IFRS. At the same clip, IAS which issued by the International Accounting Standard Committee ( IASC ) are still acceptable by the IASB ( Ball 2005 ) .

Harmonizing to the International Accounting Standard Board, since 2001 at least 120 states have required or permitted the acceptance of IFRS. In 2002, the European Union launched that all EU states ' listed companies must fix themselves to follow IFRS from 2005. In 2003, the first IFRS1 issued by IASB `` first-time acceptance `` and the undermentioned states commit themselves to follow the IFRS ( Australia, Hong Kong, New Zealand and South Africa ) . In 2005, In Europe about 7, 000 listed houses in 25 states at the same time change to IFRSs.

US Security Exchange Committee Chief Accountant issues 'roadmap ' depicting stairss towards the remotion of the rapprochement demands by 2009.

2006, China adopts accounting criterions well in line with IFRSs in order to acquire full convergence after the Memorandum of Understanding has been made between IASB and FASB for progressing convergence of IFRSs and US GAAP. In 2007, Brazil, Canada, Chile, India, Japan and Korea all launch a day of the month to follow or meet with IFRSs. In 2008, Israel, Malaysia and Mexico to follow IFRSs and United States issues 'roadmap ' for IFRS acceptance, update of IASB-FASB Memorandum of Understanding released and IASB paths complete response to the fiscal crisis.

The completion of first portion of Constitution Review by IASCF was in 2009, besides the IASB increased members to 16 by 2012.

Study overview:

This survey will concentrate on the impact of implementing IFRS on UK listed companies through statistical analysis, mensurating the differences of fiscal ratios before and after the acceptance of IFRS. Then the survey will analyze the balance sheet and income statement points in order to research the grounds for differences in fiscal ratios and so analyze which of the IFRSs that made these differences. The fiscal ratios will be used in this survey are:

The profitableness ratios: operating net income border ( OPM ) , return on equity ( ROE ) and return on invested capital ( ROIC ) .

Leverage: measured by equity ratio ( ER ) and pitching ratio ( GR ) .

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Liquidity ratios: current ratio ( CR ) and speedy ratio ( QR ) .

Market-based ratio: monetary value to net incomes ratio ( PE ) .

### **Research Problems:**

This survey will be trying to analyze the followers:

The effects that may ensue from altering describing criterion from the UK GAAP to the International Financial Reporting Standard.

The survey will concentrate on fiscal ratios, specifically profitability ratios, fiscal purchase, liquidness ratios and the market-based ratio of the houses that adopt the IFRS and impacts of this acceptance.

### **Purposes and Aims of the survey:**

This survey will turn to the research inquiry whether there is an impact on the public presentation of the companies that adopt IFRS alternatively of their local GAAPs.

Further more, this survey is a attempt to add more literature to the 1s that already done in this country but on different states in order to

### **Rationale and Justification for the survey:**

The principle and the justification of this survey is an effort by the research worker to find whether if there is an impact on the cardinal fiscal ratios consequences when following the International Financial Reporting Standards. There are many literatures done about the issue of following IFRS and its impact on the public presentation of the houses. Such literatures tackle the topic from different point of position, but this survey will

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concentrate on analyzing the impact on fiscal ratios through statistical analysis.

### **Methodology:**

This survey will analyze the impact of acceptance of IFRS on fiscal ratios of the listed houses in UK for the old ages 2002, 2003 and 2004 as the old ages before the compulsory acceptance in 2005, so the old ages 2006, 2007 and 2008 as the old ages after the acceptance. The survey will utilize the fiscal ratios for 30 listed houses in the UK.

This research will follow the survey of Lantto & A ; Sahlstrom ( 2009 ) , where they analyse the differences between fiscal ratios before and after the transition from Finnish accounting criterions to IFRS. This survey will utilize the same methodological analysis on the UK houses and will prove the statistical significances of the differences, and analyze the major grounds for the differences before and after the transition.

### **Research construction:**

Chapter one: debut

Chapter two: differences and similarities between IFRS and UK GAAP

Chapter three: research methodological analysis

Chapter four: consequences

Chapter five: decision and treatment

## **Plan of the Survey:**

The entry of the thesis will be on the of September 2010 and it will be finished in about four months get downing from June up to September and can be scheduled as follows:

## **Literature Reappraisal:**

Many literatures have studied the impact of the acceptance of IFRS alternatively of national GAAPs in order to analyze the betterment of fiscal coverage. IFRS is established to minimise the spread between fiscal statements prepared under different national or domestic GAAPs.

Lantto & A ; Sahlstrom ( 2009 ) analyze the impact of IFRS acceptance on cardinal fiscal ratios in Finland after transition from DAS to IFRS. Their survey conclude that there have been alterations in cardinal fiscal ratios of Finnish companies after the acceptance of IFRS perceptibly increasing in profitableness ratios and pitching ratios on one manus. On the other manus, they have found a decreasing in the PE, equity and speedy ratios. These additions in profitableness ratios and lessenings in PE ratio are due to the additions in the income statement net incomes. They refer that the remotion of the amortisation of purchased good will harmonizing to IFRS 3 is the chief ground for the noticeable increasing in the ratios of profitableness. They besides found that there is an addition in duty points and a lessening in stockholders equity and this will take to increase the fiscal purchase ratios. In add-on, the addition of the current liabilities made the liquidness ratios to diminish, where Daske et Al ( 2008 ) examine the compulsory acceptance of ( IFRS ) and its effects on the economic system on different states over the universe. They analyze a sample of houses in 26 states in order to analyze <https://assignbuster.com/the-international-financial-reporting-standard-in-the-uk/>

the effects on market liquidity, cost of capital, and Tobin's Q in these states. Their determination was, on mean, market liquidity increases around the clip of the debut of IFRS which contradict Lantto & A ; Sahlstrom ( 2009 ) . They recorded an addition in equity ratings which is consistent with Lantto 's consequences and a lessening in houses ' cost of capital, when the effects took topographic point before the official acceptance day of the month. When splitting their sample, they find that states that have intensifiers for transparence tend to hold capital-market benefits. When they make comparing between compulsory and voluntary adoptive parents, they find that the capital market effects are most obvious for companies that voluntarily adopted IFRS, in both old ages when they adopt IFRS and once more afterwards, when IFRS go compulsory. Furthermore, Cordazzo ( 2007 ) address the concern of altering from Italian GAAP to IFRS by supplying empirical support of the nature and the size of the differences between Italian GAAP and IAS/IFRS. He studied Italian listed companies in order to demo the most of import effects of the acceptance of IAS/IFRS. The consequences show a further the entire impact of altering to IFRS on net income than stockholders ' equity. His consequences confirms Lantto & A ; Sahlstrom ( 2009 ) consequences in footings of positive impact on net income and contradicts with Daske et Al ( 2008 ) and Lantto & A ; Sahlstrom ( 2009 ) in the impact on stockholders equity when his consequences showed a lessening in this point. The single accommodations show more major differences between the Italian GAAP and IAS/IFRS in how to handle concern combination, fiscal instruments, commissariats and intangible assets with mention to both net income and stockholders ' equity ; while there has been an of import difference merely on stockholders ' equity in <https://assignbuster.com/the-international-financial-reporting-standard-in-the-uk/>

income revenue enhancements, and belongings, works, and equipment. Nevertheless, Jermakowicz ( 2004 ) study the acceptance of IFRS in Belgium. The survey examined 20 companies in Belgium tracking the impact of IFRS on their studies. This survey adopted a study attack sent to 20 Belgian houses aims to happen out that using IFRS will impact the method of coverage of these companies every bit good as enhance the comparison degrees in fixing amalgamate histories for these houses. The first three companies that adopted the IFRS in 2003 were analyzed quantitatively. The survey summarises that companies adopted the IFRS alternatively of Belgian GAAP reported a considerable impact on their net income, every bit good as equity, which is consistent with Daske et Al ( 2008 ) and Lantto & A ; Sahlstrom ( 2009 ) . Besides, Iatridis & A ; Rouvolis ( 2009 ) look into the effects of the acceptance of IFRS alternatively of Greek GAAP on the fiscal figures of Greek listed companies. They besides study the factors related to IFRS voluntary revelations before officially following IFRS, the grade of net incomes direction under IFRS, and the value relevancy of IFRS-based accounting Numberss. Their consequences show that the following IFRS has caused instability in the figures of balance sheet and income statement of Grecian companies. They found that there has been a major betterment in fiscal figures in the undermentioned period even though the effects of the passage cost because of following IFRS.

The consequences show that the twelvemonth of the acceptance of IFRS in 2005 did impact the fiscal figures adversely in footings of profitableness and liquidness. In twelvemonth 2006, these figures recorded an betterment, which they refer it to that IFRS became more well-known to the Grecian



companies. Another survey has been done on German companies that adopt IFRS by Van Tendeloo and Vanstraelen in 2005. They tackle the issue of whether the acceptance of IFRS is related to lower net incomes direction. They study German companies that have adopted IFRS if they engage significantly less in net incomes direction compared to companies fixing their studies under German GAAP. In their consequences, they propose that the acceptance of IFRS can non be related with lower net incomes direction.

Schipper ( 2005 ) study the effects related to mandatory acceptance of IFRS in the European Union and he found that the International Accounting Standards Board must supply more inside informations about the usage of the IFRS and the inauspicious effects that may ensue due to the acceptance of IFRS, or at that place will non be broad usage of IFRS by the comptrollers who prepare the fiscal studies and they will go on to utilize local GAAPs or US GAAP. Jones & A ; Higgins ( 2006 ) support Schipper 's consequences when he studied 60 companies in Australia that adopt IFRS through a telephone study. They find important fluctuation in the study answers with elements such as house size, industry background and expected impacts on fiscal public presentation ; the overall consequences show that many of the companies have non been good prepared for altering to IFRS and they are dubious about acquiring any benefits from following IFRS.

Callao et Al ( 2006 ) . Quoted in Callao, Jarne & A ; LaA? A±nez ( 2007 ) inspect the manner in which Spanish companies have dealt with procedure of using IFRS. The base of empirical survey is a study sent to Spanish concern groups listed on the Madrid stock exchange. The consequences show that these companies have taken a really positive attitude towards the <https://assignbuster.com/the-international-financial-reporting-standard-in-the-uk/>

harmonisation procedure and the acceptance of IFRS in one manus. On the other manus, altering to IFRS is dearly-won and needs more alterations in concern organisation and constructions, every bit good as accounting policies. A twelvemonth subsequently a contradictory survey done by Callao et Al ( 2007 ) when he examine the effects of the acceptance of IFRS on the comparison and relevancy of fiscal coverage in Spain. This survey tried to compare between houses that adopt IFRS and others that still use the local GAAP. They found that following IFRS did negatively impact the comparison and concluded that using both criterions at the same clip in the same state will do it hard when comparing between houses, even in the same industry. Their survey besides consequences that the fiscal coverage has non improved because there was a spread between the book value and market value when altering to IFRS. They besides concluded that there will non be benefits from using IFRS in the short term and may be there will be in medium and long term.

Peng & A ; Smith ( 2009 ) look into the convergence procedure through the old ages ( 1992-2006 ) of the convergence of Chinese GAAP with IFRS from theoretical point of position. They find that there have been an of import motion towards convergence took topographic point through the issue of four following Chinese GAAPs: 1992, 1998, 2001, and 2006. Convergence between Chinese GAAP to IFRS happened through both, the direct import of criterions from IFRS and progressive alterations to Chinese GAAP. Direct import was observed for points either reflective of traditional Chinese accounting pattern or 1s that addressed state of affairss non considered or non relevant under the old accounting theoretical account. Progressive

alterations to Chinese GAAP were observed on points well different from traditional pattern. On the whole, they concluded that both combination of staged execution and direct import has proven to be practical and effectual in the convergence of Chinese GAAP with IFRS.

Jones and Luther ( 2005 ) examine three Bavarian companies and two direction consultancy houses in Germany, whether the alteration to IFRS could hold important effects on the typical traditional direction accounting patterns applied in the field of control. They conclude that directors have to take between, either uniting external and internal coverage or go oning to run double accounting systems, restricting the acceptance of IFRS to external coverage.

Ormrod and Taylor ( 2004 ) analyse the impact of the following IFRS alternatively of UK GAAP on compacts included in debt contracts. Their consequences showed more volatile on net incomes figures, every bit good as in fluctuations reported net incomes and balance sheet elements.

Wei? enberger, Stahl, andVorstius ( 2004 ) study the surveyed a group of German houses listed in ( DAX100 ) for the grounds that made these houses choose IFRS or US GAAP instead than German GAAP. The research workers received 81 responses out of 359 houses ' sample. Their consequences showed that the ground of acceptance of IFRS or USGAAP by these German houses was that they was anticipating to hold terms in the capital markets, every bit good as to better supply of information, and the internationalisation of investors. However, they found that non all of these aims were attained.

Larson and Street ( 2004 ) study 17 European states to analyze the obstructions of the convergence in these states ( Switzerland, the 10 new EU members and other EU campaigner states ) . The informations used was gathered in 2002 convergence study by the former Big Six international accounting houses. They showed in their consequences that two major obstructions to convergence are the trouble of definite IFRS and the tax-orientation of many local systems.