INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS): STANDARDIZATION OR HARMONIZATION

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ABSTRACT

This paper focuses on the issue of standardization and harmonization of International Financial Reporting Standards. For the purpose qualitative analysis of the secondary data has been done. Findings and conclusion suggests that harmonization of accounting and financial reporting standards, practices and frameworks for making it homogenous is better option than that of the standardization because of its accommodative and inclusive nature.

Keywords: IFRS; Standardization; Harmonization; Accounting Standards

INTRODUCTION

With the introduction of International Financial Reporting Standards, a lot of discussion and consultations started among accounting and financial management professionals and academicians about the consequences as well as the implications of the acceptance and implementation of the same on future course of financial reporting. This resulted into claims and counter-claims about the implications of the acceptance of IFRS. Though IABS has been lobbying and trying to convince all the stakeholders including national accounting authorities and bodies as well as accounting firms to come on the board to encourage homogenous accounting practices across the world that eventually benefits the investors in decisions making process (Wyatt, 1991).

Of a number of issues identified, two have been considered to be very important in this discussion and those two issues are standardization and harmonization of accounting standards besides the principle based accounting practices. There has been a lot of support for both the processes of standardization as well as harmonization in accounting and financial management fraternity as there are some valid and strong rationales being forwarded in the favour of both standardization as well as harmonization of accounting standards (Daske, 2006).

There are a number of critics who are dead against the process of standardization. Instead they are in favour of the process of harmonization of accounting standards as this process leaves a lot of scope and space to adjust for the national differences that arises due to different economic cycles and stage of development.

OBJECTIVE

The objective of this paper is to put forward arguments and rationales to decide between the standardization and harmonization of IFRS.

Acceptance of IFRS

There are more than 85 countries that have accepted and adapted to the IFRS accounting framework on the accounting better accounting practices in times of intensifying efforts for globalization where geographical boundaries for business will lose significance. In such situations standardization of
accounting practices seems to be imperative for the participating nations (Paul, 2007). Also it is expected that the transition to IFRS will facilitate huge benefits to the countries in form of more accurate and fair representation of financial statements hence easy access to international capital market. Also it would be easier for the firms having international operations and investments or engaged in mergers and acquisitions. So on overall this will increase economic activities and competitiveness of the participating countries (Daske, 2008).

Fair representation of financial statements would lead towards fair interpretation of the financial indicators as a result of the adaptation to IFRS and this would be a favorable situation for the investors across the world when they are taken any investment decisions in any part of the world (Ball, 2006). Another benefit of adaptation of IFRS is homogenous representation. Homogenous representation will ease the overall process of decision making and for a multinational company it would be favorable situation (Bradshaw, 2007). Also the homogenous financial statements will ease the process of comparison of the financial statements from different industries and countries that eventually will help in improving the efficiency (Daske, 2008).

**Standardization of Financial Reporting**

It is rigorous process with a clear goal of coming with a set of accounting and financial reporting standards, practices and framework that are accepted to all the parties in the process. It is a rigid and narrow approach of achieving homogeneous accounting and financial framework as it may hamper the economic growth and development in some regions that need some kinds of positive discriminations (Barth, 1991). It is a well known fact that there are a number of nations across the world that needs concessions and positive discrimination to achieve the goal of inclusive growth (Upadhyay, 2015). Besides in any country it is quite possible that there are some industries that need preferential treatments but in this process there is room for any compromise. This is the main reason why it attracts so much criticism from academics and professionals. Also the rigid reporting requirements would require all the nations who are party to change their overall financial accounting and reporting framework, laws and infrastructure according to the new rules. This is not only expensive but time taking exercise and less inclusive.

**Harmonization of Financial Reporting**

There is another way for coming up with a set of standards, practices and framework for accounting and financial reporting that is homogenous. That practices in accounting and financial reporting arena is known as harmonization process. This is an inclusive and cohesive process of coming up with a homogenous accounting framework by increasing the compatibility of the accounting methods and financial reporting frameworks with some degree of variations (Bradshaw, 2007). This is a liberal and accommodative approach and tries to look into everyone’s views and interests in process. The process of harmonization takes a lot of time as it involves a lot of discussions and consultations (Lochner, 1991).

In the process of increasing the compatibility of accounting practices by setting bounds to some degree of variations an accommodative and liberal approach is taken and each and every possible aspect of issue is taken care of so that none has to compromise with his interests in the process. In this process through discussion and consultations first differences in the practices are identified and over a time those are narrowed down in such ways that it becomes beneficial to parties in the process. So the standards, practices and frameworks that evolve from this process are inclusive and acceptable to each and every party and take care of the interests of everyone to some degree of comfort.

It is well known fact that the practice of accounting and financial reporting is heterogeneous in nature and different countries have different accounting practices depending on a number of factors; some domestic and some bilateral or multilateral. So any effort of making these diverse and heterogeneous methods of accounting and reporting standard is a tough as well as an exclusive task to some extent as in the process a lot of issues have to be ignored that may be very important and vital for some or other.
But in the process of harmonization each and very valid issue is taken care of and remedies are customized accordingly. So it is better that instead of standardization, one should go for homogeneous accounting standards through harmonization.

The diversity in the process of accounting and reporting is truth of the day and none can deny about it. Even if a number of countries advocating and adopting to IFRS, but if one revisits the accounting standards of these countries (prior to adapting to IFRS) one will significant differences in practices and these differences are not meaningless. Instead these differences has been in the system as safety valve for the industries and sections who are vital for economy but needs government supports in some ways or other and respective governments have taken route of benefits though accounting along with other benefits. For example the same transactions is treated differently in two different standards resulting into significant differences in profits and net assets (Accounting Headline 4.1, p.108)

Besides the above discussed issues there are some other factors that force different countries to use different accounting rules and standards depending upon the prevailing societal situations, ethical environment, cultural dynamics, globalization and the economic conditions of the country. One must be aware that the accounting standards are not merely for the transparent financial reporting but also are tool in the hands of the respective government to mete out positive discrimination to industries and sections in need and standardization of IFRS would take away this tool from the hands of the respective government and it would not be good for the economies (Shil, 2009). It would be better that governments use these tools to the benefit of its economy and industries. For example social, religious and cultural believes are very important for any nations and no nation can afford to ignore those believes. In an Islamic country interest on money is considered to be Haram (unacceptable). So the rules and laws must comply with this belief where Islam is state religion. Similarly legal system of any country does have impact on overall reporting framework. For example barring a few issues in some peculiar situations, Indian Supreme Court can review anything that it feels to be against the fundamental principles of Indian Constitution. So in conditions Indian government needs to have enough space and scope to adjust to such needs.

Likewise taxation system is dependent on a number of factors such as economic condition of the country, the legal set up, social, religious and cultural dynamics and government. For example, in India, tobacco and alcoholic products are taxed at very high rates because in Indian social, cultural and religious set up consumption of tobacco and alcohol is considered to be wrong besides the scientific reasons. The trade of liquor is a highly regulated in India but in many countries it is like another business and people accepts it normally. So the treatment meted to tobacco and liquor is quite different than many other countries.

Apart from the all the factors discussed above there are a number of other factors that influences the overall accounting and taxations system of a country. The political system and structure of countries plays important role in the process. One must understand that the accounting and taxations system helps a country to achieve its important goals and priorities. So for all these every government would like to have an accounting and reporting process that can suit to their goals and motives. So in such situations standardization of accounting and financial reporting system does not find favor. Instead harmonization is better option for the countries; be it democratic, military, communist, and capitalist.

**FINDINGS AND CONCLUSION**

The process of harmonization is far better than that of the standardization of accounting and financial reporting framework because of huge flexibility and accommodative and inclusive nature. It enables authorities of different countries to adjust accounting process to their favour in such ways that it does not has negative impact on the homogenous nature of accounting standards, practices and framework. Unlike standardization harmonization provides enough scope and space for the policy makers to frame positively discriminating policies and rules to favor to the industries and sectors that need attention from the government to sustain and develop over time and become strong enough to weather the tough standards in future. Also harmonization of process empowers the governments to go behind the local
priorities and still remain part of the international efforts of making accounting and financial reporting homogenous. This is helpful for under developed and developing countries in facing giant MNCs in times of globalization. There is no denial that the standardization of accounting and financial reporting standards, practice and framework is needed but it would be better if it is left to future discourses until a better time comes in. as far as the question a number frauds arising in times of globalization, the problems of financial frauds can be better tackled by principle based accounting approach than the way of standardization. Also in the process other factors like social, cultural and religious believes, political priorities and legal and taxation environment cannot be ignored. So process of harmonization becomes the natural process for homogenous accounting and financial reporting standards, practices and frameworks.

REFERENCES