CHAPTER 2

REVIEW OF LITRATURE

Introduction

The aim of this chapter is to review the literature relevant to this research problem. It reviews the literature of International Financial Reporting Standards of different aspects in different countries in accounting growth, issues in convergence with International Financial Reporting Standards, challenges in adopting of International Financial Reporting Standards and problems in implementation of International Financial Reporting Standards.

2.1 Foreign Studies

In this section, review of literature relevant to International Financial Reporting Standards in other countries and their influence and the critical success features are presented.

(Peng & van der Laan Smith, 2010), have made a study to compute the level of convergence of Chinese GAAP with IFRS. They computed a uniform convergence score. To compute this score, they ascertain the level of convergence for every single measurement item for every single year by contrasting all editions of Chinese GAAP. They find that, consistent with the predictions of our theoretical model, China’s MOF moved Chinese GAAP toward convergence with IFRS through the issuance of a series of Chinese GAAP (1992, 1998, 2001, and 2006) that improved the level of successful convergence with IFRS from 20% in 1992 to 77% in 2006.that enhanced the level of prosperous convergence alongside IFRS increased from 20% in 1992 to 77% in 2006. They additionally find that convergence has been attained both from the
manage import of standards from IFRS and across progressive adjustments to Chinese GAAP.

(Hellmann, Perera, & Patel, 2010), conducted a study and data were collected from multiple sources including interviews, and a survey of academic literature and publicly available documents such as press releases. The study shows that German accountants may face problems in interpreting and applying IFRS consistently if they lack relevant education and training. Despite the legal requirement to prepare IFRS based consolidated financial statements. The findings of this paper provides valuable insights into the context in which accounting operates in Germany. Although each country has a unique accounting environment, it is likely that countries implementing IFRS may face similar issues and problems to varying degrees.

(Jones & Higgins, 2006), have made a study and the result indicate that a large number of the respondents have not been well coordinated for the transition and are usually extremely skeptical concerning the asserted benefits of IFRS as enunciated in the government’s company regulation financial reform program. Findings reveal that a number of firms were only in the very formative stages of the implementation process at the time of the survey, with many other firms yet to start the process at all. Larger firms tended to have greater knowledge of IFRS including their expected financial reporting impacts, and were generally more advanced in the implementation process than smaller firms.

(Baskerville, 2010), It is a conceptual paper. In this paper adoption of IFRS in countries like Brazil, Canada, China, Finland, Greece, Ireland, Italy, Japan, Malaysia, New Zealand, Norway, Poland, Portugal, Russia, Singapore, Spain, etc considered. This study represent conceptual and methodological issues that relate to the domain
of financial reporting research that attempts to examine whether there are measurable gains, (if any) stemming from the adoption of international financial reporting standards, (IFRS). It selects and reviews four recent papers from conceptual, research design and policy perspectives. Information content, uncertainty-disclosure, value relevance and earnings and accounting quality studies have all attempted to show the benefits of finer and increased information environments. Notwithstanding the early evidence, this review argues that the papers face both epistemological and research design problems, in that IFRS adoption effect studies do not take cognizance of the contributions of the literatures on financial integration, earnings sustainability and market microstructure (Ramanna & Sletten, 2009). The article explain well developed countries are less likely to adopt IFRS, consistent with more powerful countries being less willing to surrender standard-setting authority to an international body. There is also some evidence that the likelihood of IFRS adoption at first increases and then decreases the quality of countries’ domestic governance. In consistent with IFRS being adopted when governments are capable of timely decision making and the opportunity cost of domestic standards is relatively low.

(Paananen & Parmar, 2009), This article examines the change in financial reporting’s ability to predict equity values before and after adoption of International Financial Reporting Standards (IFRS) in the United Kingdom (UK). As of January, 2005, all publicly traded companies of European Union (EU) members have to comply with the IFRS on consolidated level.

(Jacob & Madu, 2009), The intention of this paper is to examine the academic literature on the quality of International Financial Reporting Standards (IFRS),
formerly International Accounting Standards (IAS), which are presented to be the universal accounting language to be adopted by all companies. The purpose of this paper is to examine the academic literature on the quality of International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS), which are poised to be the universal accounting language to be adopted by all companies regardless of their place of domicile, the methodology used in this study is archival. The authors evaluate the academic empirical literature on the quality of IFRS. The study find that world’s capital markets becoming more and more inextricably linked, we believe IFRS represents a single set of high-quality, globally accepted accounting standards that has the potential to significantly improve financial reporting comparability among companies on a worldwide basis.

(El Razik, 2009), This paper presents the case of representing the Middle Eastern countries on the International Accounting Standards Board (IASB). It can give MEC countries the chance to participate in setting up the IFRS that go along with their economic environments and Islamic rules rather than just apply what other world regions agree on. It shows the benefits of the region to the world and the main different in culture, financial and accounting system.

(Hail, Leuz, & Wysocki, 2009), Their paper analyses financial factors related to the potential adoption of International Financial Reporting Standards (IFRS) in the U.S., We highlight the unique institutional features of U.S. markets to assess the potential impact of IFRS adoption on the quality and comparability of U.S. reporting practices, the ensuing capital market effects, and the potential costs of switching from U.S. GAAP to IFRS. We discuss the compatibility of IFRS with the current U.S. regulatory and legal environment as well as the possible effects of IFRS adoption on the U.S. economy as a whole. We also consider how a switch to IFRS may affect worldwide
competition among accounting standards and standard setters, and discuss the political ramifications of such a decision on the standard setting process and on the governance structure of the International Accounting Standards Board.

(Tarca, 2004), conducted a study to examine reporting practices of a sample of foreign and domestic listed companies from the United Kingdom, France, Germany, Japan and Australia to determine the extent to which companies voluntarily use ‘‘international’’ standards. The results show significant voluntary use of ‘‘international’’ standards in all five countries and among foreign listed and domestic listed companies.

(DeFond, Hu, Hung, & Li, 2011), This study examines the effect of adopting a uniform set of accounting standards on comparability and cross-border investment. Results show that mandatory IFRS adoption results in a greater increase in foreign investment among companies in countries with strong implementation credibility that experience relatively large increases in uniformity. They also find that these are the only firms with a significant increase in foreign mutual fund ownership.

(Alali & Cao, 2010), The research debates how that IFRS's goal of the harmonization of accounting standards and enhancement of quality of financial reporting could have been negatively altered due to public authorities' influences in the European Union (EU), the U.S., the U.K. and China. In supplement, it debates subjects connected to the inconsistent interpretations and implementations of IFRS as principle-based accounting standards. Moreover, researchers debate how the funding system of the IASB could have altered its independence.
(Hellmann, et al., 2010), this paper examines Germany as a case study. It displays the accounting as the language of company is intensely embedded in a country's social, political and economic environment and that these contextual factors cannot be flouted in the procedure of convergence. Specifically, by imploring the accounting ecology framework and interviewing selected stakeholders, this discover critically examines the exceptional features of accounting in Germany and raises subjects connected to the adoption of IFRS. The findings of this discover furnish facts of the significance of pondering the contextual influences in prosperous adoption of IFRS in a country.

(Peng & Bewley, 2010), this research assessed the feasibility and desirability of a major emerging economy adopting and implementing fair value accounting (FVA), as codified in the International Financial Reporting Standards (IFRS), by studying China’s recent experience. The authors find a high degree of adoption of IFRS FVA standards in China’s 2007GAAP for financial instruments, but many differences for non-financial long-term asset investments. Standard setters justify this divergence by fundamental characteristics of the Chinese environment. The resulting differences from IFRS in the 2007GAAP FVA standards, and in their implementation, challenge official claims of “substantial convergence” between 2007GAAP and IFRS. Hence, the benefits desired by Chinese regulators from adopting FVA and international accounting convergence to IFRS may not be realized.

(Ballas, Skoutela, & Tzovas, 2010), This paper aims to scrutinize the relevance of International Financial Reporting Standards (IFRS) in growing marketplaces, alongside special reference to the case of Greece. This paper implemented different methodology relying chiefly on secondary sources such as the relevant legislation, published annual reports and reports on the results of the request of IFRS by Greek
firms as well as the aftermath of a postal survey addressed to the finance managers of
the top 100 Greek firms. The paper argues that IFRS increased the reliability,
transparency and comparability of the financial statements. This discovers provides
visions considering the extent to that the introduction of IFRS affected the accounting
data supplied by firms working inside the European Union.

(Doukakis, 2010), This paper considered the persistence of earnings components after
the adoption of International Financial Reporting Standards (IFRS). This paper
analyses two years before and two years after the adoption of IFRS in order to
evaluate whether the adoption of IFRS materially affects the persistence as well as the
explanatory manipulation of earning and paycheck components. The results confirm
that disaggregating reported earnings into operating income, no operating income and
extraordinary charge and credit, captures differences in the information content of the
underlying events. Consequently, earnings disaggregation can be used to improve
prediction of future profitability. The results suggest that IFRS measurement and
reporting guidelines do not seem to improve the persistence of earnings and earnings
components.

(Carlin & Finch, 2010), This paper aims to furnish facts associating to the possible
for and extent of opportunistic exercise of prudence by colossal Australian and New
Zealand describing entities consenting goodwill impairment assessing pursuant to the
International Financial Reporting Standards (IFRS) framework. The research question
was addressed employing an empirical archival approach. Autonomous risk-adjusted
estimates of stable discount rates are computed. For example of 124 Australian and
New Zealand listed firms, and an analysis of variances between these rates and those
adopted by sample firms undertaken for the purposes of ascertaining evidence of
potential opportunism in discount rate selection. Evidence consistent with
opportunism in the selection of discount rates is reported. The results suggest the existence of a bias among Australian and New Zealand firms towards the application of lower than expected discount rates. This is interpreted as evidence of the opportunistic exercise of discretion to avoid unwanted impairment losses.

2.2 Indian Studies

In India only a few research studies were conducted. Some of the studies have been described in this section.

(Talati, 2007), This paper keeping in view the current situation of IFRS and the rate of differences between the current existing Indian ASs and the corresponding IFRSs and the reasons of these differences, the ICAI has believe that IFRSs should be implement and adopt for the public interested companies. Such as, those companies who are listed in stock market, different banks and also insurance companies as well as all large entities from the accounting periods beginning on or after 1st April, 2011.In this paper different beneficiaries and advantages of convergence with IFRSs like economy’s growth, investors confidence, industry and also problems of accounting professionals have considered as well as researcher found 29 main differences between Indian Accounting Standards (ASs) and IFRS.

(Akeel, 2009), have made a study to explain about different aspect of convergence strategy. This research classified convergence with IFRS in India into the four broad categories Category I: IFRS which can be adopted immediately or in the immediate future in view of no or minor differences (for example, inventories, construction contracts and borrowing costs). Category II : IFRS which may need some more time to achieve a better level of technical preparedness by the industry and experts, keeping in view the current economic environment and other factors (for example,
share-based payments). Category III: IFRS which have fundamental differences with the corresponding Indian Accounting Standards and where further discussions with the IASB may be required for purpose of facilitate of the procedure (for example, consolidation, associates, joint ventures, provisions and contingent liabilities). Category IV: IFRS, the adoption of which would need changes in regulations of companies act, because compliance with such IFRS is not possible until the regulations/laws are modified and amended.

(Aggestam-Pontoppidan, 2008), According to this paper the adequacy of Indian accounting systems are highly respected. This paper explains foreign institutional investors believe investing in India is attractive to them. In other hand Indians are also investing in different foreign in companies abroad and are opening new business area. The Government of India is also obliged to economic development, ensuring a optimistic growth rate about 7%-8% per year. This paper explains India is one of the fastest growing countries in economies in the world, with a average growth rate of 5.7 per cent over the past two decades and Government of India has plans to move India into a developed nation by the year 2020.

(Mohan, 2011), This paper discusses about issues and challenges due to convergence with International Financial Reporting Standards in India. This paper explain that current accounting framework in India is governed by the Accounting Standards (ASs) issued by Institute of Chartered Accountants of India (ICAI) and in this way there are different conflict for the banks and other industries because there are number of differences with view to implementation of IFRS.
(Kiradoo, 2013), conducted a study about challenges due to convergence with IFRS in India, “The introduction of IFRS represents a fundamental change in financial reporting. It is not something that can be handled in a few weeks prior to adoption. Planning for it, generating the necessary awareness, educating stakeholders and managing the required changes will take considerable commitment by management and time to achieve a successful transition. IFRS brings groups and collective working to achieve profits, bring about fair value in the business. Outsourcing becoming important IFRS will give leverage to Indian companies to understand international accounting.”

(Sindhu, 2013), The main objective of this article was to find out whether the accounting quality once adopted the revised schedule VI had improved for selected Indian companies listed in Bombay securities market for the amount covering 2010-2011 and 2011-2012. Accounting quality is measured in terms of money predictability and persistence. This study is focusing on cash flow predictability and cash flow persistence to measure accounting quality. The study is has been done to Indian companies who are listed in BSE (Bombay Stock Exchange) for the period of 2010-2011 and 2011-2012.

(Rao, 2012), this paper explains the scope for convergence. It is outstanding because the global variations in accounting exercise are extremely large. The main reason for deviating accounting practices is nationalism, i.e., unwillingness to accept global accounting standards. Though, FASB and IASB are making efforts to accomplish convergence in accounting practices at global level.
(Sen, 2013), have made a study to explain standardisation of accounts. It has been a constant effort and concern for the various professional accounting bodies both national and international. This paper was presented mainly to focus on the steps adopted in this regards.

(Firoz, Ansari, & Akhtar, 2011), The purpose of this paper is to analyze the impact of IFRS on the Indian banking industry. This paper is based upon the remonstrative analysis of books of account of the Indian banking industry, such as Investments and advances, business per employee, Capital, reserve and the other impact of relevant provisions of IFRS. There is limitation in this paper because it was covered only the Indian banking industry and other companies and industries has not taken for the study. This paper represents the section that Indian banking industry has need to focus and workout before and after the implementation of IFRS and also their outcomes on the books of account of the banks.

(Patel, 2009), This analytical article deals with concept, objective and benefits of convergence with IFRS and explores approach however we have a tendency to converge the Indian GAAP with IFRS. Problems and challenges faced in the process of convergence in Indian perspective have been thoroughly discussed. This article also focuses on IFRS prospects in Indian scenario. This article puts forward a view point that convergence will bring forth galore benefits to investors, industry, professionals and the economy as a whole. India’s blue-chip companies have begun to align their accounting standards to the International Financial Reporting Standards (IFRS), two years ahead of the compulsory time for the switchover. The lists of companies consist of different IT firms in India. This is a significant move towards the emergence of IFRS as a global accounting language.
Summary

This chapter reviewed the relevant literature on International Financial Reporting Standards both in India and foreign countries. It includes International Financial Reporting Standards impact due to convergence or adoption, its relationship with economic growth, technical issues, and legal challenges.
References


5. Baskerville, R. (2010). 100 Questions (and answers) about IFRS.


