University of Tennessee, Knoxville
Trace: Tennessee Research and Creative Exchange

University of Tennessee Honors Thesis Projects
University of Tennessee Honors Program

5-2016

Accounting for a Developing World: A look at International Standards on Developing Countries

Samuel C. Thompson
University of Tennessee, Knoxville, sthomp57@vols.utk.edu

Follow this and additional works at: http://trace.tennessee.edu/utk_chanhonoproj

Part of the Accounting Commons

Recommended Citation
Thompson, Samuel C., "Accounting for a Developing World: A look at International Standards on Developing Countries" (2016). *University of Tennessee Honors Thesis Projects.*
http://trace.tennessee.edu/utk_chanhonoproj/1986

This Dissertation/Thesis is brought to you for free and open access by the University of Tennessee Honors Program at Trace: Tennessee Research and Creative Exchange. It has been accepted for inclusion in University of Tennessee Honors Thesis Projects by an authorized administrator of Trace: Tennessee Research and Creative Exchange. For more information, please contact trace@utk.edu.

Accounting for a Developing World: A look at International Standards on Developing Countries

By: Samuel Thompson

Abstract:

The purpose of this essay is to examine the accounting issues in developing countries around the world and approaches that have been used to increase the effectiveness and reliability of accounting and financial reporting in these countries. I will look at the effect of implementing International Financial Reporting Standards (IFRS) in developing countries, as well as the reasons why some developing countries chose not to require IFRS. I will examine the challenges of implementation of these international standards and explore if the benefits outweigh the costs for developing economies. Finally, I will make recommendations as to whether or not these nations should implement IFRS, and which approaches will be most successful based off of previous country case studies and findings.

Introduction:

A reliable and efficient accounting system plays a vital role in the economics of a country. This has never been truer than it is today, as markets are becoming more and more global allowing for business, investment, knowledge and transactions to take place across many borders. There is increased pressure on corporations and countries for reliable, relevant and accurate data. According to a study conducted by the United Nations (UNO 2008), the benefits of a reliable financial reporting framework for a country include greater economic growth, more efficient allocation of resources, lower cost of capital, greater comparability of financial information for investors, and a greater willingness on the part of investors to invest cross border.

With this increase in globalization, the need for comparative financial statements has driven the growth of International Financial Reporting Standards around the world. Currently, there are 119 jurisdictions that require IFRS Standards for all or most public accounting entities. This includes eight countries that do not have stock exchanges, and six do not require it for listed financial institutions. In 87 jurisdictions, the auditor's report refers to conformity with IFRS ("Analysis of IFRS"). The growth of these international accounting standards highlights the global desire to increase the quality of accounting standards as well as the compatibility of these standards from country to country.

With the growth of IFRS, there also comes a debate about the merits of the standards for developing nations. While the term 'developing countries' is meant to group together countries that share some of the same traits, the reality is that it comprises a vast amount of countries with different backgrounds, history, culture, etc. Applying a global standard to such a large and diverse group of countries is a major challenge, and there are differences of opinion regarding if the benefits received outweigh the costs. The need for improving the accounting and financial reporting system in these countries is apparent. However, what is not so apparent is whether implementation of IFRS does more good than harm, and what the best approach for adopting IFRS should be for different countries.

Background Information:

First, in order to explore the effects of the accounting situation in developing countries, there is a need to define what constitutes a developing country. There is much debate about how exactly to classify developing countries. Poverty, education levels, standard of living, industrial production, and lower life expectancy have all been used to try to define a developing nation. Each method has its merits and usefulness in different contexts. However, for the purposes of this essay, I will use the World Bank's classification of what constitutes a developing country. The World Bank classifies a developing economy as low- or middle-income economies, and uses Gross National Income (GNI) per capita for the previous year. Currently, the

classification for a developing economy is a GNI per capita below $12,746 ("Updated Income Classification"). There are certainly drawbacks to this definition as there are a wide variety of nations with different backgrounds, levels of development and geographic diversity that are classified as 'developing' using this criterion. I will use this definition because many different organizations and institutions use it in their definition of developing countries. Also, the diversity of nations helps to illustrate the different challenges and effects of implementing a common set of accounting standards across many countries.

Developing nations face many problems with regards to inadequate accounting and financial reporting standards. As Deputy Secretary-General Petko Draganov stated at the 2012 International Standards of Accounting and Reporting conference hosted by UNCTAD, "many developing countries lack some of the fundamental aspects of an accounting infrastructure. Institutional requirements, regulatory requirements, and human resource requirements go unmet. The resulting negative impact on transparency puts a break on the attraction of investment and the promotion of growth in many of these countries." During the same conference, Michael Prada, Chairman of the Board of Trustees for the IFRS Foundation said that minimal or nonexistent accounting infrastructures in these countries have lead to difficulties in implementing international accounting standards. ("Accounting standards").

Developing countries generally do not have an established accounting and auditing tradition. They often lack a strong professional accounting body, if they even have one at all. Accounting and auditing systems may be inadequate or nonexistent. Also, one of the largest issues is the shortage of a skilled professional accounting workforce in many nations. This can prevent the development of a well-functioning financial environment (Polizatto, Vincent). Countries like Ghana have inadequate funds for educational institutions where accounting is taught, a lack of skilled teachers, lack of teaching materials, and an inappropriate structure for training and education of accountants (Gyasi, 2009).

Also, some countries face unfavorable political environments, where corruption is common and transparency is limited. Hooper, et al., stated that

corruption flourishes when there is little government transparency, illiterate populaces, little to no freedom of information legislation or lack of freedom of speech, as well as a dysfunctional government system. Many lesser-developed countries lack needed financial and technical capacity, lax fiscal controls, false government financial statements, weak institutions, and a process of government where information is often undisclosed to its citizens (Hooper, et al. 2008). Disclosures of banks and other financial institutions are often misleading or fraudulent, which limits foreign investment and the growth of capital markets. Without reliable financial statements, investors are reluctant to assume the risks of lack of transparency and investor protection (Polizatto, Vincent)(Berglöf et al. 1999). While not every country faces all of these issues, many have at least some of the problems just described. It makes for an unfavorable environment in which to grow economically and conduct business. It also makes implementation of adequate accounting standards much more difficult in a situation that is less than ideal. However, continuing to improve on the accounting and financial institutions will help to alleviate some of these issues that these countries face.

Before moving into challenges and effects of implementing international accounting standards, it is important to look at which of the developing countries have adopted/implemented IFRS in some form or another. The table below summarizes the list of developing nations, along with their known IFRS status. The information in the table below was collected by first examining the list of developing countries presented by the World Bank ("Data: Low & Middle Income"). Next, these countries were cross-referenced with data available through various sources, including PwC's "IFRS Adoption by Country", IFRS's "Jurisdiction Profiles", Deloitte's "Use of IFRS by Jurisdiction", and "International Financial Accounting Standards and the Continent of Africa" by Muroki Mwaura and Andrew Nyaboga. There was a lack of information for certain countries, which are highlighted below in yellow. None of the resources listed above, or independent searches could provide the IFRS statuses of these countries. Where there were differences of opinion between sources, I used the most current data as well as the other sources to verify the categories below.

List of Developing Countries:	Dominica	Liberia	Sao Tome and Principe
Afghanistan	Dominican Republic	Libya	Senegal
Albania	Ecuador	Macedonia, FYR	Serbia
Algeria	Egypt, Arab Rep.	Madagascar	Sierra Leone
American Samoa	El Salvador	Malawi	Solomon Islands
Angola	Eritrea	Malaysia	Somalia
Armenia	Ethiopia	Maldives	South Africa
Azerbaijan	Fiji	Mali	South Sudan
Bangladesh	Gabon	Marshall Islands	Sri Lanka
Belarus	Gambia, The	Mauritania	St. Lucia
Belize	Georgia	Mauritius	St. Vincent and the Grenadines
Benin	Ghana	Mexico	Sudan
Bhutan	Grenada	Micronesia, Fed. Sts.	Suriname
Bolivia	Guatemala	Moldova	Swaziland
Bosnia and Herzegovina	Guinea	Mongolia	Syrian Arab Republic
Botswana	Guinea-Bissau	Montenegro	Tajikistan
Brazil	Guyana	Morocco	Tanzania
Bulgaria	Haiti	Mozambique	Thailand
Burkina Faso	Honduras	Myanmar	Timor-Leste
Burundi	India	Namibia	Togo
Cabo Verde	Indonesia	Nepal	Tonga
Cambodia	Iran, Islamic Rep.	Nicaragua	Tunisia
Cameroon	Iraq	Niger	Turkey
Central African Republic	Jamaica	Nigeria	Turkmenistan
Chad	Jordan	Pakistan	Tuvalu
China	Kazakhstan	Palau	Uganda
Colombia	Kenya	Panama	Ukraine
Comoros	Kiribati	Papua New Guinea	Uzbekistan
Congo, Dem. Rep.	Korea, Dem. People’s Rep.	Paraguay	Vanuatu
Congo, Rep.	Kosovo	Peru	Vietnam
Costa Rica	Kyrgyz Republic	Philippines	West Bank and Gaza
Cote d'Ivoire	Lao PDR	Romania	Yemen, Rep.
Cuba	Lebanon	Rwanda	Zambia
Djibouti	Lesotho	Samoa	Zimbabwe

Key:
IFRS Required for Some or All
IFRS Permitted for Some or All
IFRS Adapted
IFRS Not Permitted
No Information Available

While this table shows that most of these developing countries' governments and accounting institutions have required or permitted some level of IFRS, the extent to which IFRS has been adopted in its entirety is another matter. The reasons for or against adoption/implementation will be discussed later in this essay, but it is important to examine why some countries are more likely to adopt IFRS than others.

There have been numerous studies conducted on this subject, with many different reasons given for why a country will be more or less likely to adopt international standards. While there are common findings, there are also various studies that provide contradictory evidence. In a study published by the Harvard Business School, Ramanna and Ewa found evidence that suggests that the likelihood of IFRS adoption by a given country increases with the number of IFRS adopters in its geographical region and with IFRS adoption among its trading partners. They established that this 'network benefit' provided by countries either directly located around a particular country or with countries that have strong trade ties provides more benefit for the country to adopt IFRS, and are a persuasive factor for the country to reap its full benefits. The study also found that the more powerful countries like the United States are less likely to adopt IFRS because they do not want to cede power or control to an international organization. They also stated that those more closely tied with European culture would be more likely to adopt international standards, but there was no evidence of cultural differences between adopters and non-adopters.

Other factors that have been tied to IFRS adoption include education level of a country, existence of a financial market, and cultural membership. Mhedhbi and Zeghal found that developing countries who have the highest literacy rates, have a

capital market, and that belong to an Anglo-American culture are the most motivated to adopt international standards. The capital market system of these countries signifies the need for higher quality financial reporting for shareholders and publicly traded companies. However, they did not find any evidence that external economic openness or economic growth played a role in the decision to adopt or not adopt the standards.

Contrary to this, Gyasi found that the adoption of IFRS is influenced by internal political and organizational factors, but also external factors. The study found that external agents, including foreign investors, international accounting firms, and international financial organizations play a major role in influencing a country to adopt IFRS. Many of the institutions named in the study played a major role in the development of IFRS. The case study of Romania is a prime example of international organizations' influence on a country's adoption of IFRS. The World Bank, the International Monetary Fund, as well as the European Union, all applied pressure for Romania to move their economy toward Western practices. They forced accounting practices to change and become more in line with their standards. Romania's case study also found that this was not uncommon for some developing economies (Albu and Albu, 2012). However, the influence of these agents is limited to the level of openness that the country is to them. Gyasi also found that those who have adopted a common law system of government are more likely to have adopted or considered IFRS, due to the ability of independent accounting institutions to implement these standards without significant government regulation. Higher economic growth was found to be a factor as well, as the need for effective communication of information between businesses and shareholders becomes more important. The more complex a country's economy becomes, the more complex the accounting systems need to be in order to effectively communicate information.

The relevance of a capital market within a country was also confirmed by a study conducted by Edward Chamisa. The study found, predictably, that those who implement a communist system of government are less likely to adopt international standards, as it is not deemed to be relevant to their system. The countries where

the private sector dominates the economy find more usefulness of international accounting standards.

The capital markets, along with higher education levels, higher economic growth rates, and a developing country's institutional environment, including a common law system, were also confirmed to be a significant influence in another study conducted by Zehri and Abdelbaki. It also stated that the driving force behind adoption might be different between developing and developed nations.

It is worth noting, that even with all of the evidence found above regarding the willingness to adopt or not adopt international standards, it is determined on a case-by-case basis. Romania was characterized by a rule-based code of law, had poor quality regulations, an underdeveloped stock market, and a strong orientation of reporting practices aligned towards tax requirements (Albu and Albu, 2012). Even with these factors that have been shown to suggest that they would not be ideal candidates for IFRS adoption, they have nonetheless been one of the more successful examples of a developing country adopting international standards.

Problems and Costs of Implementation:

When a developing nation elects to adopt and implement IFRS, they often face many challenges and hurdles along the way. Choosing to implement international accounting standards is simply the first step, and what follows is typically a long line of issues that need to be resolved before the benefits, if any, are realized. Utilizing case studies of different nations is the best way to examine the problems and costs of implementation and identify common areas of trouble.

When Ghana decided to adopt IFRS, there were many challenges that they had to overcome. The economy had began to grow at a rapid pace, but the underlying accounting body did not improve at the same pace, and struggled to keep up with the needs of the economy. Also, an issue faced by not only Ghana, but also a substantially large portion of developing nations, is that IFRS was created by, and primarily for, developed nations. The different needs of developing nations to developed nations can be extreme and can lead to areas in accounting that are either

irrelevant or too complex for the developing countries. By adopting IFRS, it can place an undo burden on an already taxed accounting body of a developing nation. This burden is also placed on the businesses of the country, which do not have the expertise or technical ability to follow these standards (Gyasi 2009). Also, it was found that many of these standards are more applicable for large or multinational enterprises, referred to as MNEs. The costs to small and medium enterprises, referred to as SMEs, are substantial and the standards might have little relevance or value to these organizations (UNO, 2008). South Africa also found that SMEs face serious problems when they are required to report under IFRS for their general-purpose financial statements (Faraj and El-Farjani, 2014). Kofi Gyasi conducted a survey to examine the disadvantages that IFRS implementation had on Ghanaian business and economics. Some of the feedback provided included the following: increased cost of training employees and the time it takes for new standards to be learned, costs associated with an internal control team to make sure that the standards are being put in place correctly and implemented, increased cost of auditing and compliance standards due to lack of local accounting firm knowledge, local regulations making uniform IFRS a challenge, IFRS standards not complying with relevant country needs, and complexity of standards.

Ghana is not the only country that has experienced difficulties implementing IFRS. On the contrary, Ghana has been seen to be a country that had a rather smooth transition to IFRS. South Africa found that the shortage of expertise in the field of IFRS affected not only the private sector, but also regulators and other government agencies. Substantial financial support was needed to fully implement IFRS, and a disconnect between university accounting programs and the new requirements of the accounting institutions in the country also proved to add to the lack of necessary accounting professional expertise (Faraj and El-Farjani, 2014). In the same study, they found that Brazil had a very difficult time with their legal and legislative system. Inflexibility of regulation required a long period of time before new legislation was implemented. When businesses faced difficulties with certain provisions, it took too much time for the legal system to respond, leading to noncompliance by some.

In Romania, the main adoption cost, along with the percentage of those entities that reported them, included training (94.7%), adjustment of information systems (71.1%), consultants' fees (65.8%), and having to prepare financial statements under two different methods (23.7%). The average implementation cost reported by these entities was around €30,000, or roughly .035% of the average operating expenses. Respondents also stated that the costs generally outweighed the benefits for the first two to three years of implementation (Albu and Albu, 2012). However, it is worth noting that the costs are much easier to quantify than the benefits received, and that implementation generally has higher set-up costs than ongoing implementation. Also, the need to report to multiple entities with different standards is another cost that is not always faced by other nations.

India is an interesting case to examine, as they have included some similar IFRS standards into their accounting system, but do not require IFRS for its businesses. One of the major challenges that India faces is that the economic environment is not always favorable to the requirements of IFRS. For example, their markets do not have a reliable way to determine fair market value for some assets, and the fair value-based approach used under IFRS is easily applied in this market type. Also, some companies have been vehemently opposed to the adoption of IFRS, as they contend that it causes undo hardship for certain industries. They have gone so far as to challenge the standards in the court system. Finally, resources and expertise for SMEs are scarce, and many feel that the perceived benefits do not outweigh the cost of compliance to the new standards (UNO 2008).

Non-compliance in Bangladesh has been attributed to the shareholders/users lack of proper knowledge of financial statements. They do not understand the need of the new standards, and recent scandals in 2012 help to highlight the reported weakness of general knowledge. There have also been other reported regulatory problems, especially in the financial sector. The complexity of IFRS compared to national accounting regulations has made it difficult to adequately implement the new accounting system (Miazee, 2014).

In Libya, it was found that one of the hurdles to implementing IFRS was that existing laws and financial regulations limited the application of the standards. As

one financial manager stated, “[The] company must apply the [national] laws and financial regulation before these accounting standards.” There was also much difficulty and non-compliance with reporting in English. All respondents to the survey conducted found that no company used English when preparing their statements, and that there were no laws in Libya requiring this. Also, the lack of change in legislation since adopting the international standards has led to many problems and instances of contradiction. There is an absence of needed enforcement and auditor compliance. Finally, inadequate knowledge and training in IFRS was a major complication when companies tried to report their statements (Farij and El-Farjani, 2014).

Kenyan companies cited complexity as one of the major reasons of non-compliance. Also, there is an issue with the majority of preparers of financial statements failing to keep up-to-date on the latest accounting standards. Most of the SMEs in Kenya do not employ certified accountants, making reporting under IFRS a major challenge which many choose simply not to do. The most difficult issue as it relates to IFRS is the valuation of the fair value of assets. Many in the financial sector do not have adequate information or trouble applying this subjective concept. This is especially true with bonds and derivatives (UNO 2008).

All of these studies performed on developing nations just highlight the difficulties that they, and many others, face when implementing IFRS. This is by no means an exhaustive list, and there are many other issues concerning implementing IFRS. This is merely an overview, hitting some key common issues, and is meant to illustrate the difficulties and diverse issues faced by many.

Examining Developing Countries and the Benefit Tradeoff:

After looking at the problems and cost of implementing an international accounting system in developing countries, it is necessary to see what the effects of IFRS adoption have produced. Again, it is worth noting that the benefits of IFRS are much more difficult to quantify as in many cases there has not been enough time that has passed in order to review the long-term effects.

There have been many contradicting findings by numerous studies of the effects of international accounting standards on the effects of foreign direct investment, referred to as FDI, and economic growth. In the case of Ghana, Gyasi's study found the adoption of IFRS made it easier to acquire capital, easier for domestic companies to go abroad, and had a positive affect on foreign investment and improved consolidation and transparency. In Jamaica, the benefits included increased financial stability, better investment and lending decisions, reduced risk of financial distress and contagion, as well as better market integrity (UNO 2008). However, Lasmin (2011) found that there was no direct correlation for developing countries between FDI and economic growth when looking at implementing IFRS. Another contradictory affect was found by Ramanna and Sletten (2009) who concluded IFRS adoption first increases then decreases a country's corporate governance standards.

Nobes and Parker (2004) found many benefits for countries that have implemented international accounting standards. These included elimination or reduction of set-up costs in developing national accounting standards for those countries that lacked previous standards, potential for rapid national improvement in the perceived quality and status of financial reports, increases in market efficiency in both national and international financial markets through comparable, reliable and understandable financial statements, and a reduction in the cost to firms to prepare financial statements. Berglöf and von Thadden (1999) found that there was a positive correlation between rule of law and the quality of accounting standards on a country's GDP per capita. They concluded that if both of these areas continued to develop and improve, so too would GDP per capita.

In the case of Romania, there were many benefits that the adoption of IFRS were deemed to have. Albu and Albu (2012) found that reforms of corporate governance and accounting standards can increase the attractiveness of emerging markets by providing a more favorable foreign investment environment. These changes also helped to eliminate the barriers of cross-border investment, leading to an increase in comparability, reliability, and transparency of financial reports. It decreased the cost of capital and increased market efficiencies. Romania benefited

when it related to its economic development. Ionascu et al. (2011), cited by Albu and Albu, conducted a survey of chief financial officers of entities who were listed on the Romanian national stock exchange, or Bucharest Stock Exchange (BSE). Over seventy-eight percent of the respondents indicated that IFRS generated a higher degree of compatibility at the international level, 86.5 percent found financial statements using IFRS to be more relevant to investors, 40.5 percent said that IFRS helped to attract foreign investors, and 56.8 percent stated that managers received better quality of information. Also, entities that received foreign financing found that the cost of capital was cheaper. Albu and Albu (2012) also found that IFRS may contribute to economic development by attracting foreign investment, increasing competition, and improving corporate governance.

Gordon, et al. (2012) found a significant increase in cross-border acquisitions of listed firms for developing nations who had adopted IFRS. However, there was not a significant effect of these acquisitions for unlisted firms and businesses. The study also showed that the increase of FDI in these countries was attributable to IFRS and not other factors. These investments came from both countries who had and had not adopted IFRS. These FDI increases were found in nations that had a strong regulatory and legal environment. Li (2010) also stated that IFRS decreased the cost of capital, but only for countries with a strong legal environment.

Lessons Learned:

It is necessary to look at the lessons that previous countries can teach us with regards to implementation of IFRS or reasons why they have decided that IFRS was not in their best interest. The lessons of previous nations can be applied to future situations and help developing nations choose the best way forward for themselves. This is critical to improve the accounting standards of their country and reap the most benefits at the fewest costs.

The United Nations (2008) has cited numerous case studies and found where international accounting standard applications have had problems and ways to better implement them in the future. They cited the need for the transition plan to

IFRS, as well as all implications that come with it, to be effectively communicated and coordinated to all users, preparers, educators and stakeholders. There is a need for all parties to be actively engaged in the process, and the process needs to have a logical set of activities to be completed in a specific time frame. There is also a strong need to communicate the impact of transition to users and preparers, as well as effectively inform them about the temporary impact of the changing standards on financial statements and business performance. Each country that implements new standards needs to considerably prepare for the changes at both the country and entity levels. The country needs to state the role and authority that IFRS has in the country, as well as prepare the necessary legal environment for it to perform to the appropriate level.

In the case of Romania, one of the takeaways was that gradual implementation of IFRS was deemed to be the most effective strategy. In Romania's case, they started with only 13 large entities that were required to report under IFRS, and slowly moved toward banks and credit institutions. They also concluded that the auditor played a big role in securing compliance in developing countries. The need for education was given high priority, and the need for understanding that implementing IFRS will not automatically make for better quality financial statements. They also found that entities do not always share the same incentives, and can vary even in the same country (Albu and Albu, 2012).

The adoption of international accounting standards, or simply implementing any new set of standards, can be very costly. One way to help support these added costs are to receive help from outside sources. Regional and International banks play a major role in this regard. In the case of Jamaica, the Inter-America Development Bank provided financial support for the Institute of Chartered Accountants in Jamaica, their national accounting body. This came in the form of technical cooperation to better disseminate information to the proper stakeholders, training programs, and increasing enforcement and compliance capabilities. Jamaica also found that alternative standards need to be in place to accommodate SMEs, as many of the IFRS standards are meant for MNEs. Continuing training is also very important (UNO 2008). Bangladesh also received a financial grant by the World

Bank to develop the Accounting and Auditing Standards in Bangladesh (Mir and Rahaman, 2004). The implementation of IFRS should more accurately correspond with Bangladesh's limited resources. Also, there is need to establish an independent oversight body to set standards and monitor compliance (Miazee, 2014).

In Libya, the laws needed to be amended in order to facilitate IFRS application. These new standards also needed to be incorporated into accounting and training programs, and synchronized between all relevant agents (Faraj and El-Firjani, 2014). Brazil found that there was a need to better coordinate between the various organizations during the process of adoption, and to better prepare the legal environment to facilitate easier transition (UNO 2008).

There are also lessons to be learned from nations who have not adopted IFRS, or have a modified/adapted IFRS in practice. India found that there was a definite need to address the differences between IFRS and their laws. Implementation of certain requirements, i.e. accounting for taxes on income, tangible fixed assets, employee benefits, needs to be a gradual process. There is need for adequate guidance from the IASB and India's accounting bodies. However, it was concluded that Indian companies using Indian accounting standards are experiencing fewer difficulties assessing international markets as the standards are converging with IFRS (UNO 2008). In Pakistan, it was concluded that IFRS is not made to fit all sizes, and that mandatory application is not practical for SMEs. The system that was implemented uses three 'tiers', with each tier associated with a certain level of compliance for organizations in that specific tier (UNO 2008).

Recommendations:

IFRS should be adopted and implemented for developing nations, especially those that are considered high economic development nations, as it helps to give credibility to the financial reporting of the country, as well as provides the country with many benefits that were discussed in the previous sections. While there is no mistaking that adopting international standards comes at a cost, these can be reduced by taking the lessons learned from previous countries and applying them to

new implementation. Also, it is worth noting that each country presents different challenges and opportunities, and has unique characteristics, and IFRS adoption and implementation strategies will need to adapt in order to meet the needs of the specific country. However, IFRS needs to also be modified for certain situations where the standards do not provide applicable accounting for the country. This leads to confusion, cost, and noncompliance when the new standards add to the problems, and not alleviate them. This is often the case with the ability for some developing nations to properly determine the fair value of assets. International guidelines must recognize the international differences in government systems. Generalization can be more harmful than helpful, and these standards should take into account the differences in each nation (Berglöf, von Thadden, 1999). This sentiment is echoed by Miazee (2014), who stated that modification is necessary, and full compliance by all is more idealistic than practical. It is worth noting, however, that the more modification that is in effect, the less of the benefits of a unified global accounting system are received. Naturally, more modification means less standardization, one of the trademark reasons for IFRS.

New standards need to be implemented gradually, with strong consideration given for SMEs and which companies the standards will be required for. The initial implementation stage should allow for SMEs to be exempt from the new standards as it creates more costs and problems than it does benefits. The tiered approach used by countries like India is a useful tool to help determine the required organizations.

The cost of implementation can be a major strain on the resources of a developing country. Support from international organizations is vital, and funding provided by the World Bank or the International Monetary Fund is needed to encourage better compliance and allocation of resources. A strong implementation plan needs to be in place well before anything else is done, and it needs to be communicated to all those who will be affected. These international organizations play a crucial role in providing resources and guidance to developing nations.

Countries who lack the necessary resources to implement international standards, or are too small to have a say in making those standards, should pool

their resources with other countries around them in a similar situation in order to have a bigger voice in the international community. IFRS requires feedback from the countries and institutions that use it, as this is the only way to develop better and more relevant standards. By pooling resources, it allows developing nations to not be tied to the developed nation's standards without a say in the matter (UNO 2008).

Before implementation can even begin, an IFRS implementation program needs to assess the state of readiness of relevant accounting organizations of a country so that necessary resources can be distributed and proper communication channels established. Also, a country must do an audit of their accounting position, assessing any gaps and areas of trouble. They must also determine if any laws or legislation needs to be passed to help facilitate the transition and reduce discrepancies and conflicts. It must also establish the size and scale of implementation, determining the size of entities that must comply. Also, a task force needs to be established in order to deal with any issues or questions that entities face when making the transition (Gyasi, 2009)(UNO 2008).

Also, merely adopting IFRS is not enough. It is necessary to develop the accounting infrastructure of a nation in order to reap the full benefits. A country must have effective corporate governance practices and strong internal controls, strong auditing practices, and a strict enforcement and oversight mechanism (Tweedie 2005). Ball, et al. (2003) found that countries that are trying to achieve higher financial reporting quality will have more success changing management and auditor incentives than adopting foreign accounting standards. They found that the political and legal environment, along with financial institutions, play a more substantial role in the quality of financial statements than does the adoption of foreign standards.

It is important that each nation has an accounting body that has the power to set standards, and that these standards are backed by law. Also, the law should be consistent and clear in what is required, and should not conflict with the new standards that are being implemented. In countries that do not have a strong accounting body, or if this body is nonexistent, actions must be taken to enhance and strengthen the accounting profession. This includes training of professionals,

building the structure at a university level to reflect the new standards, establishing peer review and advisory services, and imposing sanctions against those who do not comply to the standards, or to auditors who consistently underperform. Also, the need for clear communication between all stakeholders cannot be overstated (Polizatto, Vincent). The new standards should be simple to understand and apply for developing nations, and they should be clearly communicated to regulators, users, shareholders and preparers.

It is of the upmost importance that developing nations have the human resources to effectively implement the new standards. This includes a large number of accounting professionals who are well versed in the new standards and are available for companies, auditing firms, and regulatory bodies. Integrating the IFRS standards into a country's university system, as well as pushing students toward an accounting degree, is the first step to ensuring an adequate accounting workforce. This can lead to a smoother transition with fewer problems. Also, regulatory bodies can benefit from the experience and knowledge located in the private sector. It is important that they retain their independence between the two, but working closely with knowledgeable professionals can alleviate the strain that will be placed on them by helping with technicalities (UNO 2008).

Another useful tool is proper regulation and incentive programs that encourage continuing improvement and compliance. In Kenya, there is an award program that recognizes the entities that rank highest in preparing their financial statements in accordance with IFRS. This helps to recognize common areas of difficulty for companies and firms (UNO 2008). Also, the firms that are recognized get the benefit of a positive perception from both inside the country as well as from the international community. This can lead to increased investment as their statements have been given distinction among their peers. The United Nations also cites auditor peer reviews and oversight programs as being able to recognize common areas of difficulty. These programs can provide useful feedback on common difficulties that need to be addressed by companies or regulatory bodies.

Conclusion:

In summary, developing nations face many difficulties when it comes to accounting reliability and effectiveness. Each country has its own unique challenges and set of circumstances, and there are many different ideas of how to overcome these obstacles. However, a modified IFRS system implemented into these countries can provide the most value and reduce costs if appropriate steps are taken during the implementation as well as continually improved upon.

The benefits of IFRS seem to outweigh the costs and challenges associated with it, but only if it is effectively and efficiently implemented. The surrounding infrastructure needs to be in place for the full benefits to be realized, and a country's legislation and education need to reflect the new standards. These countries must also get help from international bodies to help with the cost and gain additional resources to help with changing to the new standards. IFRS needs to be effectively communicated to all stakeholders, and ample communication is required throughout the entire process. Modifications must be made in instances where the standards put undo burden on businesses, especially when it comes to SMEs. Implementation should also be done gradually, and a 'tiered-approach' is the best approach for this. The need to continually monitor and improve is vital, as well as the need for developing countries to have a voice in IFRS standard setting.

Further research is needed as to the long-term effects of IFRS adoption, and we simply do not know the far-reaching consequences, both good and bad, as IFRS implementation is a recent reality for most nations. We will not know the true outcome of IFRS adoption for many years to come, as well as the effects it will have on those who have adopted it.

References:

"Accounting Standards, Corporate Transparency, and Developing Countries." *Unctad.org*. UNCTAD, 1 Nov. 2012. Web. 2 Apr. 2016.

Albu, Nadia, and Catalin Nicolae Albu. "International Financial Reporting Standards in an Emerging Economy: Lessons from Romania." *Australian Accounting Review* 63rd ser. 22.4 (2012): 341-53. *Researchgate.net*. 23 Nov. 2015. Web. 9 Apr. 2016.

"Analysis of IFRS Jurisdiction Profiles." *IFRS.org*. IFRS, 22 Mar. 2016. Web. 6 Apr. 2016.

Ball, Ray, Ashok Robin, and Shuang Wu. "Incentives versus Standards: Properties of Accounting Income in Four East Asian Countries." *Journal of Accounting and Economics* 36 (2003): 235-70.

Berglöf, Erik and von Thadden, Ernst-Ludwig, The Changing Corporate Governance Paradigm: Implications for Transition and Developing Countries (June 1999). Conference Paper, Annual World Bank Conference on Development Economics, Washington D.C

Chamisa, Edward E. (2000). The Relevance of and Observance of the IASC Standards in Developing Countries and the Particular Case of Zimbabwe. University of Illinois 2000.

"Data: Low & Middle Income." *WorldBank.org*. World Bank Group, 2014. Web. 2 Apr. 2016.

Faraj, Shamsaddeen, and Essa El-Firjani. "Challenges Facing IASs/IFRS Implementation by Libyan Listed Companies." *University Journal of Accounting and Finance* (2014): 57-73. *Hrpub.org*. Horizon Research Publishing Corporation. Web. 9 Apr. 2016.

Gordon, L., Loeb, M. and Zhu, W. 2012, 'The Impact of IFRS Adoption on Foreign Direct Investment', Journal of Accounting and Public Policy , 31 (4): 374–98.

Gyasi, Antwi Kofi. "Adoption of International Accounting Standards." Thesis.

University of Applied Sciences, 2009. *Publications.thesis*. Adebayo Agbejule. Web. 8 Apr. 2013. <https://publications.theseus.fi/bitstream/handle/10024/15526/ANTWI_KOFI_GYASI.pdf?sequence=1>.

Hopper, T., Tsamenyi, M. and Wickramasinghe, D., 2008. Management accounting in less developed countries: What we know and need to know. In: School of Accounting and Commercial Law, *2008 research seminars.* Victoria, New Zealand, 7 March 2008. Victoria: School of Accounting and Commercial Law.

Ionascu, I., Ionascu, M. and Munteanu, L. 2011, 'Motivatiis i consecinte ale adoptarii IFRS: perceptii privind factorii institutionali din mediul romanesc' [Determinants and Consequences of IFRS Adoption: Perspectives on the Romanian Institutional Factors], Audit Financiar, 12: 33–41.

"Jurisdiction Profiles." *IFRS.org*. International Financial Reporting Standards, 22 Mar. 2016. Web. 13 Apr. 2016.

Lasmin, The Unwanted Effects of International Financial Reporting Standards (IFRS) Adoption on International Trade and Investments in Developing Countries (July 26, 2011). Journal of Economics and Economic Education Research, Forthcoming. Available at SSRN: http://ssrn.com/abstract=1895121

Li, S. 2010, "Does Mandatory Adoption of International Financial Reporting Standards in the European Union Reduce the Cost of Equity Capital?", The Accounting Review , 85 (2): 607–36.

Mir, M.Z., & Rahaman, A.S. (2004). The adoption of international accounting standards in Bangladesh: An exploration of rationale and process. *Journal of Accounting, Auditing & Accountability.* 18(6), 816-841.

Miazee, Hossen. "Problems of Implementing of International Financial Reporting Standards in Bangladesh." *European Journal of Business and Management* 6.36 (2014): 174-81. *Www.iiste.org*. Web. 9 Apr. 2016.

Mwaura, Muroki F., and Andrew B. Nyaboga. "International Financial

Accounting Standards and the Continent of Africa." International Business & Economics Research Journal 8.3 (2009): 42. PDF.

Nobes C., Parker R. (2004) Comparative International Accounting. Prentice Hall, 2004. (Page 76)

Polizatto, Vincent P. "Strengthening the Accounting and Auditing Framework." *Worldbank.org*. World Bank, n.d. Web. 13 Apr. 2016. http://www1.worldbank.org/finance/PUBS/POLIZATT/poli001e.htm

Practical Implementation of International Financial Reporting Standards: Lessons Learned. Geneva: UNO, 2008. United Nations, 2008. Web. 6 Apr. 2016.

Ramanna, Karthik, and Ewa Sletten. "Why Do Countries Adopt International Financial Reporting Standards?" *Why Do Countries Adopt International Financial Reporting Standards* (n.d.): n. pag. Harvard Business School, 24 Mar. 2009. Web. 6 Mar. 2016.

Schmid, David, Ralph Martino, and Chen Wu. "IFRS Adoption by Country." (n.d.): n. pag. *Www.pwc.com*. PricewaterhouseCooper, Sept.-Oct. 2015. Web. 7 Apr. 2016.

Tweedie, D. (2005). Setting a Global Standard: The Case of Accounting Convergence. Northwestern Journal of International Law & Business (25), 589-609.

"Updated Income Classification." *WorldBank.org*. World Bank, 7 Mar. 2014. Web. 4 Apr. 2016.

"Use of IFRS by Jurisdiction." *IASPlus.com*. Deloitte, 28 Feb. 2012. Web. 7 Apr. 2016.

Zeghal, Daniel, and Karim Mhedhbi. "An Analysis of the Factors Affecting the Adoption of International Accounting Standards by Developing Countries." *The International Journal of Accounting* (2006): 373-86. *Sciencedirect.com*. University of Ottawa. Web. 3 Apr. 2016.

Zehri, Chokri, and Asma Abdelbaki. "Does Adoption of International Accounting Standards Promote Economic Growth in Developing Countries?" *International Open Journal of Economics* 1.1 (2013): 1-13. *Http://acascipub.com/Journals.php*. Web. 4 Apr. 2016.