Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.11, No.17, 2020

The IFRS and financial reporting a key instrument of finance of company.

Assoc Prof. Ylber BEZO,

College University of Business Tirana Albania,Vangjel Noti,Tirane

ybezo@kub.edu.al

Abstract

The history of the IFRS implementation in Albania is interesting and original. As an ex-communist country, Romania shifted from the soviet accounting system towards a market economy model of accounting early in the '90s. The shift was made by adopting a French inspired model (and not an Anglo-Saxon one) due to the long and close historical, economic, political and social relationships built up between the two countries over a long period (Albu et al, 2014).

Financial economics theories, when they focus on the area of investment efficiency, argue that the information asymmetry between firms and outside capital providers is one of the major drivers of suboptimal capital investment. As already known by academic literature, an important goal of financial accounting information is the reduction of adverse selection costs or moral hazard issues related to information asymmetries in order to enhance capital markets efficiency. The reduction of information asymmetry is argued that could be achieved by adopting a single set of global standards, which improves the level of comparability of financial statements, and as a result the ability of investors in identifying profitable investment opportunities. Recent literature contains a number of studies suggesting that improvements in the performance related to business investments are associated with the main positive results of implementing international financial reporting standards (hear after IFRS).This paper is a theoritcal study about IFRS.

Keywords: International Financial Reporting Standards, IFRS, international accounting standards, adoption, adaption, convergence.

DOI: 10.7176/RJFA/11-17-08
Publication date: September 30th 2020

1.Introduction and Background

IFRS today are very acceptable. Albania has adopt the standards of accounting years ago and the company today has adapt this standards.

Literature on IFRS adoption by countries concerning high quality, understandable and applicable IFRS in order to be worldwide accepted has generated a pertinent discussion, since the results presented in the literature are not unanimous on the adoption of IFRS and accounting quality. Soderstrom and Sun (2007) analyzed a research published in leading accounting journals selected from 1990's on the consequences of IFRS adoption and found that the determinants of accounting quality after the adoption of these standards are articulated in: quality of the standards; political and judicial system in the country; financial reporting incentives. Based on Soderstrom and Sun (2007) study, this work aims to analyze literature on IFRS adoption and the accounting quality from 2006. In order to achieve this goal, a systematic search of the literature focused on a "Web of Science" database associated with a bibliometric analysis was done, aiming to understand the discussion on IFRS adoption and accounting quality in literature. As a result, it was found that the adoption of IFRS related to the accounting standard factors, political and judicial systems of the countries and the financial reporting incentives discussed by Soderstrom and Sun (2007) to determine the quality of accounting remains persistent. Overall, this analysis concludes that the quality of accounting cannot be evaluated only in terms of IFRS adoption, either on a voluntary or mandatory basis.

The development of a strong international financial reporting architecture has been of longstanding interest to and elicits frequent commentary by academics, professional accountancy bodies, regulators, and men of affairs

(businessmen, politicians, labour leaders, and governments). This perspective is reinforced by the fact that accounting is shaped by economic and political forces (Watts 1977; Watts & Zimmerman 1986). IFRS, successors of International Accounting Standards (IAS), were originally developed in the 1970s and 1980s (Soderstrom and Sun, 2007), more specifically after the "foundation of International Accounting Standards Committee (IASC), constituted by the accounting bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, UK, Ireland and the United States "(Aljifri & Khasharmeh, 2006, p. 506), to issue accounting standards that could be accepted globally. Since then, IFRS are applied as standards which:

Reflect economic substance rather than legal form; reflect economic gains and losses in a more timely manner (in some respects, even more than the Generally Accepted Accounting Principles (GAAP) of the United States (U.S.); announce more about the earnings; provide more useful balance sheets; and reduce the historical description of Continental Europe, providing administrators conditions to manipulate provisions, create hidden reserves, gains 'smooth' and hide economic losses from public view "(Ball, 2006, p. 9).

2.Financial Information is key factor of finance.

According to Brown (2011) study, it seems relatively clear that the switch to IFRS has had many consequences both in the evaluation of the shares as in the capital markets. In this sense, Daske, Hail, Leuz, and Verdi (2008), evaluating the economic consequences of the information, based on the IFRS, concluded that, on average, market liquidity increases throughout the period of the introduction of the IFRS and emphasize the fundamental importance of the incentives of firm information and the enforcement regime of the countries to reach the quality of financial reporting.

It is important to observe that when Soderstrom and Sun (2007) discuss this factor (financial information incentives), they present that the information incentives are likely to affect directly the accounting quality as well as they are used by political and legal systems to affect indirectly the accounting quality. Actually, the four types of incentives ranked in the scheme developed by Soderstrom and Sun (2007) both are affected by the political and legal systems to determine the accounting quality as they themselves affect the accounting quality. That means, the mandatory IFRS adoption improves the comparability of the financial information across countries. On the other hand, the improvement of the comparability of the financial information among the countries is a result of the firms' institutional environment (financial information incentives) (Yip & Young, 2012).

Because it is important to harmonize this information across market participants, Jiao, Koning, Mertens, and Roosenboom (2012) consider that IFRS adoption improved the quality of the financial reporting and, more specifically, the quality of the results of the firms. In this study, the authors contribute to the literature to understand the effect of using a high quality and uniform accounting language in the use of financial information across financial market participants.

3.Development of the corporate financial reporting framework in Albania.

The government of Albania formulated a Country Action Plan to Enhance Corporate Financial Reporting in Albania (CAP) in 2008. The Albanian legislative act which defines the general principles and rules for the preparation of accounting standards, financial statements and accounting records is the law No.9228, dated 29.04.2004, "On Accounting and Financial Statements".

According to article 3 of this law, "accounting standards" are the general principles or rules for the normalization of accounting, defined by the law, which serves as a basis for the selection of accounting tools and methods that are applied for the preparation and presentation of financial statements. Typically, the National Accounting Council of Albania translates the standards brought forward by the International Accounting Standards Board. The standards are then decreed as valid and effective by the Ministry of Finance. The latest decree issued by the Ministry of Finance on the topic of accounting standards is the one approved on the 6th of November 2017, no.120, and subsequently published in the Official Gazette in November 2017.

The Decree no.120 issued by the Minister of Finance reflects the changes occurred in the accounting standards, which included among others: – IFRS 4 (insurance contract); – IFRS 2 (payment based on shares); – IFRS 15 (revenues from contracts with customers) and – IAS 40 (long-term investment property).

The changes to the standards entered into force and are applicable since the 1st of January 2018. Below we discuss specific details affecting companies.

IFRS 4: The latest changes include the possibility for entities providing insurance contracts to be excluded from the application of IFRS 9. It also attempts to address several concerns about the difficulties that may arise due to IFRS 9. The entity that choses to go ahead with the exclusion, is obliged to give an explanatory note.

IFRS 2: For share-based payment transactions, in which goods or services are received as part of a share-based payment arrangement, the latest changes include some modalities of financial declarations about the methods and tools that will be used for the cash-settled share based payments. The aim is to introduce the guidance of the accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

IFRS 15: The changes introduce the single, principles-based five-step model to be applied to all contracts with customers, regarding revenue recognition, uniform for all transactions and for all companies, without differentiating between contracts. Based on the use of the five-step model, the moment of revenue recognition may change. Customer contract revenues' which were previously recognized throughout the term of the contract may be recognized in the future only once and as a whole, at the end of the contract and vice versa. The basic principle of IFRS 15 is that the revenue shall be recognized at the moment the products and/or services are transferred in the control of the customer. In order to realize the proper and efficient implementation of the latest changes, it is necessary to increase the importance of valuations, so that each product and/or service part of the contract is recognized with its real value.

IAS 40: The standard provides the possibility of an entity to transfer an asset to, or from, a long-term invested property only when there is a change in use. A change in use occurs when a property meets or ceases to fulfill criteria making it an investment property and there is evidence of change in use.

Eurofast advises Albanian companies to thoroughly examine the impact these new standards will have on their operations, particularly IFRS 15. We expect that a number of industries (such as those involved in supply of contracted long-term services or license selling) will be affected and may need to seek tax advisory to ensure tax compliance.

4.Conclusion

With regard to accounting standards, except the investigation of Chen et al. (2010), which states that the improved accounting quality is attributable to IFRS, other investigations strongly support the view that the standards (IFRS) are not sufficient to create a common business language (Jeanjean & Stolowy, 2008), although they have improved both the quality of financial reporting as well as the comparability of financial reporting (Horton, Serafeim, & Serafeim, 2013; Jiao et al, 2012).

The revised legislation required in Albania the publication of company financial information as a required by EU legislation.With the support of EQ FINREP, the National Business Center (NBC) has improved its hardware technology, which allows its system to support the filing and publication of financial information.

5.Bibliography

Ahmed, A. S., Neel, M., & Wang, D. (2013). Does Mandatory Adoption of IFRS Improve Accounting Quality? Preliminary Evidence. Contemporary Accounting Research, 30(No. 4), 1344-1372. doi: 10.1111/j.1911-3846.2012.01193.x

Aljifri, K., & Khasharmeh, H. (2006). An investigation into the suitability of the international accounting standards to the United Arab Emirates environment. International Business Review, 15(5), 505-526. doi: 10.1016/j.ibusrev.2006.05.009

Boeva B (UNWES), Prohaska M (CED) (2002), "The second OECD South Eastern Europe Roundtable on Corporate Governance".

Brackney, Kennard (2006), The European Union's Role in International Standard Setting, The CPA Journal.

Combarros, J. L. L. (2001). Accounting and finance audit harmonization in the European Union. European Accounting Review, 9(4), p.643- 654.

IASB. (2005). The history of international accounting standards board. http://www.iasb.org./about/history.asp. Retrieved March, 4, 2005.