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Adoption of International Financial Reporting Standard: A Literature Review

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ABSTRACT

International Financial Reporting Standard (IFRS) refers to a unique, uniform, simple, and easily understandable accounting standard acceptable and applied across the globe by various firms. It is emerging as a powerful device to bring uniformity to financial reporting by companies at the global level. Due to rapid industrialization and internationalization, the countries opened their avenue to foreign corporations. Therefore, it has been necessitated to have an accounting system that could bring uniformity and acceptability to financial reporting across borders. This review article has explored the present situation of the IFRS in the light of its emergence at the global level. The paper also proposes the model by merging the IFRS constructs with FDI, robust financial information reporting, transparency, and comparability construct by drawing together and developing the scale for measuring quality financial information through International Financial reporting standards based on existing literature. Against this backdrop, the present review paper seeks to highlight different dimensions and the pros and cons of using the International Financial Reporting Standard across borders. The content analysis has been adopted as the methodological framework for the literature review. The result of studies have confirmed that IFRS assimilation will improve transparency, comparability across the spectrum.

INTRODUCTION

As a result of globalisation, there is a desire at the international level for an accounting system that can meet the growing demand for financial reporting by multinational national firms (MNCs). Internationalization has compelled all countries throughout the world to adopt a common set of accounting standards (Babu, Narendra & Venkateswarlu, 2016). With the rapid growth and unification of various financial markets, there is an ever-increasing desire for enterprises all over the world to embrace and apply a common set of financial reporting. Kamnath and Desai (Kamnath and Desai, 2014). No common set of accounting standards that was accepted across the country before 2014. However, when the country officially adopted the International Financial Reporting Standards (IFRS) in December 2014, the country gained a standardized set of accounting standards (Lakew and Musa, 2019).

In the recent trend of the world, when cross-border investments have become inseparable, comparability and conformance of various financial statements of Nigerian companies and those of other firms throughout the world have been a concern in the recent global trend, when cross-border investments have become inseparable (Elosiuba and Okoye, 2018). Because of its uniqueness and homogeneity, numerous countries have begun to adopt IFRS as time has progressed. However, assimilation of the country's national accounting standard to the IFRS is not straightforward. Many modifications are required to bring reporting uniformity. The unification of the international financial reporting standards (IFRS) with the Indian Accounting Standards (Ind-AS) is hard and involves several issues, such as industry expectations,

reporting standards, and changes in various legal legislation, among others (Firoz, Ansari & Akhtar, 2011). Convergence to IFRS has become unavoidable for the countries due to their distinctiveness. It is no longer voluntary for countries to implement IFRS; it has become a must. In terms of increased scope for the international capital market, simpler broad comparability, and easy cross-border -listing of securities, the merger will benefit a wide range of stakeholders, industries, professions, and the economy as a whole (Varghese, 2014; Ashok, 2014). India began convergence on April 1, 2011, as a result of the robustness that IFRS provides, and the corporate affairs ministry of the Government of India issued various notifications on the IFRS roadmap and conjunction plan for India, specifying the convergence in a planned manner, while Saudi Arabia adopted the International Financial Reporting Standards on January 1, 2017. Financial statements prepared as per IFRS will certainly be more useful to users at the international level, but there is uncertainty about their usefulness at the national level (Hassan, 2019). However, more research required to assess the benefit and use of IFRS by different countries. International Accounting Standards (IAS) is the old accounting standard now. From 1973 to 2001, the International Accounting Standards Committee (IASC) published International Financial Reporting Standards (IAS). International accounting standards previously included IAS-1 to IAS-40 standards.

However, in 2001, IAS was replaced by International Financial Reporting Standards (IFRS), and the International Accounting Standards Board (IASB) began issuing IFRSs, including IFRS-16 standards as a whole. Therefore, IAS has been replaced by IFRS. The reason

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for introducing and introducing IFRS is that financial reporting is becoming more relevant around the world in terms of comparability, verifiability, timeliness, comparability, acceptability, and uniformity of financial reporting. The review aims to indentify various aspect of IFRS and explore the theoretical and conceptual framework of IFRS in a global context.

METHODOLOGY

The internationalization of accounting standards has just begun. Literature reviews provide insights and foundations for forming a new theoretical models or theories that are invaluable in mapping the progress of a particular field of study over time (Snyder, 2019). This review is written with the novelty of the topics considered in mind. Content analysis has been adopted as the methodological framework of previous literature because it is an elastic method, widely used for achieving various research goals (White and Marsh, 2006).

The content of the literature from 2005 to 2020 was edited for research. The reason for choosing the 2005 start year for this review is that many countries, including the European Union (EU) have begun to converge IFRS to local standards after 2005. From 2005 to 2020, about 150 related research papers were collected through the google scholar , Saudi digital library and other online sources ,of which only about 60 were relevant and employed to this study. Scholars and practitioners have conducted various studies to investigate the potential impact of convergence of international accounting standards on financial reporting in these countries and financial markets. In this review paper, the author sought to seriously consider all major studies that highlighted various aspects of international accounting standards from 2005 to 2020. This article is used to find out how successful IFRS has been in achieving the desired goals. Whether the financial reports of various companies around the world are reliable.

Scope of the Study

The purpose of this paper is specifically for FDI, the qualitative characteristics of financial information, the transparency and comparability of financial statements between domestic sectors, and the expected impact of the introduction of IFRS on cross-border comparisons of different financial statements. This review will help CEOs and policymakers around the world integrate International Financial Reporting Standards (IFRS) into a better, more informed, consistent, and robust accounting system.

International Financial Reporting Standard and Foreign Direct Investment

After each country adopts or adapts to IFRS, we will see if this affects various aspects of the economy. Whether foreign direct investment has a positive relationship with International Financial Reporting Standards. Various scientists around the world have conducted studies to

investigate the potential impact of global accounting standards on FDI. With the introduction of new global accounting regulations, students and academics may become increasingly interested and concerned about information and its consequences (Nejad, Ahmad, Salleh, and Rahim, 2018).

Nejad *et al.*, (2018) investigated the relationship between IFRS and FDI inflows in ASEAN countries. Take a look at the estimation method (OLS) and (LSDVC) for the least biased analysis. The OLS results confirm an active partnership between IFRS dummies (levels) and FDI influx. This glance confirms that IFRS is promoting the influx of FDI into ASEAN countries. The results showed that IFRS ended up improving FDI influx and supporting the OLS results tested the relationship between direct financing abroad and the adjustment of economic reporting by improving the Latin American economy. GMM was commissioned by researchers using a country day panel from several global improvement indicators. This warns that the adoption of IFRS has a strong and positive impact on FDI. It also shows that potential buyers are more likely to invest in their portfolio using global accounting standards than individuals who use the most practical domestic accounting standards.

Cheng, Ding and Xu (2014) contended that the integration of accounting structures and their impact on FDI. The authors state that integrating domestic accounting standards with global accounting standards helps reduce information processing costs for investors. Based on this study, the impact of decreased information costs is stronger for partner nations whose accounting systems demonstrate greater pre-convergence differences, as it emphasizes the facilitating role of accounting standard convergence.

Yousufinejad, Ahmad, Saleh, Rahim, and Azam (2018) examined the impact of information irregularity on IFRS and foreign direct investment in Malaysia. According to the study IFRS and foreign direct investment are related through information asymmetry. Overall, the authors concluded and confirmed the strong positive relationship between IFRS and FDI inflows in the country, providing enough evidence and arguing that IFRS represents a significant factor in improving FDI inflows, thereby increasing economic growth.

IFRS and foreign direct investment in Nigeria were investigated by Adetula, Nwobu, and Owolabi (2014). Several secondary and primary sources of data were used in this study, and regression analysis was used to analyze the data, with the results showing a positive but partly correlated relationship between FDI inflows and IFRS. In addition, the study found that managers and preparers of financial statements were ready to adopt IFRS in response to FDI.

The study recommended that the Financial Reporting Council of Nigeria (FRCN) oversee adherence to accounting reporting standards to help companies secure more foreign direct investment. In their study, Farazandehnia and Baghani (2015) looked at the potential

impact of combining national and global accounting rules on foreign direct investment in Iran. In contrast to previous research, their findings show that there was no substantial difference in foreign direct investment before and after the accounting standard change. Finally, before and after the convergence of national accounting standards to universal accounting standards, the analysis identified no differences in information quality.

Chen, Jeff, and Tsang (2015) have examined the impact of Compulsory IFRS Adoption on International Cross-Listings. Researchers have found that firms from the compulsory IFRS adoption countries have more chances to cross-list their securities in countries also mandating IFRS and countries with larger and more liquid capital markets. Their study also highlights how IFRS adoption will result in ease of cross-listings of securities around the world. Finally, their study supported the contentions of global organizations and regulators with the role of uniform global accounting standards, i.e., IFRS, in simplifying cross-border offering and listing activities.

Defond, Hu hung and Li (2010) have examined the impact of obligatory IFRS adoption on foreign mutual fund ownership. Their study concluded that Mandatory adoption of IFRS results in a robust increase in foreign investment among companies in the countries with strong implementation of uniform accounting standards. Nejad, Ahmad, Saleh, and Rahim (2018) have examined IFRS Adoption and Foreign Direct Investment through An Application of the LSDVC Estimator. The estimations were run using a bias-corrected Least Square Dummy variable (LSDVC) to solve the endogeneity problem. The study showed that IFRS adoption is significantly and affirmatively associated with FDI inflows.

Gordon, Loeb, and Zhu (2012) have examined the effect of IFRS adoption on foreign direct investment. Using OLS technique study supports that the convergence standard National Accounting standards to IFRS help in improving the FDI inflows in more in developing countries than in developed countries. Fascinatingly, the study revealed that the IFRS adoption by developing countries is the desire to receive more and more aid from the World Bank.

Márquez-Ramos (2008) has examined foreign direct investment inflows after IFRS adoption by the country. The fixed-effects vector decomposition (FEVD) procedure has been employed to estimate panel data. The results provide evidence to those countries that adopt IFRS going to benefit in their trade and FDI. The study has been concluded that there is an affirmative and significant association between FDI and adoption of single set accounting in increasing FDI inflow thereby improving the economies of the country.

Lungu, Caraiiani, and Dascalu (2017) have examined the probable effect of adaption of a single set of accounting standards on FDI in developing countries. Their study highlighted that the nations which are ready to accept IFRS are more likely to get more and more FDI inflows than countries that are reluctant to adopt IFRS. The study

also revealed that IFRS adoption has a significant effect both to listed and unlisted corporations. IFRSs acceptance by corporations that are listed in stock exchanges is likely to get more FDI inflows than corporations that are not listed on the stock exchanges. Interestingly, their study comes to an end that non-European Union (EU) countries are more likely to get higher FDI inflows than European Union (EU) countries after adapting the uniform international set of accounting standard.

Udofia (2018) has examined the effect on FDI before and after IFRSs adoption in Nigeria. This study suggested that the IFRS adoption has a strong positive impact on foreign investment in Nigeria than Pre-IFRS era. Additionally, this study also concluded that IFRS adoption is not alone which single-handedly exploits the foreign direct investment but there are various factors that have not been researched in this study. Authors recommended that the government of Nigeria should give due regard to other factors which may improve foreign investment in the countries which will ultimately lead to an increase in economic condition.

Odo (2018) in his study has examined the probable impact of the adoption of an international set of accounting standards on cross-border investment through Commercial Banks in Nigeria. The regression analysis has been employed by the author to test the hypothesis of the study. His findings of the study are dramatically opposite to previous research and thus it revealed that there is an insignificant relationship between FDI and IFRS adoption.

Hoque, Monem, and Zijl (2016) have investigated the effect on the cost of capital of listed Companies after the IFRS adoption in New Zealand. Researchers have taken a sample of 290 firm-year observations on New Zealand listed companies over the periods 1998–2002 and 2009–2013. This study found that there is a significant negative relationship between the cost of capital of listed companies and IFRS adoption in the countries. Authors have concluded that the adoption of higher and uniform quality accounting standards will lead to reducing the cost of equity capital. Their study also argued that IFRS is a higher quality accounting standard than National GAAP in New Zealand.

Utama, Farahmita, and Anggraita (2017) have examined the probable impact of IFRSs adoption on the cost of capital of corporations in ASEAN countries. Their study finds that the mandatory adoption of IFRS reduces asymmetric information and the cost of capital. The study established that public governance and analysts play important roles in the benefits of IFRS implementation.

Okpala (2012) has examined the probable impact of IFRS adoption on FDI in Nigerians' Economy. It has been found by the author that IFRS adoption will help improve the reputation of the country in the eyes of international investors as IFRS adoption will provide a uniform set of financial statements of the companies in Nigeria. Finally, the study concluded that IFRS implementation will increase FDI inflows and economic growth in Nigeria.

International Financial Reporting Standard Its Viability by Countries.

Herath and Alsulmi (2017) have examined the probable advantages, weaknesses, issues, challenges, and opportunities for the IFRS adaption in KSA. Authors have found that the IFRSs adoption is more fruitful and gives more advantages than the cost of adoption. The authors concluded that IFRS implementation in KSA will be worthwhile only if there is whole-heartedly acceptance of IFRS by all stakeholders. There should be a good system, training facilities, education, and awareness of IFRSs among students, different accounting professional organizations.

Almotairy and Stainbank (2014) have conducted this research to evaluate the adherence of the Saudi education department for IFRS convergence. They have found that KSA is reluctant to follow International Education Standard in wholesome. Authors have concluded that there is a gap in professional skills, education, awareness, ethics, and values as well as in the training program. Researchers opined that all the stakeholders should enthusiastically accept the transition of national GAAP to IFRS adoption. Patel and Shah (2015) in their descriptive study have highlighted that IFRS transitions will bring more transparency and comparability of financial information across the globe.

Sharma and Singh (2017) in their study have highlighted the accounting diversity in context to recording and reporting financial information which is highly influenced by the number of environmental variables that are subjective to the nation. Their present paper emphasized the diversity and variations of accounting practices of selected countries in line with international financial reporting standards (IFRS) as well as the impact of international financial reporting standards on the financial reporting practices of China, the UK, India, and the US. The researchers have taken three important accounting practices such as recognition, valuation, and disclosure with regards to reporting.

Odoemelam, Okafor, and Ofoegbu (2019) in their research have tried to investigate the impact of IFRS adoption on the earning value of the Nigerian Firms. Their paper disclosed that IFRS adoption has a positive and significant impact on earning value of the firms in the Nigerian Economy.

Stent, Bradbury, and Hooks (2013) have investigated voluntary and firms' responses and perceptions and attitudes towards the adoption of uniform accounting standards. Authors find that IFRS adoption is significant and appealing and more specific.

Mahmood, Khan, Rahman, and Atta (2018) have undertaken a study to unearth the IFRS adoption for SMEs in Pakistan. Their findings of the study confirmed that there is a good level of awareness regarding IFRSs among accounting professionals. The Paper also highlighted respondents' perceptions about IFRSs as qualitative and comparable financial information for adoption IFRS by SMEs.

Alghamdi (2014) through his study tried to explore the significance of IFRSs in KSA. The study has been undertaken using a questionnaire, among the respondents namely academicians, financial managers, and external auditors. The study revealed that a good number of respondents have supported the merging of national accounting standards with International accounting standards as the respondents opined that transition will bring transparency and comparability of financial information than the pre-IFRS era in KSA.

Ball (2006) in his research has opined that still there is a limited theoretical base on which to confirm the advantages and disadvantages of IFRS within the country. In addition, the study further argued that notions that claim that IFRS alone will produce uniform financial reporting still seem naïve. Obradovic (2018) has examined the Internationalization of accounting standards for MSMEs in the Serbia Republic. Serbia has adopted complete IFRS in general and IFRS for SMEs in particular. They found that when given options SMEs in Serbia. Serbia SMEs will prefer full IFRS to IFRS for SMEs in Serbia.

Sambaru and Kavitha (2014) have explored IFRS in India. Authors have stated despite various opinions on merging IFRS with National GAAP it has now become a reality. In spite of various and significant variations between accounting treatment of national GAAP and converged Indian Accounting standards. These variations will surely impact different financial statements of companies in one way or another way. Authors have finally concluded that the regulators and various stakeholders cannot afford to overlook the effect of the IFRS on different financial statements.

Athma and Rajyalaxmi (2013) have studied the IFRS convergence in India. Researchers have postulated that the adoption of universal and uniform accounting standards will provide an added advantage to India to assimilate with Indian GAAP to IFRS which will reduce the cost to MNCs which other has to be incurred by MNCs and International organizations for disseminating financial to stakeholders. Jain (2011) has studied IFRS convergence in India; Prospects and threat.

The author has observed that IFRS adoption in India is inevitable. Self-regulation, awareness, and proper training will help in the smooth adoption of IFRS. Finally, the Author concluded that besides enforcement mechanism advisory will aid in better, proper, and smooth assimilation of IFRS in India.

Bajaj, Singh, and Shirur (2019) study has conducted a research study to evaluate the convergence of IFRS in India and in its Accounting Curriculum. The proposed research found there is a pressing need to address and converge national standards and include IFRS in accounting education in India. This study found that the majority of students are not aware of IFRS. The study also found that majority of students who participated in the survey are keenly interested to take up IFRS as their course. Authors believe that the awareness and education

of IFRS are mesmerizing as it will broaden the scope to prepare for various professional exams.

Patro and Gupta (2012). Researchers have empirically examined the convergence and adaption of the International Accounting standards in the accounting curriculum in India. Investigators have found that there is a pressing need for universal accounting standards to be incorporated into the accounting curriculum in India. The study also found that the majority of commerce and management students are not aware of IFRS, Male students are more aware than females, students are interested to take up course if incorporated as an optional course. Finally, this study found that the Indian educational setup is still not prepared to adopt IFRS in their curriculum. Alshuhaibani (2012) further examined the probable impact of IFRS adoption on the telecommunication business in the Kingdom of Saudi Arabia.

The study stated that IFRS adoption in Saudi Arabia is expected to change the whole structure of academic as well as professional accounting set up. The researcher concluded that the telecommunication sector will be drastically affected after IFRS adoption as this sector is very much connected with international firms.

Ismail, Zijl, and Dunstan (2010) have examined the quality of earning and convergence to IFRS in Malaysian firms. The study was based on two qualities of a higher quality of earnings, a lower level of earnings management practice, and higher value relevance of earnings. Their study found that IFRS is highly connected with a higher quality of reported earnings. Finally, the study found that after convergence to IFRS the value-relevance of firms' earnings has become significantly higher and the absolute value of abnormal accrual becomes vastly lower.

Zehgal and Mhedhbi (2006) have evaluated the various factors that can have an impact after IFRS adoption in developing nations. The study found factors such as economic growth, education level, the degree of external economic openness, cultural membership in a group of countries, and the existence of a capital market. Researchers have found that developing nations

where there is a higher literacy rate, have organized financial market and an Anglo-American culture an-Anglo-American culture are highly expected to Converge International Financial Reporting Standard.

Samaha and Khlif (2016) conducted IFRS adoption and its adherence in developing nations, this study focused on following the drives for IFRS convergence. Firstly, companies' features and degree of compliance with IFRS. Secondly, the financial and cost consequence of IFRS adoption and thirdly, the use of a regulatory mechanism to monitor compliance with IFRS. Authors have stated that the macroeconomic decision of adopting countries with limited research to justify the first motive. Regarding the second, the results are mixed, while the third motive for IFRS adoption with limited research regards foreign direct investment cost of equity capital and earnings management. Finally, the motive of IFRS adoption is regulation, enforcement, and compliance with IFRS.

Nurunnabi (2017) has explored IFRS and Saudi National GAAP. The study finds that there are significant variations between Saudi-GAAP and 15 IFRS standards that have been studied. This study additionally suggested that there is a pressing need to provide training to all stakeholders for the effective and productive implementation of IFRS in Saudi Arabia. Overall, these reviews have presented a broader view of IFRS convergence. Many studies have confirmed the supposition of IFRS adoption such as transparency, comparability, reliability of various financial statements across the globe. However, these reviews also highlighted the various factors which need to be considered before and after IFRS convergence by the countries in order to reap the benefits from such transitions.

Model for the dimensions of International Financial Reporting Standards (IFRS)

This modal has been constructed on the basis of the literature review conducted on IFRSs and is being proposed by researchers, depicting the constructs of the International Financial Reporting Standard to attain the desired outcome. In this proposed model positive and

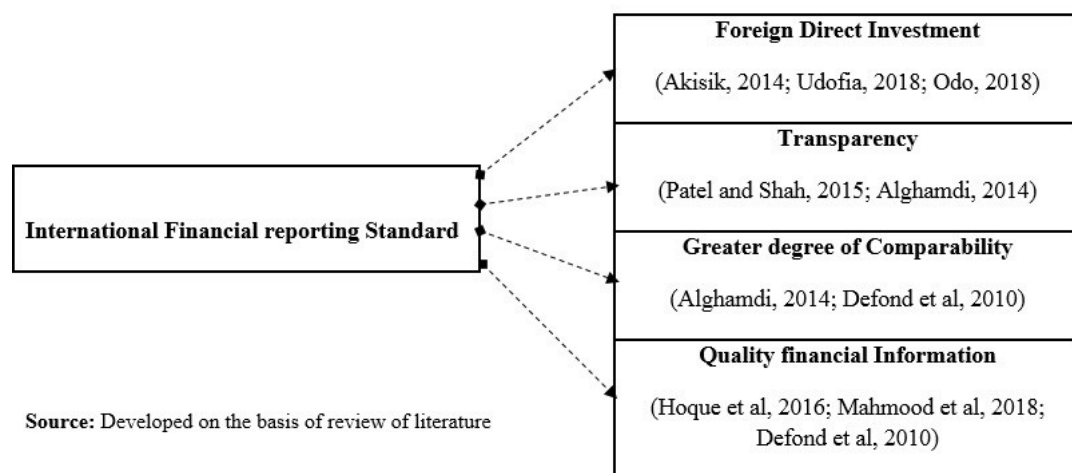


Figure 1: Proposed Model

significant relationship of the International Financial Reporting Standard on FDIs, quality of financial information, transparency, and comparability have been divulged.

Contribution of the Study

Through this study, the authors have made an earnest attempt to review all relevant studies to make a contribution in the present study as unique in its form as the IFRS adoption is still in the nascent stage, and the study has reviewed almost all the major studies which have been undertaken by different authors from 2005 to 2020 across the globe. This review is also relevant because it has tried to review every aspect of the convergence of national accounting standards with international accounting standards across the globe. The study has shed light on different aspects of international financial reporting standards (IFRSs). The study answered many probable questions in the context of IFRS such as, can a country survive without converging its national accounting standard with IFRS or what benefits of IFRS adopting the country is going to get? Whether the IFRS has any impact on the quality of financial information, foreign direct investment, cost of capital, earning capacity of firm, comparability, and transparency of financial information. This study highlighted all the aspects, advantages, and disadvantages of Internationalisation of accounting standard.

DISCUSSION

The present study has explored and added to the existing body of knowledge in the area of accounting in general and in the International Financial Reporting standard in particular. It is a fact that due to globalization, the world has become a village, any entity can do business anywhere in the world. Reporting of financial information by these businesses is very crucial. Investors, suppliers, customers, government body and competitors evaluate the worth of business through its various financial statements. Therefore, the need was felt to have such an accounting standard that is uniform and has acceptability across the world. The national accounting standard differs from country to countries and it results in incongruities in the reporting of financial information of the business. To fill this gap, the International Accounting Standard has been developed in 1973, however, because of its limitations, it has been replaced by the Global Accounting Standard in 2001. International Accounting Standards came up with the promise and belief that after conversion different financial statements can easily be reliable, translucent, and analogous around the globe. IFRS are notified by the International Accounting Standards Board (IASB). IFRS was established to create a common and uniform accounting language so that various financial statements can be transparent, consistent, reliable, and easily comparable across the companies and countries. However, different countries have different geographical, political, social, and legal environments, making it problematic to

adopt IFRS in toto.

This is the reason majority of the nations have converge their national accounting standard with IFRS rather than complete adoption. India had developed Indian Accounting Standards (IND AS) in line with IFRS rather than in its entirety. Many studies have confirmed the proposition of IFRS. Although, IFRS adoption requires much preparation, training, and awareness, skills among professionals and students in accounting programs, accounting professionals, and enforcement mechanism advisory. Numbers of studies have confirmed that IFRS assimilation will improve transparency, comparability (Patel and Shah 2015; Mahmood *et al.*, 2018; Alghamdi 2014). In contrary to this, few studies have also argued another side of the coin and the notion that uniform standards alone will produce uniform financial reporting seems naïve (Ball, 2006). Some research has also confirmed that countries that are following IFRS have a greater chance of getting more and more foreign direct investment because of uniformity reporting (Nejad *et al.*, 2018; Akisik, 2014; Cheng *et al.*, 2014; Defond, 2010). Fascinatingly, Contrary to the earlier study, a study has found that there was no significant connection between FDIs and Pre and Post IFRS period. Also, the impact was unchanged on the quality of informations during and after modifications in accounting standard. (Farazandehnia and Baghani, 2015).

CONCLUSION

Therefore, this literature review concludes that although various research has confirmed that adopting IFRS will bring uniformity, transparency, and reliability, result in an increase in foreign direct investment, and a reduction in the cost of capital, some studies have proved otherwise. In order to validate the notion further research can be conducted by taking various types of industries across the globe highlighting different dimensions of the International Financial reporting standard adoption towards uniformity in terms of comparability, verifiability, timeliness, understandability and acceptability.

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