
Familiarity of Accounting Students Toward International Financial Reporting Standards (IFRS)

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Abstract

Globalization is on the trend that even Accounting profession embraced it. It has an obvious impact in the world, especially in business. International Financial Reporting Standards (IFRS) is known to be the international standards that are generally accepted in accounting practice. Although, most of the accounting practices have been followed by individual state, changes had been made in order to converge the principles internationally in line with globalization. This research wants to explore how familiar accounting students in certain universities in Indonesia with the adoption of IFRS. Along with its familiarity, it was also discovered that there are some students who do not support IFRS full adoption because of some identified reasons. With the pros and cons, accounting profession has no choice but to implement the principle-based reporting.

Keywords: *Globalization, International Financial Reporting Standards, Accounting Students*

Introduction

Globalization is not an alien word today. Globalization has been the talk everyday. Globalization is the equilibrium of simplicity and complexity. It makes the ordinary to extraordinary. It gives individual the freedom to trade their goods and services. It sustains the welfare of every individual. Businessmen set up business in order for them to gain on what they invested. For every effort they put in to business, they make sure that there is return to it. And for better relationship, they seek other partner outside their jurisdiction. Most of the businesses are being operated in other parts of the world. They are into globalization. There is now the so called – globalization of capital markets. Investors seek investment from other parts of the world. It is the implementation of International Reporting Standards (IFRS). Stice *et al* (2010:1283) elaborated “Globalization of business operations and of capital markets has created the need for companies to communicate with one common financial accounting language to investors and other stakeholders around the world.”

International Financial Reporting Standards are gaining acceptance worldwide. It is the globally accepted accounting standards. It was the goal of accounting profession to have a common standard in the world for capital markets purposes. It is through the dedication, courage and commitment of the International Accounting Standard Board, regulators, and other parties involved in implementing IFRS. This may pave the way for the investor or stakeholders to deal business in other parts of the world. International Financial Reporting Standards (IFRS) will be fully adopted by Indonesia this coming year 2012. The standard-setting body in Indonesia is called *Ikatan Akuntansi Indonesia*, has been announcing its full convergence. It was gradually adopted by some companies operating business in Indonesia and other parts of the world. The adoption of standards require high-quality, transparent, and comparable information in order for the investor to get into a better investments. Practitioners, academicians and

students need an ample time in order to adjust themselves from the rule-based to principle-based standards. It is a double effort for the individuals to understand this convergence. Since accounting is the language of business, it is necessary to prepare the financial statements in a way that every user understands the financial condition and result of a business.

Today's global corporations are increasingly intertwined with those of their suppliers, customers, and third-party service providers/stakeholders. IFRS are applicable to the common financial reports and other reporting by business entities, including those engaged in commercial, industrial, financial and similar activities, regardless of their legal stature (Ludwig, 2009).

Accounting students should familiarize themselves about the adoption because this is their profession. Students need to equip themselves and have knowledge about IFRS in order to compete globally. Understanding the benefits of the full adopting will lead to a challenging profession, and become competitive individuals. Accounting profession is all over the world. Accountant can go to any part of the world if she/he can master the accounting principles, in particular the International Financial Reporting Standards (IFRS). As mentioned earlier, IAI had announced years ago about its adoption, Accounting students should be familiar with IFRS and ready to face these changes. There would be double time effort for the students to study and go over these principle-based standards. Accounting students who had been familiar with US GAAP should now divert their minds to accept new standards. This IFRS will help each accountant to be transparent for all users, because if there is no transparency it would be detrimental to the stakeholders. Accounting information is generated by the Accountants working in an entity. This information will help users to efficiently use scarce resources, to know if the business is gaining or losing. Financial reports that are transparent and objective gives the potential investors or users a clearer picture of a certain company.

Review of Related Literature

Concept of International Financial Reporting Standards

There are many reasons why IFRS has to be adopted, for sure, it is because of companies around the world are integrating, in such a way to unite the differences of accounting practice in different countries. The goal of the IFRS Foundation and the IASB is to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles (Mirza, 2008). Also, Stice *et al* (2010:20) elaborated, "In an attempt to harmonize conflicting standards, the International Accounting Standards Board (IASB) was formed in 1973 to develop worldwide accounting standards. Like the FASB, the IASB develops proposals, circulates these among interested organizations, receives feedback, and then issues final pronouncement. The 14 Board members of the IASB come from many countries and represent a variety of professional backgrounds. As of April 2008, the 14 Board members included individuals from the United States, the United Kingdom, France, Sweden, China, Australia, South Africa, and Japan. Most of the Board members are CPAs with audit experience, but in April 2008, the IASB included a securities analyst, several people

with corporate accounting experience, and an accounting professor (Mary Barth from Stanford University).”

What is IFRS?

International Financial Reporting Standards (IFRS) is the world-wide standards for accounting set by International Accounting Standards Board and other regulatory agencies. According to Mirza and Holt (2011:2), “IFRS is a set of standards promulgated by the International Accounting Standards Board (IASB), an international standard-setting body based in London, United Kingdom.” Also Alfredson, *et al* (2007:12) elaborated that “International Accounting Standards are more principle based rather than rules based. Principle based focus on establishing general principles derived from an underlying framework, reflecting the recognition, measurement and reporting requirements for the transactions covered by the standards.” Stice *et al* (2010:20) said that “IFRS are envisioned to be a set of standards that can be used by all companies regardless of where they are based. In fact, IFRS will supplement, or even replace standards set by national standards setters such as the FASB.” According to IASB (2010:24) “IFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out such requirements for transactions and events that arise mainly in specific industries.” In other words, IFRS is worldwide set of accounting principles that must be implemented globally.

The Early Adoption of International Financial Reporting Standards

According to Nandakumar *et al* (2010:1), “The adoption of accounting standards that require high-quality, transparent, and comparable information is welcomed by investors, creditors, financial analysts, and other users of financial statements. It is difficult to compare worldwide financial information without a common set of accounting and financial reporting standards. The use of a single set of high quality accounting standards would facilitate investment and other economic decisions a cross borders, increase market efficiency, and reduce the cost of raising capital.”

Additionally, Mirza *et al* (2011:3) explained that “A major breakthrough came in 2002 when the European Union adopted legislation that required listed companies in Europe to apply IFRS in their consolidated financial statements. The legislation came into effect in 2005 and applies to more than 8,000 companies in 30 countries, including France, Germany, Italy, Spain, and the United Kingdom. By 2005, IFRS had become mandatory in many countries in Africa, Asia, and Latin America.” IFRS are used (but not required) in many parts of the world, including the European Union, Hong Kong, Australia, Pakistan, India, GCC countries, Russia, South Africa, Singapore, and Turkey. As of March 28, 2008, about 75 countries require the use of IFRS, or some form of modified IFRS (The Canadian Institute of Chartered Accountants, 2012). The early adoption of IFRS started from European Union, put into legislation in order for the listed companies to mandatory follow the said international reporting standards in accounting.

The IFRS Convergence – Timeline in Indonesia

According to Bonham *et al* (2010:24), “Convergence’ is a term used to describe the coming together of national systems of financial reporting and IFRSs. Since its formation in 2001, the IASB has made great strides toward achieving global accounting convergence, with the result that the global acceptance of IFRS is rapidly becoming a reality. All listed EU companies are already required to prepare their consolidated financial statements in accordance with adopted IFRSs. Elsewhere, scores of non-EU countries have either adopted or are in the process of adopting IFRSs or are aligning their national standards with them.”

In fact when looking at financial accounting standard (SAK), some chapters are already adopting IFRS harmonization (Shonhadji, 2012). In other words, Indonesia is not left behind in following the on-going international standards. Indonesia was one of the first countries in Asia to promote converge toward IFRS, and it has committed to begin implementation from 2012 as quoted by (Saito *et al.*, 2012). For accounting major in university, the changes in Indonesia financial reporting standard to converge with International Financial Reporting Standards (IFRS) have become common discussion since three years ago. Academician in university adapt quickly, together with industries to develop and adjust accounting curriculum for the new standard (Deviarti *et al*, 2012). IFRS convergence can be simply stated as setting an international system for one purpose, which is to report all financial statements in a one form.

The Roadmap of Accounting Standards –Indonesia About IFRS Convergence

Scope	2007	2008	2009	2010	2011
Non-Micro, Small & Medium Enterprises	General Accounting Standards (IFRS was adopted partly)	General Accounting Standards for Small Medium Enterprises			Full Adoption of IFRS
Small & Medium Enterprises		General Accounting Standards			
Syariah Transactions	General Accounting Syariah Standards				

Source : Seminar & Lokakarya at Universitas Maranatha, Bandung “IFRS for Today” June 6-7, 2008

In Indonesia, there are three kinds of accounting standards: (1) Government Accounting Standard (I-GAAP) (which cover approximately 500 listed companies that will converge on IFRS), (2) Small and Medium-sized Enterprise Accounting Standards (SME's) for about 100,000 medium and small-sized businesses, and (3) Syariah Accounting Standards for Islam Banking. (Saito *et al*, 2012).

Roadmap Table for Full Adoption of IFRS - Indonesia

No.	Phase	Description	Year
1	Adoption	Adoption of all IFRS into PSAK	2008-2010
2	Preparation	Preparation of all supporting infrastructure to implement PSAK that already adopted all IFRS.	2011
3	Implementation	Implementation of PSAK that adopted all IFRS for the companies that are publicly accountable.	2012

Source : Seminar at Universitas Maranatha, Bandung "IFRS for Today" June 6-7, 2008

The Benefits and Challenges of International Financial Reporting Standards

According to Bonham *et al* (2010:1), "Undoubtedly, one of the main advantages of a single set of global accounting standards is that it would enable the international capital markets to assess and compare inter-company performance in a much more meaningful, effective and efficient way than is presently possible. This should increase companies' access to global capital and ultimately reduce the cost thereof; yet it is only in the last five to ten years or so that this has been seen as even a realistic possibility — a possibility that has come about largely as a result of bold action on the part of the European Commission."

According to Epstein & Jermakowicz (2008:34), "IFRS financial statements provide better information to external users on the economic evolution of the company as well as how the company is managed and how management is informed, according to Belgacom's Eddy Van Den Berghe. Among the advantages of IFRS-based reporting is the fact that internal and external segment reporting now mirror each other. Consequently, these IFRS statements provide telecom analysts and other users with a more powerful tool to benchmark the company's results, balance sheet structure and cash flow against industry peers, increasing comparability of consolidated statements as well as levels of transparency. A key challenge resulting from the transition to IFRS is managing the company's apparently increased volatility, particularly that due to the use of fair value measurements. The IASB advocates its fair value approach on the grounds of relevance, but the approach brings increased volatility in reported values of net assets as well as earnings. Other factors that might lead to increased volatility in IFRS financial results as compared to results that would have been reported under national standards include more rigorous asset impairment reviews; a compulsory annual impairment test of goodwill; the requirement to recognize actuarial gains and losses outside the permitted "corridor" in the financial statements; and stricter rules on the requirement to consolidate special-purpose vehicles or similar structures on the balance sheet. Consequently, net income and net assets, key inputs to financial ratios assessing performance, could look significantly different under IFRS."

These are the excerpts from Saito *et al* (2012:3), adopting IFRS can be beneficial as well as challenging. One of the advantages of having a common set of financial standards is the ability to validly compare the financial reporting of different global companies. In addition, using IFRS can enable cross-border investment and facilitate the flow and access to global capital markets. Further benefits include minimizing diversity, complexity, and the possibility of mistakes in the financial reporting process. In contrast, there can be a range of cultural, political, and legal challenges. A major challenge of adopting IFRS is the costs associated with its adoption. These costs include expense for staff training/education and the implementation of information technology systems. The Securities Exchange Committee (SEC) in the United States estimates that the transition to IFRS in the first year of filing will cost firms between 0.125% and 0.13% of their revenue. Moreover, early adoption will cost a firm \$32m in 2010 (Johnson and Leone, 2008). Another key challenge is to overcome the resistance to change by both academics and practitioners.

The following are additional benefits and challenges shared by American Institute of Certified Public Accountants (2012) in their website www.aicpa.org of IFRS Readiness Survey. The benefits were: 1) Improve Financial Reporting; 2) Easier Access to Capital; 3) Cost Savings; 4) Improved Comparability; 5) Simplified Financial Accounting & Reporting. And the challenges were: 1) Managing Transaction; 2) Updating Auditing Policies; 3) Updating Accounting Policies; 4) Educating the public/managing public perception; 5) Updating/Changing IT systems; 6) Educating CPAs/non-financial staff; 7) Educating CPAs/financial staff. In other words, IFRS is beneficial to all users, likewise, IFRS challenges every party interested with the financial statements of an individual entity.

Methodology

The researcher used a descriptive-survey, wherein it is based on the current situation. It is a qualitative research. A checklist was prepared in a way that it formed an open-ended survey (statement), thus giving the respondents the freedom to express their familiarity about the adoption of International Financial Reporting Standards (IFRS). Also, the research aimed to know the major benefits and challenges face by all IFRS users.

The respondents are the students (mostly sophomores & juniors) who joined the *10th Ubaya Accounting Competition* at Universitas Surabaya, November 2-5, 2011. These students represent their own school and are said to be acquainted with the trend going on with accounting profession. There are seventeen (17) teams from different schools or universities. Each team consist of three (3) members, totaling 51 accounting students. To name it, Universitas Parahyangan, Universitas Surabaya, Universitas Advent Indonesia, Universitas Widya Mandala, Universitas Dian Nuswantoro, Universitas Bina Nusantara, Universitas Bakrie, Universitas Atmajaya-Jogya, STIE Perbanas Surabaya, and STIE Indonesia Surabaya. Each of the items in the survey form will be summarized. The result would be presented in percentage. The data used are primary data (the survey result).

Interpretation and Analysis

Familiarity with International Financial Reporting Standards of Indonesian Students

Out of 44 respondents, it is known that there were eight (8) respondents or 18.2% who are very familiar with IFRS. This implicates that these students are adept with the changes to be made with the standards. In this category, the students fully understood the purpose or goals implementing International Financial Reporting Standards (IFRS). They knew that its implementation will soon take place. On the other hand, it is know that were 34 respondents or 77.3% who said that they are familiar with IFRS. This means that those students who do not yet fully involved themselves in the implementation. They just know about it, but not profound. They just heard about it, but not fully understood. They just know about it, because they just heard it. And the remaining 2 respondent or 4.5% are not so familiar with it, they know it because someone mentioned it sparingly.

Table 1
Level of Familiarity

Level of Familiarity	Percentage (%)
Very Familiar	18.2
Familiar	77.3
Not So Familiar	4.5

Source: Processed through Microsoft Excel

Agree with International Financial Reporting Standards: Its Full Adoption

It is known that there are three (3) respondents or 6.8% who strongly agree with IFRS full adoption. This imply that the said students knew that Indonesia is going to adopt it fully by year 2012. There were 34 respondents or 77.3% agree with its adoption. This is because of following a regulation set by the higher authority, despite of some challenges being faced when it is fully adopted. And there were seven (7) respondents or 15.9% who strongly disagree because of the following reasons: a) Indonesia is not yet ready to fully adopt the IFRS, b) it must be done step by step, c) need to converge the Accounting behavior first, d) all standards should be the same and clear, and e) must have a good preparation in adopting it.

Table 2
Level of Agreement

Level of Agreement	Percentage (%)
Strongly Agree	6.8
Agree	77.3
Disagree	15.9

Source: Processed through Microsoft Excel

Most Significant Benefits of International Financial Reporting Standards in Indonesia

International Financial Reporting Standards (IFRS) for sure will give benefits to every stakeholders. Of all the benefits mentioned, it observed that following benefits are ranked accordingly:

Table 3
Most Significant Benefits

Rank	Benefits	Percentage (%)
1	Improve Financial Reporting	93.2
2	Improved Comparability	84.1
3	Simplified Financial Accounting & Reporting	54.5
4	Easier Access to Capital	36.4
5	Cost Savings	18.2
6	Others, pls. Specify (Reflect the real condition of entity, relevant for market value condition).	9.1

Source: Processed through Microsoft Excel

Largest Challenges of Implementing International Financial Reporting Standards in Indonesia

Despite of all the benefits mentioned above, challenges await the full adoption of International Financial Reporting Standards (IFRS). Challenges are ranked accordingly:

Table 4
Largest Challenges

Rank	Challenges	Percentage (%)
1	Updating Accounting Policies	72.7
2	Educating the public/managing public perception	52.3
3	Managing Transactions	50
4	Updating Auditing Policies	40.9
5	Updating/Changing IT systems	36.4
5	Educating CPAs/financial staff	36.4
6	6. Educating CPAs/non-financial staff	29.5
7	8. Others, please specify (Tax adjustments, revaluation of assets is difficult).	4.5

Source: Processed through Microsoft Excel

Conclusion

International Financial Reporting Standards (IFRS) is on the go. Whether a certain country will fully adopt it or not, it is a mandatory for financial reporting purposes. Its goal is to have a one language in financial statements preparation. Indonesia is one of the countries that will fully adopt it by January 2012. Indeed, it was already implemented partially before 2012. As a result of the survey, there are a lot of students who are not yet very familiar with IFRS. Familiarity with a new system is needed because this will pave the way to a better application of all the principles. If a student is familiar with the principles he is learning, it will be easy for him to apply into practice. In other words, there is a need to incorporate in the curriculum a special subject that talk only about IFRS or SAK in Indonesia. For this reason, it will be well understood by all accounting students. It should be emphasized that there are benefits to be gained in adopting IFRS, but there are certain challenges awaiting the implementation of IFRS.

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