

# Analysis to What Extent IFRS Contributes to the International Harmonisation of Financial Reporting

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**Abstract.** This study reviews and synthesises the research literature on the extent to which IFRS contributes to the international harmonisation of financial reporting. The main reason why international harmonisation is increasingly valued by the public is due to the global trading, a phenomenon that has led to a demand for high quality financial statements from investors. Therefore, it has been found that the main help and effect of ifrs on financial statements is to improve the comparability and quality of data, as well as to reduce costs and complexity, allowing investors to make better decisions. However, the variability that arises in practice can in some ways undermine comparability. However, the results of the current analysis show that ifrs has contributed significantly to the international harmonisation of financial statements.

**Keywords:** IFRS, International Harmonisation, Financial Reporting.

## 1. Introduction

### 1.1 Background

Due to the rapid growth of transnational investment, the demand for globally comparable accounting data has risen dramatically [1]. This trend has led to the wider adoption of International Financial Reporting Standards (IFRS), international harmonisation of financial reporting is also considered. IFRS, which are transparent and efficient, enhance the comparability and quality of financial data across borders, enabling traders and investors to make intelligent financial decisions. Costs and complexity can also be reduced to some extent through the use of IFRS. However, there will be systematic differences in practice among countries. The extent of these differences in IFRS may undermine comparability. As a result, it is vital to consider whether it is reasonable to believe that IFRS makes a major contribution to international harmonisation. This essay argues that IFRS do contribute significantly to the international harmonisation of financial reporting and that international differences are not a big enough barrier to justify ignoring this contribution of the IFRS. Moreover, the aim of this essay is to discuss the contributions of IFRS to the International harmonisation and summarising the main ideas with suggestions in the conclusion.

### 1.2 Related Research

One of the greatest contributions of IFRS is the increased comparability of international financial information. Comparability of information refers to the quality of data that allows users to spot parallels and contrasts between two sets of economic occurrences [2]. For example, Yip and Young support this with evidence, in 2012, by using three proxies: (1) the similarity of the book value of stock and the information transfer of revenues, (2) the similarity of the accounting function of transforming economic events into accounting data, and (3) the degree of information transmission [3]. Examining data from 17 European countries that have adopted IFRS, using these three comparability measures, shows that accounting information for similar companies from different countries is more comparable in the later period of IFRS (2005-2007) than in the earlier period of IFRS (2002-2004). Hence, the research finds that IFRS does significantly improve the comparability of information across countries. Moreover, comparability of international financial information helps the investors to control the cost of processing company-specific information, thereby facilitating a more accurate valuation of financial information. In addition, it ensures that investors have access to more relevant peer and comprehensive industry information. The International Accounting Standards

Board (2010) argues that more comparable information allows international marketplaces to operate with less friction. Some studies have also indicated that better information comparability helps international transactions while lowering currency cost; this has led to an interest in the study of the comparability of information in the global economy [4].

The second benefit of adopting IFRS is the reduction of costs and complexity. John states that over a third of financial transactions are conducted across borders, more than one set of statements are in demand to consolidate different financial information to follow different national codes or practices, which would increase costs and complexity [5]. For instance, in some large multinational companies, these companies need to report to their owners, receive reports from overseas management, and account to the national and international public. If multiple standards remain in place, the complexity and small differences within them are likely to have a significant impact on the financial performance and financial position reported by companies. The credibility of their financial position would be difficult to maintain in the long run. (The International Financial Reporting Standards Foundation © 2021) [6]. Therefore, by adopting IFRS as a standard, it reduces the information gap between funders and trustees while also improving the economic efficiency by enabling investors to identify risks and opportunities on a global scale, thereby enhancing the allocation of capital. For these multinational companies, the use of IFRS can reduce the time and money currently spent on consolidating disparate financial information- in addition to contributing to greater comparability and transparency in the financial information presented by listed companies [7].

### 1.3 Objective

Therefore, this paper studies the contribution of IFRE to international finance and compares it with American accounting standards. In the second part, this paper analyzes the limitation of IFRS, then it studies some defects international accounting standards, and looks forward to the future development in the fourth part. At the end of the paper, it summarizes the paper.

## 2. Limitation

In contrast, the variability caused when using IFRS will weaken the comparability. According to Ball (2006), this is due to the large number of political and economic factors that can be expected to make the implementation of IFRS uneven throughout the world; immense differences in financial reporting techniques and quality are unavoidable on a worldwide scale. Even for mature investors, under the guise of harmonised standards, international variations in reporting quality can now be masked [8]. These differences might be impacted by the same factors that caused national Generally Accepted Accounting Principles (GAAP) to diverge in the first place, such as varied tax systems and different primary accounting purposes, all of which are tied to different company directors and investors. For example, Nobes suggests that, under national GAAP, tax factors may alter a company's unconsolidated accounting rules (such as using the weighted average cost of inventory method) or estimates (such as maximising the magnitude of impairments or provisions); these factors may flow into IFRS consolidated statements, creating variability in practice and thus impairing comparability. Even if these factors are no longer significant, businesses may prefer to stick with old methods to make management easier or to offer users with consistency [9].

## 3. Future Development

Scholars have put forward many definitions on international accounting coordination. These definitions involve concepts such as accounting conventions, accounting standards, financial reports, financial information and accounting practices. By summarizing these definitions, it can be found that international accounting coordination has different scopes and levels. (For the sake of brevity, this paper collectively refers to all norms regulating financial accounting reports, such as company law, commercial law, securities law, accounting standards, accounting system, etc. of some countries

as accounting standards - the author's note) [10]. First, from the perspective of the nature of international accounting coordination, there are differences between formal coordination and substantive coordination. Formal coordination refers to the coordination of accounting standards, while substantive coordination refers to the coordination of accounting practices, that is, the improvement of the comparability of information provided by financial reports. Secondly, the definition of international harmonization of accounting. Therefore, we can summarize the characteristics of international accounting coordination as follows: international accounting coordination is a process, through which differences in accounting practices can be limited and narrowed. The purpose of coordination is to form a set of generally accepted accounting practices or standards, and promote the comparability of accounting practices and financial information in various countries. Thirdly, there is a trend from multiple to single standards for international accounting coordination. The international coordination of early accounting was mainly based on International Accounting Standards (IAS) and American Financial Accounting Standards (FASB statements). In addition, the accounting directives of the European Community in the 1980s also played an important role in the European Community. The reason for this pattern is that international accounting standards have a broad international basis, the US capital market has significant financing capacity and its accounting standards have significant international influence, and the European Community itself has the function of coordinating the activities of internal member states. However, it should be pointed out that until October 2002, the United States had not started the process of substantive coordination and even convergence with international accounting standards, because the United States agreed that the American capital market is the most developed capital market in the world, and the American accounting standards are the best accounting standards in the world. The most typical event that forced the US government and opposition to consider adopting international accounting standards was the huge reported loss incurred by Daimler/Benz AG in order to be listed on the New York Stock Exchange for financial statement conversion. In 1993, Daimler/Benz applied for listing on the New York Stock Exchange (NYSE) for the first time. In the current year, the company produced a profit of 615 million German marks when it prepared its statements according to German accounting standards, and a loss of 1839 million German marks after adjustment according to American accounting standards. The result of such conversion has caused a serious negative impact on the listing of foreign companies in the United States, so that some companies that originally planned to list in the United States switched to other capital markets such as Europe. This situation has shocked the US Congress, which has repeatedly urged the US Securities and Exchange Commission (SEC) to consider whether the US should adopt international accounting standards. Since 2001, a series of financial scandals in the United States have given birth to the Sarbanes Oxley Act of 2002. Article 4 of Section 108 of the Act requires the Securities and Exchange Commission (SEC) to provide a research report on whether to adopt principles based accounting standards (meaning international accounting standards) within one year after the promulgation of the Act. After that, the SEC and the Financial Accounting Standards Committee of the United States have carried out extensive research on the basis for the formulation of American accounting standards (principle basis and rule basis). During this period, the influence of the accounting model of the European Community has gradually weakened with the EU's tendency to adopt the international core accounting standards in recent years. Fourth, the proposition and meaning of global accounting standardization. With the gradual development of international coordination of accounting, global standardization of accounting has been proposed. Choi, Frost and Meek pointed out in the book *International Accounting* (1999), which they cooperated with, that "standardization usually means that the enforcement of very strict and narrow rules of choice is mandatory, and perhaps even the implementation of a single standard or norm in all cases can not accommodate differences between countries". Obviously, accounting standardization is a process of development towards the goal of a single global accounting standard.

## 4. Conclusion

In conclusion, this essay argues that, to a large extent, IFRS contribute to the international harmonisation of financial reporting, although international differences can lead to a weakening of comparability. Overall, the use of IFRS has benefits that outweigh the disadvantages. It can improve the comparability and quality of financial information, allowing investors to make decisions more easily while also reducing complexity and unnecessary time and money costs. As for the barrier, the systematic differences between each country cause a weakening of comparability, which leads to companies continuing to use the current accounting standards as the norm. This paper recommends the use and customisation of a comprehensive set of high quality IFRS to reduce information differences, thereby increasing comparability, improving transparency and economic efficiency in global financial markets, and helping investors to identify opportunities and risks on a global scale.

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