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# INTERNATIONAL FINANCIAL REPORTING STANDARDS: BENEFITS AND CHALLENGES (RESEARCH DERIVED FROM MASTER'S THESIS)

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**ABSTRACT**
***The study aims to demonstrate the benefits and challenges of applying IFRS through a comprehensive review of previous literature, as IFRS is now used by most countries of the world and is increasingly adopted around the world. The objectives of those standards, in the public interest, are to develop the sum total of It is one of the highest qualities, understandable, implementable and globally accepted financial reporting standards based on clearly defined principles. The announcement by countries to adopt IFRS instead of the standards that had previously been applied also pointed to many benefits, mostly related to financial markets. At the same time, there are challenges facing States in implementing IFRS. In Iraq, IFRS adopted Officially in 2016 where the Central Bank issued instructions to oblige the application of these standards in banks and insurance companies in the book No. 12/9 dated 14/1/2016.***

## I. INTRODUCTION

The end of the past years has witnessed a significant increase in the volume of world trade, the business environment has become characterized by economic globalization, the expansion of global financial markets and the growth of multinational companies, and the removal of barriers that hinder international trade has encouraged foreign direct investment, all these factors have influenced accounting as a science and profession in many areas, especially the differences and contradictions in accounting practices around the world, which in turn have generated tremendous efforts by different accounting bodies and development bodies. Worldwide accounting standards to develop the science of accounting, standardize accounting treatments and eliminate differences between countries, so that there is a single set of global accounting standards. (Bouarar,2017:6)

In 1973 the International Accounting Standards Committee (IASC) was formed through an agreement concluded by professional accounting bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland and the United States of America, and the International Accounting Standards Committee (IASC) was tasked with drafting international accounting standards to gain investor confidence and provide a strong investment climate. This private sector initiative was established and funded in accordance with an agreement between accounting bodies in more than 75 countries. Adhana,2020:472).

Since April 2001, the standard-setting function has shifted from the International Accounting Standards Committee (IASC) to the newly reconstituted International Accounting Standards Board (IASB). The International Accounting Standards Board (IASB) chooses a new name for its rules called the International Financial Reporting Standards (IFRS), although it continues to recognize previous accounting standards (IAS) issued by the previous standard-setter (IASC) and the International Accounting Standards Board (IASB) that is better funded, better staffed and more independent than its predecessor the Committee International Accounting Standards (Almaharmeh,2017:34**)**. The IASB aims to achieve three main objectives: (Pope&Mcleay,2011:235)

1. To develop for the common good, a single set of high-quality, understandable, enforceable and universally accepted IFRS based on clearly defined principles, meaning these standards must require high-quality, transparent and comparable information in financial and other financial reports to help investors, other participants in global capital markets and other users of financial information make economic decisions.
2. Encourage the use and strict application of those standards worldwide.
3. Promote and facilitate the adoption of International Financial Reporting Standards (IFRS), being the standards and interpretations issued by the International Accounting Standards Board, through the convergence of national accounting standards and international financial reporting standards.

In December 2007, the U.S. Securities and Exchange Commission also agreed to allow non-U.S. companies listed on U.S. exchanges to prepare their accounts using IFRS without the need to prepare an additional settlement to U.S. Generally Accepted Accounting Principles. Significant progress in their joint efforts to bring together global accounting standards (IFRS and U.S. Generally Accepted Accounting Principles) since they signed a memorandum of understanding known as the Norwalk Agreement in September 2002 (Chua,2019:42). Despite the efforts of the U.S. Securities and Exchange Commission (SEC) toward adopting the standards issued by the International Accounting Standards Board (IASB), the United States of America was not one of the first countries to implement the International Financial Reporting Standards (IFRS). The pretext used by the United States of America for it was: the outbreak of the financial crisis in 2008 and in turn the European countries applied IFRS standards under Act No. 1606/2002, where the European Union (EU) decided in 2002 to require companies listed within the European Union, including banks and insurance companies, to prepare their consolidated accounts in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union and from 2005 onwards. This gave a positive impression in responding to the new standards. (Abdul Jalil, 2016: 37) (Bengtsson,2021:1).

## II. LITERATURE REVIEW

### The concept of International Financial Reporting Standards (IFRS)

Standard in the language – is a translation of the English word Standard which in Arabic means that it is a model, placed to measure in its light the weight, length or degree of quality of something. (Hamid et al., 2019: 1262) , the standard has also been defined by the International Standards Organization (ISO) as "a document prepared unanimously, ratified by a recognized body, using for common and repetitive purposes, rules, outlines or specifications of activities or their results to ensure an optimal level of organization in a given context" (Ali& Flayyih,2021:2172). The standard in accounting sciences means "the basic guide for measuring the processes, events and circumstances that affect the financial position of the company and the results of its business and the delivery of information to the beneficiaries" (Al-Saeed and Boubacar, 2018: 252). The term International Financial Reporting Standards (IFRS) is defined asaccounting rules (standards) issued by the International Accounting Standards Board (IASB), an independent organization based in London, a set of rules that apply perfectly to financial reporting by public companies around the world (Ball, 2006:6).

1. It is "one set of high-quality, understandable, enforceable and globally accepted accounting standards aimed at achieving transparency, accountability and efficiency in financial markets around the world and working to serve the public interest by promoting long-term financial confidence, growth and stability in the global economy." (IFRS,2018:2)
2. It is a set of international accounting standards that state how to report certain types of transactions and other events in financial reports, are issued by the International Accounting Standards Board (IASB), and are created in order to obtain a common accounting language, through which transactions and events can be understood from one company to another and from country to country. (Farhood,2018:5)
3. It is a set of important guidelines whose conceptual framework provides the possibility of choosing the optimal measurement basis and as required by the company's circumstances, and provides the most useful and closest information to reality (kieso et al., 2020: 205).

### Benefits of applying IFRS

The increasing adoption of IFRS is mainly attributable to the needs of large companies seeking access to international markets, and major financial intermediaries looking for global investment opportunities, as the EU statement issued in Brussels on 7 June 2002 outlined the expected benefits of IFRS, noting that it will help remove barriers to foreign investment in securities by ensuring that corporate accounts across the EU are more Reliability, transparency and easy comparability, which in turn will increase market efficiency and reduce the cost of corporate capital, it ultimately improves competitiveness and helps to promote economic growth (Adhana,2020(:480), accordingly the most prominent benefits of applying International Financial Reporting Standards (IFRS) will be discussed.):

### 1. Removing barriers to Cross-Border Investment

The application of IFRS facilitates foreign investment and removes cross-cutting barriers when trading securities across countries, will ensure that published financial reports become more transparent than ever before (Temile,2018:27), and with more reliable and credible financial statements, the tendency to attract foreign direct investment will increase, as the country's risk profile will be known and predictable, in other words attracted Investors to environments where the benefits are relatively high for risk and the availability of reliable information contributes to reducing this risk (Atu et al.,2016:8). With the application of IFRS, investors will pay less to amend financial reports, they will be able to understand them and the costs of adjusting data will be lower (Akolor,2019:22), and their application will increase the ability of investors to make important financial decisions, and this removes the concern arising from the existence of different methods of measuring the results of companies' business and financial position in different countries, thus reducing investment risk and lower cost of capital (ALjanabi et al. ,2021:15).

**2. Improve the quality of accounting and disclosure information and reduce profit management**

The application of IFRS leads to standardization in the worldwide accounting language and is a prerequisite for the globalization of business, finance and investment with the aim of essentially eliminating the unnecessary complexity that exists with multiple reporting languages (ODO,2018:433). IFRS also enhances the transparency and reliability of financial reporting, which subsequently improves their usefulness to external users such as analysts and investors. Financial reporting standards are not limited International not only on external parties, but also useful in administrative decision-making (Adhana,2020:481). The application of IFRS reduces the opportunistic behaviour of management, improves the quality of profits, thereby improves the quality of information disclosed, and improves the quality of accounting information by reducing profit management (Tamimi and Nouri, 2017: 540). Research (Kothari et al., 2005) has confirmed that the application of IFRS leads to a significant improvement in the quality of accounting information compared to previous periods of IFRS application (Hsu&Chen, 2019:3).

**3. Comparability**

The application of IFRS at the international level allows for greater comparability of financial reports (Hameedi et al. ,2021:1084). These standards require companies to report a full set of financial reports whose results reflect their business and financial position, using the same rules, meaning that there is a similarity in financial reporting to all markets and countries that use those standards (Abdallah et al.,2018:653), hence the Having a single set of financial reports helps multinational companies reduce the costs of trade exchanges around the world without having to modify the financial reports that have been compiled in accordance with local standards. Therefore, the information will be more comparable, this improves analysis and evaluation by users around the world, and may also provide the set of accepted practices "equal opportunities" for all companies around the world (Khudir, 2021:48).

4- **Suitability of the value of accounting information**

That investors are generally the primary users of the company's financial statements, and that the reported accounting figures provide information to investors about the value of the company, these figures are expected to correlate with the company's share price (Kaaya,2015:39). The suitability of value is defined as the correlation of the accounting amount with certain measures of value, such as stock prices, and if this amount increases the strength of the relationship between them significantly, it is of a value appropriateness and vice versa in the absence of a relationship. (Hassan and Aziz, 2021: 48). The adequacy of the value of accounting information is one of the stock market indicators that emphasizes the quality of financial reports that are submitted to the financial markets of investors to make an important choice and that the application of IFRS is the most important practice in the existence of accounting on the basis that these standards enable financial reporting and give more data of high value suitability to all categories of investors. This means that accounting information under IFRS is more appropriate value than accounting statements under Local accounting standards (Nwaogwugwu,2020:174).

**5- Improving analysts' expectations:**

IFRS enables analysts to give more accurate and less dispersed profit forecasts, and reduces the difference in target price to a minimum. Moreover, countries that have a large gap between domestic standards and IFRS should offer a greater improvement in the quality of accounting, which in turn will improve the accuracy of analysts' expectations (Adhana,2020:482).

**6- Market efficiency, liquidity and cost of capital**

The application of IFRS improves the credibility, comparability and transparency of financial reports, and this will always lead to market efficiency (Akolor,2019:22). The provision of understandable, reliable and comparable financial statements leads to increased market efficiency and ensures easy access to foreign capital, and this is done through the application of IFRS (Al-Moussawi, 2021: 27). There is a famous saying that "liquidity generates liquidity", due to the fact that more investors who have funds to invest, and more companies seeking additional equity capital are attracted to more liquid markets. Market operators also wish to manage more liquid markets for fairly obvious self-interest reasons, and IFRS has proven to have a definite useful role to play in promoting more liquid markets (Adhana, 2020:482). With regard to the cost of capital, one of the advantages of applying IFRS is to reduce the cost of capital of the company, where enhancing the comparability of corporate financial information and improving the quality of communication with its investor shareholders reduces uncertainty and risk, increases market efficiency and ultimately reduces the cost of capital (Feyisa,2021:12)

## III. DISCUSSION

**Challenges of applying IFRS**

Because international accounting convergence is linked to rising political and economic costs, this is not easy, there are a number of reasons why countries are unwilling to apply IFRS and this highlights the question of whether IFRS is appropriate or possible internationally, i.e., being a "one-size-fits-all", as well as cultural and national differences that are one of the biggest obstacles to the effective adoption of IFRS. (Trimble,2017:9). There are a set of key challenges to the application of IFRS: (Alam,2020:65), (Vysotskaya& Senyigit,2021:2), ((Feyisa, 2021:14)

1. Since these standards are new and unfamiliar to local employees, many trainings must be conducted for accountants to develop their skills in dealing with the new standards, and this leads to an increase in the cost of training.
2. The cost of applying these new standards is high, since these standards are new to companies, they need to put in place measures to ensure successful application and compliance with these standards.
3. IFRS standards are generally formulated in English, and this is where the translation problem arises, hence the language also presents a major challenge to the application of IFRS. Non-English-speaking countries have to hire experts to translate into the local language, and this can sometimes be a big problem.
4. standards do not meet the accounting and financial requirements of developing countries, as international financial reporting standards have been developed with developed economies and these will not fit perfectly with the economies of developing countries, hence there will be a gap between these standards and the real needs of accounting and financial reporting of developing countries.
5. issues are one of the main challenges to IFRS implementation, as national rules and regulations differ from IFRS and therefore sufficient adjustments must be made in order to implement IFRS.
6. To apply some standards is a major problem in compliance with IFRS, as some standards do not correspond to the accounting and financial needs of the country.
7. Complexity in the application of international financial reporting standards in Islamic financial companies, because Islamic financial companies are established and operate in accordance with Islamic law.
8. Application of IFRS in SMEs can be complex and costly due to scarcity of resources and lack of experience, and the cost of applying IFRS may exceed its benefits.

## IV. CONCLUSIONS

1. IFRS exists to achieve the public interest by standardizing and developing high-quality international standards, resulting in transparent, reliable and internationally comparable financial reports that assist investors in making important decisions.
2. In. IFRS contributes to making domestic accounting standards international through the process of IFRS.
3. The application of IFRS has important benefits that are reflected in the economies of different countries, by achieving economic growth, opening up to the world, bringing in more foreign direct investment, reducing the cost of capital, increasing the quality of accounting information and reducing the risk of information asymmetry.
4. Despite the benefits of applying IFRS, they face a range of challenges that hinder their implementation, such as those faced by developing countries, laws and legislation, translation problems and the material costs of their implementation, such as training and qualification.
5. As a result of the application of IFRS, investors receive many benefits such as enhancing their economic decisions, reducing investment risks, and reducing the cost of invested capital by reducing the costs of modifying comparable financial reports.

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