The Comparison of IFRS Implementation in Developing and Developed Countries (Case Study: Europe)

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Abstract

The differences of accounting standards in each country caused the comparability of accounting reduced. It certainly becomes an obstacle in this globalization that is increasingly competitive. IFRS is expected to provide a standard setting for financial information to be more qualified, transparent, and easily comparable. But unfortunately, the application of IFRS cannot be done in all countries. This research uses 5 developed and developing countries to compare how the application of IFRS by observing how economic growth in each country. Implementation of IFRS in developed countries and developing countries are directly proportional with economic growth but have no significant difference. Tax is the most complicated problem and become the most common obstacle of the fully adoption standard in almost all countries.

Keywords: IFRS, Economic Growth, Europe

1 Introduction

Globalization is supported by rapid technological development, bring us to a state where there is no longer any restrictions on information access, especially in financial reporting. This advancement brings millions of investors, analyst, and other stakeholders into the stock market floor around the world. However, problems arise in financial reporting where there is still a lack of uniformity regarding the accounting standards that govern them. This difference causes the comparability of accounting to be reduced, because it is made by the different accounting standards. So therefore, the financial statements produced will be varied and reduce the level of external confidence to the financial statements.

IFRS (International Financial Reporting Standards) came and expected to be a standard setting for quality financial information more transparent and more easily comparable. Unfortunately, the adoption is still a lot of controversy. There are many countries that have not implementing IFRS, because they still hold fast to the accounting standards issued by their respective countries [4] on their research said that economic growth and the level of economic openness do not prove to affect the likelihood of IFRS adoption in developing countries. [9] conducted a study in 38 developed and developing countries found that the level of investor protection is weaker and ease of access to the capital markets will increase the probability of a country adopting IFRS. Countries with strong investor protection will see little benefit from the adoption of IFRS, thus negatively affect the likelihood of adoption of IFRS.

Based on this background, the study aims to determine how the implementation of IFRS in developed and developing countries, is there any relation to economic growth in both types of countries.

2 Research Methodology

This research is a qualitative descriptive and tend to use inductive analysis approach. The method used is comparative, by doing a comparison to obtain the differences. Samples, used 5 developed countries and 5 developing countries to compare how the economic growth associated with the implementation of IFRS in each of these countries.
3 Result

3.1 Introduction of IFRS

IFRS (International Financial Report Standard) is a standard that used as a global financial reporting adopted by the International Accounting Standards Board (IASB). This international standard setting process is an effort to face the globalization of the financial sector and business where the regulators, investors and audit large companies began to realize the importance of having common standards in all areas related to financial reporting.

The adoption of IFRS is expected to facilitates an understanding of financial statements using financial internationally accounting standards, increase global investment flows, lowering the cost of capital through global capital markets and creating efficiencies financial report preparation, improve the quality of financial accounting standards, increase the credibility and usefulness of financial statements, enhance the comparability of financial reporting, and improve financial transparency and investor protection to capital markets. [14] describe the concept of the IFRS accounting framework in outline as follows:

![IFRS Conceptual Framework of Accounting](source)

Specifically, impact of IFRS convergence on the business, as stated in the IAI seminar are opening international funding’s access, increasing financial statement’s relevance, financial performance will be more volatile when price fluctuate, make smoothing income difficult, principle-based standards may lead to a slight decrease of comparability of the financial statements, and the limitation use of off balance sheet.

3.2 The Implementation of IFRS

Until 2013, more than 12,000 companies in nearly one hundred countries have adopted IFRS. Since its appearance in 2002, Europe has been required to use IFRS as the basis of preparing its financial statements, beginning on January 1, 2005. By 2013 at least more than 40 countries in Europe have their financial statements requires the use of IFRS for all companies listed. 5 of the 10 countries that proposed IFRS are European; they are French, Germany, United Kingdom, Ireland, and Netherlands. They applicable IFRS is adopted by the EU (European Union), and has required its application to the consolidated financial statements. Europe has European Regulation 1606/2002 and it aims to improve the quality of financial reporting and establishing a competitive market in Europe in order to achieve good economic growth. Application of IFRS in Europe as the initiator has not yet been fully adopted because there are some obstacles to fully adopted IFRS. After providing an analysis of EU harmonization and its movement toward IASB, Haller (2002) raises many important issues. She points out that the current EU solution of mandating IFRS for the consolidated accounts of listed companies and allowing countries to require national GAAP for individual accounts is not an increase in efficiency and a reduction in complexity.

Deloitte Touche Tomatsu’s (DTT) (2000) detailed comparison of IFRS with GAAP in 14 Eastern European countries and indicates, while national accounting standards are gradually converging with IFRS, a number of significant differences remain to be addressed before convergence is achieved. [11] investigated convergence in the first 15 EU member countries and found that it is focused primarily on the consolidated accounts of listed companies. A major barrier to convergence of national standards with IFRS is because European countries have historically linked their financial reporting and tax laws. Guenther and Hussein (1995) said that one of the biggest impediments to uniform international accounting standards is the requirement in many countries that financial reporting standards conform to tax regulations.

Edition of IFRS have been translated into many national languages in Europe, but many of them do not include all recent standards. Most of new EU and EU candidate countries do not have complete IFRS translations and accordingly, have had little opportunity to develop any significant experience using and implementing IFRS. Additionally, while the EU plans to translate all key materials into the nine new official EU languages by the end of 2004, as of May 1, 2004, EU approved IFRS had not been officially translated and published in the EU’s Official Journal.

In GAAP Convergence 2002 the firms cautioning, only requiring IFRS for listed companies may represent a logical transition towards convergence, a two-standard system, where some companies continue to use national GAAP, may be difficult to maintain in the long-run. The firms recommend that governments and national standard setters develop formal convergence plans to eliminate these dual standards. The most common im-
pediments were limited national capital markets, insufficient guidance of IFRS, the national tax-driven, and the complicated nature of particular standards. Several countries also noted concerns regarding applicability of IFRS for SMEs. This table below shows how the implementation of IFRS in their countries.

IASB Chairman, Hans Hoogervorst, said would difficult to compare accounting data internationally, because standard application inconsistent. He asserted IASB’s commitment to cooperate with the capital market regulators and the accounting profession to improve consistency of world’s IFRS application. Without a single language, international financial reporting consistency never materialized.

3.3 Economic Growth and The Implementation of IFRS

Economic growth of a country is major indicator of living standards and welfare. The high of it leads to higher levels public life. In an IFAC survey, world’s accountancy services need an international financial reporting standard in line with economic development.

As our table data below, the yellow background indicating developed country and other for developing country. Yellow GDP sector service holds the main role as one of the criteria of developed country. Population is very influence GDP per capita amount. We need balanced proportion between GDP increase and total population, as population is one of main problems in developing countries.

Table 1: Sample’s Economic Growth

IFRS Implementation in developed and developing countries are directly proportional with economic growth but have no significant difference. From 10 country in Europe, almost all have been adopted IFRS in their country in harmonization step. Almost all of them adopted the EU version of IFRS. But Serbia adopted locally IFRS, it’s translated and published in its language by Ministry of Finance of the Serbia Republic. Whereas one of the main purposes of IFRS is to be the international accounting language where all format and calculation is served in the same form, so facilitate the investors to make an investment decision with fair comparison and appraisal. The officially prescribed forms of financial statements are also not in line with requirements of IAS 1. And for financial service industry there are specific regulations prescribed by national bank of Serbia which mandatory. And based on our data about economic growth, Serbia is indeed on the lowest rate of the sample’s economic growth. For rules subsidiaries of foreign companies or foreign companies listed on local exchanges, some country have different rules, but for Romania, Hungary, Bulgaria, and Serbia which are their economic growth are the bottom 4 of the research haven’t any different rules. Surprisingly United Kingdom even it is a developed country, haven’t any different rules also.

From several problem that common showed up on the implementation of IFRS, tax is the most complicated and common obstacle of the adoption standard in almost all countries. For closed financial reporting in France and Germany have to be arranged using local accounting requirements because the reports are basis tax and dividend. Companies-listed French follow IFRS in their consolidated financial statements, the companies that not listed also have this option. Type of tax regime in Czech is quasi dependent and same like France. United Kingdom has used quasi dependent tax regime, but their basis tax reporting was already IFRS. Germany and Netherlands both are using independent type where there is little or no relationship between taxable profit and statutory legal entity statutory accounts. But, the taxable profit of Netherlands is based on local tax accounting principles which may coincide with IFRS or Dutch GAAP. All the countries prohibiting IFRS for SMEs because IFRS still considered too complicated and high cost which may discriminate the companies. Romanian as the developing country adopts the IFRS, required for consolidated financial statements but oriented towards supplying information for only the state. It is the main obstacle for investing in Romania and affecting the economy. Hungarian accounting regulations based on the Fourth and Seventh EU Company Law directives. While the newly established Hungarian Accounting Standards Board is expected to seek full convergence with IFRS within the next 6 - 8 years, this report recommends adopting IFRS for public interest entities to enhance the transparency of their financial reporting. IFRS in Bulgaria is permitted for consolidated and standalone/separate financial statements and required for some entities based on industry/size. IFRS is required for all financial those
that meet 2 of the 3 criteria mentioned. The criteria burdensome the employer in held the business. If they are not able to meet 2 of 3 criteria they will be using GAAP Bulgaria which will difficult for them to find foreign investors to be included in their company. On the application type of tax regime Poland use independent type while Romania use dependent type and the other three use the quasi dependent. But, Romania planning all banks will adopt full IFRS in 2012. Others said they haven't any announcement about converge to IFRS/IFRS for SMEs.

4 Conclusions and Suggestion

The implementation of IFRS in developed and developing countries are directly proportional with economic growth but have no significant difference. Tax is the most complicated problem and become the most common obstacle of the fully adoption standard in almost all countries. Suggestion for this research is to expanding the country for samples and updating the latest regulation and the effect of implementation in each country.

References


