International financial reporting standers

Finance

The IASF is advising the IASB, which establishes international financial reporting standards (IFRS), including exposure drafts, the setting up standards, and interpretations.

Since inception, the IASB has issued eight standards from IFRS 1 to IFRS 8 and 14 interpretation of the standard IFRIC 1 to IFRIC 14. The standard setting committee consists of

International Accounting Standards Board (IASB) (IFRSs/IFRS for SMEs),

IFRS Interpretations Committee and

SME Implementation Group.

Since 2001, almost 120 countries have adopted IFRS standard and expectation that remaining countries will also come under IFRS umbrella in the near future.

“ Process of Developing Accounting Standard:

1. The research team will bring a proposal on the standard or the interpretation.
2. Extensive outreach activities will be done which include collecting opinion from the stakeholders
3. Collecting inputs from the stakeholders and creating Exposure Draft (ED)
4. Publication of final IFRS along with feedback statement
5. Jurisdictional adoption process
6. IASB two-year post-implementation review”

(Who we are and what we do, 2010)

Underlying Assumptions of IFRS:

Accrual Basis: Financial reports are prepared on the accrual basis of accounting.

Going Concern Concept: Financial reports are prepared on the assumption that an

Business is a going concern and will continue in operation for the foreseeable future.

Pros and Cons about mandating the change to IFRS:

Pros

A business firm can present its financial statement in the same format as their counterparts in other countries. It makes comparisons easier. This is especially useful for the investors to make investment decisions.

IFRS is a principle-based accounting standard, which ensures transparency in each transaction.

It saves money to the company because in a globalized world, more and more companies are going global. Adoption of IFRS avoids the preparation of two sets of accounts for the company.

Cons

Cost of changing from GAAP to IFRS is high, which include the shift of entire IT support and training of the professionals and students.

Not many U. S schools teach IFRS. So new curriculum needs to be prepared set which is a time-consuming process.

Implementation of IFRS will be a threat to small and medium-sized firms, which are operating with low-profit margins.

Conclusion:

The basic difference between GAAP and IFRS is that GAAP is a rule-based accounting system and on the other sense IFRS is a principle-based system. In rule-based accounting like GAAP, one needs to follow the rules specified for each of the business transaction while recording the transaction in accounts. Sometimes, the accountant foresees the effects of the accounting transaction on the end result and tends to interpret the rules with the objective of presenting good numbers to the public. Many scandals including Enron depict the loopholes in the present GAAP system which lacks a transparent system.

In IFRS, a principle-based accounting system, which records the transaction in a transparent manner, which shows the true nature of each transaction. Also, the consolidation of accounting concepts like IFRS makes the comparison of financial reports easier for the investor community. The transparency provided by IFRS help will them to make wise investment decisions.