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INCONSISTENT APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Vladimir Obradovic*
Faculty of Economics, University of Kragujevac, Kragujevac, Serbia

The transformation of the International Financial Reporting Standards (IFRS) into a single global language of financial reporting is well under way and followed by a problem of their inconsistent application from country to country, with negative consequences for the global comparability of financial statements. Starting from this, the main purpose of this paper is to give an overview of the main causes of the diversity of financial reporting practices between those countries declaring themselves to be the followers of the IFRS, as well as to identify the ways of overcoming this diversity. Applying the qualitative research methodology, it has been found that the flexibility of the IFRS provisions, which is inevitable in many cases, modifications in their incorporation into national regulatory frameworks and the diversity and unequal effectiveness of national mechanisms for their enforcement and the supervision of their implementation stand for the main causes of inconsistent accounting practices. In order to reduce the inconsistency, national financial reporting regulators should increase their engagement and coordination among themselves, and the International Accounting Standards Board should make additional efforts, which should primarily be focused on the global promotion of the fundamental basis of the IFRS.

Keywords: financial reporting, International Financial Reporting Standards (IFRS), International Accounting Standards Board (IASB), inconsistent application

JEL Classification: M41

INTRODUCTION

Under the influence of business globalization, especially the globalization of capital markets, the issue of the globalization of the financial reporting standards has assumed greater importance. Bearing in mind the undisputed belief that „differences in accounting practices act as a barrier to capital flow" (Saudagaran, 2009, 2·34), it is obvious why a single set of high quality global financial reporting standards that would be applied in a consistent manner in all countries of the world is something which „global capital market participants have long been hoping for" (Cabrera, 2008, 36). In recent years, the need for such standards has become particularly noticeable, because they would enable an easy and accurate comparison of the financial position and performance of companies from different countries by investors, creditors and other users of financial statements.

* *Correspondence to:* V. Obradovic, Faculty of Economics, University of Kragujevac, D. Pucara 3, 34000 Kragujevac, Serbia; e-mail: vobradovic@kg.ac.rs

Today, the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) represent the most important and widespread financial reporting standards worldwide and have a great potential to become universal at the global level. The conversion of the IFRS into a single set of global standards is already in progress, which is confirmed by the fact that the number of countries following them is continuously growing, while many countries that still have their own standards (such as the USA) intend, in the near or distant future, to adopt them. Worldwide, the IFRS are regarded as standards of very good quality (Epstein, 2009, 27), i.e. as „a satisfactory global platform with the opportunity for further advances" (PricewaterhouseCoopers, 2007a, 3), while the fact that they have been developed taking into consideration viewpoints from different parts of the world inspires further confidence in them. The IFRS offer great opportunities to improve the transparency and comparability of financial statements globally, with positive effects on the development and integration of capital markets, and global economic growth and development in general. Its setter, the IASB, has managed to acquire the status of the world's most respected institution for the development of financial reporting standards.

However, as a private sector body, the IASB does not have the ability to directly impose its standards on companies because it has no authority over any auditor and preparer of financial statements or regulator of financial reporting (Stevenson, 2008, 34). In this respect, its position is quite different from the position of national standard-setters who operate within a national regulatory framework and have clearly defined authorities. The IASB, therefore, has no other choice but to develop standards as a public good and put them at the disposal of any country or company that wants to adopt and apply them, at the same time encouraging national regulators to accept them, in line with its abilities and influence.

In addition, since the IASB has no direct authority over preparers and auditors of financial statements or national regulators of financial reporting, it is unable to ensure a consistent application of the IFRS in all countries which declare themselves as the followers of the IFRS. It is the very problem of the inconsistent application of the IFRS around the world that has become increasingly noticeable in recent years. Unlike previous decades, when overcoming the differences between national standards was the central issue, nowadays it is the inconsistent application of the same standards – the IFRS – that is more and more often identified as a problem.

Namely, cultural and other environmental factors may result in different interpretations of the same standards and different levels of enforcing those standards in various countries, with negative consequences on the comparability of financial statements (Doupnik & Perera, 2007, 103). Adopting the IFRS in a country is one thing, while their implementation is quite another. The mere fact that a country has adopted the new accounting principles and rules does not guarantee their quick, effective and full implementation, because the „old mentalities and ways of doing things have to be replaced, which might take a generation" (McGee, 2006, 202). With this in mind, the statement that the „convergence of accounting standards may be easier than overcoming the cultural differences and perspectives determining the interpretation and application of the IFRS" (Deloitte, 2008, 4) seems to be quite correct. Without a consistent application of the IFRS, there can be no single global language of financial reporting. Global standards applied in an inconsistent manner are only global in their name (Ernst & Young, 2012, 1).

The research subject of this paper is the diversity of the financial reporting practices of the countries declaring themselves to be the followers of the IFRS, and the main purpose of the research is to give an overview of the main causes and ways to overcome this diversity. In the research process, the following hypothesis shall be tested: The features of the very IFRS, the procedures of their incorporation into national regulatory frameworks and the weaknesses of national incentive mechanisms create a room for diversity in the application of the IFRS worldwide.

The previously formulated hypothesis shall be tested using the qualitative research methodology based on the descriptive analysis. Starting from the relevant literature, which includes a theoretical discussion and the analysis of the specific cases, general conclusions about this problem shall be derived. The method of induction will have particular importance, because, using this method, general conclusions about the characteristics of the IFRS shall be drawn on the basis of the provisions of individual standards; on the other hand, general conclusions about the shortcomings of the mechanisms of converting the IFRS into national standards and the mechanisms to ensure their consistent application shall be drawn, based on the examples of some countries. The method of comparison, based on the comparison of the features of the regulatory regimes and financial reporting practices of different countries, will also be used in the paper.

The following three sections of the paper are devoted to the main causes of variations in the financial reporting practices of the countries following the IFRS. The room for variations in practices, which is left by the flexibility of the IFRS themselves, is the subject of consideration in the first section; the factors of the occurrence of the national versions of the IFRS are considered in the second section, while the weaknesses of national incentive mechanisms are the subject of consideration in the third section. The fourth section, being the last one in the paper, points to the possibilities of reducing variations in the application of the IFRS.

THE FLEXIBILITY OF IFRS

The IFRS are flexible by their nature and, as such, leave considerable room for a choice of accounting practices. The factors of an inconsistent application of the IFRS in practice associated with the characteristics of the IFRS themselves are (Nobes, 2013, 91-93):

- gaps in the standards,
- open options in the standards,
- hidden options in the standards and imprecise criteria for the recognition of the elements (items) of financial statements, and
- the need for a judgment in measuring financial statement items.

Although the IASB continually develops new standards and improves the existing standards in accordance with changes in business practice, certain gaps in standards, in terms of the lack of solutions to some specific accounting problems, are practically impossible to avoid. The IASB itself is aware of it, and, in its standard dedicated to the accounting policies, changes in accounting estimates and errors (IAS 8), points out that, in the absence of standards or interpretations dealing with a specific transaction or event, the preparers of financial statements should use their judgment and rely on other (national) standards and interpretations devoted to similar problems, and the IASB's conceptual framework.

An example of a standard that makes considerable room for a wide range of accounting practices is IFRS 4 (Pacter, 2013, 55), which only deals with the general issues of accounting for insurance contracts, without offering solutions to all the problems in this area. Additionally, IFRS 6 leaves plenty of room for different solutions to the accounting problems occurring in the oil and gas industry.

Coping with gaps in the IFRS, the preparers of financial statements may decide to continue with a long-term national tradition, i.e. a tradition established prior to the adoption of the IFRS. In any case, they have a maneuvering space that could have negative consequences for the global comparability of financial statements. National regulators could also fill the gaps in the IFRS by creating standards that would supplement the IFRS. That is exactly what the Australian standard setter did by releasing its own standard dealing with some issues of insurance contracts not addressed in the IFRS, as well as with other issues specific to the national environment (PricewaterhouseCoopers, 2010, 141). A possibility that national standard setters around the world solve the problems the IASB has not addressed in different ways poses an additional threat to the global comparability of financial statements.

One of the important features of the IFRS is the existence of open options, i.e. different possibilities for the accounting treatment of the same accounting problems, which is an important source of differences in the practical application of the IFRS around the world. The typical examples of situations in which the current IFRS offer options are determining the value of end inventories and the cost of inventories disposed, where the choice between the FIFO method and the average cost method is allowed, and the measurement of property, plant, equipment and certain intangible assets after the initial recognition, where a choice between the historical cost model and the fair value model is allowed. When making a decision on the choice of a particular method from a set of offered methods, the tradition established before the adoption of the IFRS comes to the forefront again. For example, based on the rooted tradition, it can be expected that British companies will be using the FIFO method of accounting for inventories, and German companies will be applying the average cost method (Nobes & Parker, 2010, 160-161).

Generally speaking, the number of open options in the standards has a declining tendency (Alfredson *et al*, 2007, 33) due to the gradual elimination of the previously established options. However, the development of the IFRS makes new options emerge, and the most recent example is an increase in the number of the options for measuring investments in subsidiaries, associates and jointly controlled entities in separate statements after changes to IAS 27, made in August 2014. Namely, the third option – measurement using the equity method – was added to the two already available options (measurement at cost and measurement at fair value) (Deloitte Global Services Limited, 2014).

A specific category of open options is a set of options offered by IFRS 1, which deals with the problem of companies' transition from national standards to the IFRS. Among other things, this standard allows preparers of financial statements to choose between the revaluation of goodwill and taking its previous amount (i.e. the amount determined by the pre-existing national standards) without any revaluation, in the preparation of the first statements based on the IFRS. As national standards significantly differ in terms of accounting for goodwill and as the first financial statements based on the IFRS represent a starting point for a series of subsequent statements, it is clear that the options related to the amount of goodwill in the first statements based on the IFRS may have a negative impact on the global comparability of financial statements in the long term.

Another specific category of open options is one stemming from the flexible effective dates of new or revised standards. Namely, when publishing each standard, the IASB determines its effective date, in the form of the statement that „an entity should apply the standard for annual periods beginning on or after January 1, 20XX", whereby companies (entities) are usually allowed to apply it before the established deadline. For example, the IASB replaced IAS 14 with IFRS 8 at the end of 2006. The effective date for IFRS 8 was 1 January 2009, but there was also a possibility of an earlier adoption. This practically means that two different standards dealing with the same accounting problem (segment reporting) – IAS 14 and IFRS 8 – existed simultaneously in 2007 and 2008, and it was possible for companies to apply either of them. At the beginning of 2007, the IASB revised the standard dedicated to borrowing costs (IAS 23), with 1 January 2009 as the labeled effective date of the revised version of the standard and a possibility of an earlier application, which means that the two versions of the same standard coexisted until the mentioned deadline. Flexible deadlines for adopting standards have essentially the same effect as the options in the standards themselves. Although the period of the coexistence of two alternative standards or two versions of the same standard (the old and the new ones) does not last long (no more than 2-3 years), the continual creation and improvement of standards bring new cases of coexistence and, therefore, generate new sources of differences in the practical application of the IFRS not only globally but also at the level of one particular country.

In addition to open options, the IFRS contain many hidden options and imprecisely defined criteria for the recognition of the elements of financial statements (assets, liabilities, revenues and expenses), which further increases a possibility for preparers of financial statements to make a choice. Analyzing the IFRS effective in 2013, C. Nobes (2013, 95) identified a large number of the situations in which preparers of statements face hidden options or imprecise criteria for recognition. Some of these examples, updated in accordance with the subsequent changes to the IFRS, are:

- the determination of the materiality (significance) of certain items (IAS 8);
- the classification of leases as finance and operating depending on whether there is a transfer of „substantially all the risks and rewards" from the lessor to the lessee, without numeric criteria (IAS 17);
- the determination of the functional currency (IAS 21);
- the identification of subsidiaries on the basis of the „power to govern" (IFRS 10), of associates on the basis of the „significant influence" (IAS 28) and of joint ventures on the basis of the „rights to the net assets of the arrangement" (IAS 28);
- the recognition of provisions based on the „probability of an outflow of resources" (IAS 37); and
- the capitalization of development costs (IAS 38).

The above-mentioned situations as well as a number of other unmentioned ones are the unavoidable consequences of the nature of accounting, which makes it impossible for standards to provide an answer to each possible question. They also result from the IASB's quite a correct orientation towards the principles-based standards, which are based on the position that the purpose of standards is to define the space given to accountants to make decisions within, i.e. to exercise their judgments that remain an integral part of accounting and financial reporting. Since the IFRS do not contain clear and precise criteria for the accounting treatment of a number of transactions and events, it is essential that preparers of financial statements perceive their economic substance and decide on the proper treatment on the basis of their judgments. The manner in which preparers of financial statements interpret the economic substance of transactions and events largely depends on the environment in which they live and work, that is, on the values of the society which they belong to. For example, there is a study revealing that, under the influence of differences in cultural values, German accountants interpret the word „probable", which is common in the IFRS, with more caution than U.S. accountants (Doupnik & Richter, 2004, 1-20).

Accounting judgments are not only related to the recognition of the positions of financial statements, but they are also of utmost importance in determining their values on the basis of the IFRS. In fact, in all situations where exact and objective criteria for measuring do not exist, accountants' reasonable judgments are the only solution, wherein accountants from different countries exhibit different preferences, under the influence of the respective culture, tradition and tax regulations.

The depreciation of property, plants and equipment is the area in which the need for judgment is clearly visible, especially in the determination of the useful life, the estimation of the residual value and choosing the method of depreciation. Analyzing the depreciation practices of the European countries, C. Nobes and R. Parker (2010, 163) point out that British companies traditionally tend to have simpler depreciation regimes, which involves the application of the straight-line method, the residual value equal to zero and the useful life of 10 years, while, under the influence of tax regulations, companies in some countries of the continental Europe, traditionally utilize the accelerated depreciation method, with a tendency towards a shorter useful life. Determining the fair value of assets and liabilities also involves judgment and is considered to be a very sensitive area of financial reporting. In addition, the net realizable value of inventories, the amount of the impairment of property, plant and equipment, and the values of provisions are inevitably the subjects of estimation.

The estimated amounts in financial statements of companies from one country depend on whether the preferences for conservatism or optimism have the dominant role in that particular country. For example, if there is a prevailing tendency towards conservatism, it is more likely that companies will choose the accelerated method of depreciation, with a shorter useful life and a lower estimated residual value, and that they will measure provisions in higher amounts.

Based on the previous observations, it can be concluded that, on the one hand, the IFRS make progress in increasing the international comparability and consistency of companies' financial statements, whereas on the other, they allow financial reporting in each country to simultaneously keep national colors, i.e. to still bear the stamp of the previous national standards. That fact is clearly reflected in the results of one empirical study focusing on the 16 accounting issues regarding which the IFRS permit variations, and where international differences existed before the adoption of the IFRS by the countries which the observed companies originate from. The study shows that the differences remained even after the transition to the IFRS, i.e. the companies kept their national traditions (Kvaal & Nobes, 2010). The second study, focusing on the 26 open (explicit) options offered by the IFRS, reveals that the country of domicile and its previous financial reporting standards have the greatest impact on companies' accounting choices (KPMG & von Keitz, 2006).

NATIONAL VERSIONS OF IFRS

In addition to the characteristics of the IFRS themselves, i.e. many open questions, the final answer to which should be given by preparers of financial statements, there is significant room for differences in the accounting practices of the companies following the IFRS is created during the incorporation of the IFRS into such countries' regulatory frameworks of financial reporting. The lack of the direct authority of the IASB has led to the fact that in some countries a modified version of the IFRS is applied instead of their original version published by the IASB (Alali & Cao, 2010, 79). In other words, in addition to the original IASB's version, there are also national versions of the IFRS, which, to a greater or lesser degree, deviate from the original one.

After the consideration of the relevant literature (IFRS Foundation, 2014; Nobes, 2013, 89-90; Nobes & Parker, 2010, 158-159), it can be concluded that the most important reasons for the emergence of the national versions of the IFRS are:

- the modification of the IFRS provisions by the national regulator;
- a delay in the incorporation of the new or amended standards or a delay in their implementation; and
- mistakes in the translation of the IFRS.

Many countries adopt the IFRS in an indirect way, by transferring them into their own standards, with a more or less complicated procedure of approval by the applicable regulatory authority, which can be national (such as, for example, in Australia), or common for a group of countries (as it is the case of the European Union countries). In addition, the IASB's standards can be incorporated into a national regulatory framework without any modifications, which is most often the case, or modified in a certain manner in order to adapt to specific circumstances.

In some cases, such modifications only refer to the elimination of some options for the accounting treatment. For example, when incorporating the IFRS into Brazil's regulatory framework, the provisions allowing for the periodic revaluation of financial statements' positions were deleted (IFRS Foundation, 2014). The elimination of some options leads to deviations of national standards from the IFRS; however, it cannot be said that companies consistently complying with national standards derogate from the IFRS.

However, a much more serious problem for the global comparability of financial statements arises if a country or a group of countries substantially modifies the provisions of the IFRS, as the European Union did with the provisions of IAS 39. Namely, the IASB revised IAS 39 in 2003 and 2004, which caused strong reactions in the EU, while the major objections were related to the accounting treatment of financial derivatives and hedging, and expanding the use of the fair value for the purposes of measuring financial assets and liabilities in comparison with the previous version of the same standard (Armstrong *et al*, 2010, 34-35). The above-mentioned objections resulted in the adoption of a modified version of IAS 39 by the European Commission (EU) in November 2004, whereby the modifications relate to the elimination of the controversial provisions regarding hedge accounting and the use of the fair value. These modifications made the version of the IFRS followed by the companies from the EU different from the original, i.e. the IASB's version. Later, under the pressure of the EU, the IASB revised IAS 39 once again and limited the use of the fair value only to the situations in which it can reliably be measured. The EU adopted the changes, thereby eliminating a significant difference between the original version of IAS 39 and the version of the same standard applied at the EU level.

Taking into consideration the previously mentioned facts, it is clear that the process of incorporating the IFRS into the EU regulatory framework effectively created the new - EU - standards (Tokar, 2005, 49). A favorable circumstance is that the differences between the original version of the IFRS and their versions applied by the EU companies do not really have a great practical importance, as the differences refer to the financial reporting of only a small number of companies (Pacter, 2014, 8).

The process of incorporating any new or revised standard and interpretation into the national regulatory framework is carried out differently from one country to another and has a different length. If a country does not adopt a standard or an interpretation in time, i.e. by the date the IASB marked as the effective day, there will be differences between the version of the IFRS followed in that particular country and the version followed in other countries that have completed the adoption process in time.

The Republic of Serbia (RS) belongs to those countries that have not harmonized their own financial reporting regulation with the IFRS in a sufficiently timely manner so far. Namely, the first official translation of the IFRS, including the conceptual framework and all the International Accounting Standards (IAS) but not the respective interpretations, was published in December 2003. The translation of IFRS 1 was published in January 2004; after that, there was a four-year break in the publication of the translations, during which period the IASB published six new standards entering into force in the same period (IFRS 2-7) and also revised a significant number of the existing standards (for example, in December 2003, the IASB amended IAS 2, abolishing the possibility of using the LIFO method for inventory accounting, while the revised standard came into force on 1 January 2005). Due to the lack of the activity in publishing the official translations of the new and revised standards by the authorized regulatory bodies, the version of the IFRS applied by companies in RS was significantly different from the original version. In February 2008, the new translations of the IFRS were finally published, replacing the translations of 2003 and 2004. For the first time, the translations of the interpretations were published together with the translations of the standards; yet, there was no translation of the supplementary materials (the basis for conclusions, illustrative examples, guidelines, comments and opposing views), which can be considered as a disadvantage, because the listed appendices would facilitate the understanding and implementation of the standards. In this regard, the translations of 2008 are a step backwards compared to the translations of 2003, which included the additional materials (appendices). The next version of the IFRS translations was published in October 2010, while the latest version was published in March 2014. If we take into account the fact that the IASB's standard dedicated to small and medium-sized entities, adopted in 2009, was not incorporated into the regulatory framework of RS until 2013, which means that the companies which the standard refers to (i.e. companies without public accountability) did not have an opportunity to use a simpler version of the IFRS and decrease the cost of the preparation of their financial statements, it is clear that the past activities in updating the financial reporting regulatory framework of Serbia in accordance with the IFRS changes could not be evaluated as satisfactory. So far, the publication of the official translations of the IFRS has generally run late, which means that the version of the IFRS applied in RS has generally been different from the IASB's version. It should be added that the bylaw act brought in 2009 permitted Serbian companies to use the accounting treatment that is not consistent with the provisions of IAS 21 dealing with foreign currency transactions (Bogicevic, 2013). This option was in effect until September 2014. Moreover, the National Bank of RS requires from financial institutions to apply the accounting procedures not fully compatible with the requirements of the IFRS.

The timely adoption of new or amended standards does not automatically guarantee the timely beginning of the application of the same, as the national regulator may allow companies (all or some of them) to postpone the beginning of the application for a specific time. For example, the application of the six standards has been delayed in Taiwan (IFRS Foundation, 2014).

The translation of the IFRS from English, as the language of their original and official version, into other languages inevitably involves the risk of changing their meaning. In fact, the full equivalence of any text translation and its original version is not easy to achieve, while the risk of not conveying the meaning of the original text increases with the number of technical terms used. The IFRS contain a significant number of technical terms, which are often difficult to translate adequately. A particular problem is the provisions of IFRS that contain new concepts or deal with problems that are not fully understood or are even completely unknown in many national cultures. Even the most accurate translation of these provisions does not guarantee a complete transfer of their essence and logic. Therefore, a situation might occur, where the words, but not the concepts, may be understood (Zeff, 2007, 296).

The following three examples clearly show the extent of discrepancies in the translations of the original IFRS provisions.

According to the original version of IAS 41, an unconditional government grant related to a biological asset should be recognized as income when the company acquires a receivable on that basis, while according to the translation of the same standard into the Norwegian language, published in 2006, the recognition of income is related to the moment of a cash inflow on the basis of the grant.

In the original version of IAS 7, cash equivalents are defined as investments with a „short maturity of, say, three months", as a result of the IASB's attempt to avoid the formulation of a rigid rule. However, in the Portuguese translation, the word „say" is omitted, which turned a flexible principle into a strict rule. Therefore, in Portugal, it is harder to defend the position that an investment with a maturity of slightly more than three months is essentially a cash equivalent compared to any other country where the translation is correct.

According to the original version of IAS 19, the discount rate for pension liabilities is determined on the basis of interest rates on corporate bonds, while according to the German version of the same standard, it is determined on the basis of interest rates on industrial bonds, which are a subcategory of corporate bonds (Nobes & Parker, 2010, 159).

The analysis of jurisdiction profiles (which are mostly, but not always, consistent with independent countries), created between June 2013 and September 2014, and published on the website of the IFRS Foundation (the entity responsible for managing, monitoring and financing the IASB), reveals that there are a significant number of jurisdictions in which the IFRS have been modified in some way. Out of the 127 analyzed jurisdictions, where at least some companies are required or permitted to use the IFRS, in 53 jurisdictions (42%), a version different from the current IASB's version is applied due to the modifications of the IFRS provisions, delays in the incorporation of the new or amended standards, or delays in the implementation of some standards or interpretations. In three jurisdictions, the modifications only refer to the elimination of the options offered by the IFRS. The most analyzed jurisdictions in which the modified versions of the IFRS are applied (28) belong to the European Union. Modifications were also made when incorporating the IFRS for Small and Medium-Sized Entities in certain national regulatory frameworks, although to a lesser extent. Out of the 77 analyzed jurisdictions in which the use of the IFRS for Small and Medium Sized Entities is required or permitted or in which it served as the basis for the development of national standards for small and medium-sized entities , they have been modified in ten (13%) of them (IFRS Foundation, 2014).

UNEQUAL EFFICACY OF INCENTIVE MECHANISMS

A strict application of the IFRS by companies around the world, and thus an increase in the global comparability of financial statements, cannot be achieved without effective incentive mechanisms, i.e. the systems encouraging their use, whose construction is under the exclusive auspices of national regulators. These are the mechanisms that include an obligation to audit companies' financial statements, the supervision of auditors by relevant authorities, and the sanctioning of any violation of laws and standards. Based on this, an unequal efficiency of incentive mechanisms could be an important source of differences in the practical application of the IFRS globally, and could also cause an uneven quality of financial reporting in different countries, which is maybe more dangerous. Moderate or inefficient incentive mechanisms allow companies to deviate from the provisions of the IFRS with impunity, making their financial statements incomparable with the statements of the companies from the countries in which the IFRS are strictly applied.

In this respect, the results of one empirical study, based on Egyptian companies' disclosures after transition to the national standards based on the IFRS, could be interesting. The research has shown that the companies were less willing to comply with the provisions of the new standards which were relatively unknown to them (Abd-Elsalam & Weetman, 2003, 63-84). These results confirm the importance of effective incentive mechanisms, which should ensure strict compliance with all the provisions of the IFRS.

Another study, focusing on the quality of information on the impairment of assets in the financial statements of European companies for 2010 and 2011, reveals that the degree of compliance with the provisions of the IFRS regarding the disclosure of impairment varies from one country to another, indicating an uneven application of the IFRS. The same research finds that high-quality reporting on the impairment of assets is characteristic of companies operating in a more solid institutional and regulatory environment, as is the case with companies in the UK and Ireland, while, in contrast, information on impairment provided by companies in countries with weaker regulatory control are of a lower quality. Additionally, companies in countries with strong incentive systems show a greater degree of timeliness in the recognition of impairment losses on assets than companies in countries with weaker incentive systems (Amiraslani, Iatridis & Pope, 2013, 2).

OVERCOMING DIFFERENCES IN PRACTICAL APPLICATION OF IFRS

In the opinion of many, the different manners of applying the IFRS throughout the world represent „a significant challenge to the adoption of the IFRS as a truly global reporting model" (Securities and Exchange Commission, 2010, 10). Differences in the economic, legal and cultural environment are highlighted as the key obstacles to the consistent application of the IFRS. The insufficient knowledge of the IFRS and the inadequate level of the understanding of their potentials in certain countries as well as the widespread resistance to changes are important obstacles as well.

A situation when a multitude of the national versions of the IFRS exist could be even more dangerous than a situation when each country follows its own standards. When investors (and other users of financial statements) know that each country follows its own standards, as was the case in the past, they adapt their behavior in terms of studying foreign accounting systems, requesting a higher return rate on the basis of a higher expected risk or the cancellation of foreign investment. However, if all countries identify themselves as the followers of the IASB's standards, while each follows its own version of the IFRS, applying various procedures of auditing and the supervision of the implementation of such standards, investors can be misled regarding the comparability of the financial statements of companies from different parts of the world and, therefore, make wrong decisions. They may conclude that the financial statements of companies from different countries are comparable, although they are not comparable indeed, and may abandon their attempt to transform the statements to a comparable basis.

Reacting to the modifications of the IFRS in their incorporation into national regulatory frameworks, the International Organization of Securities Commissions (IOSCO), in its document published in

2008, recommends that companies should provide clear and precise information about the standards used as the basis for the preparation of financial statements in order to facilitate their understanding by investors. However, the IOSCO recommendations cannot be considered as a long-term solution. The only correct long-term solution is the incorporation of the IASB's standards into national regulatory frameworks without any modification (Willemain, 2008, 1).

The IFRS Foundation has also recognized the dangers of the inconsistent application of the IFRS. In a document from 2012, which outlines its own strategy for the ten-year period, the IFRS Foundation emphasizes that countries opting for the application of the IFRS should avoid „creating national or regional variants of IFRS" (IFRS Foundation, 2012, 12), and that any incomplete application of the IFRS should be clearly indicated, which is similar to the recommendation of IOSCO. According to the IFRS Foundation, the IASB's contribution to increasing consistency in the application of the IFRS should consist of a publication of clear, understandable and applicable standards, providing guidelines for implementation as well as illustrative examples for understanding and the consistent implementation of the standards if necessary, and cooperation with national regulators and other stakeholders in order to identify the areas in which differences in the practical application of the IFRS between countries are present, and to improve the standards or the interpretations addressing these areas (IFRS Foundation, 2012, 5-6).

On the other hand, all stakeholders (preparers, auditors and analysts of financial statements, national regulators and others) should actively be involved in the process of creating new or revising the existing standards, through their comments on the IASB's proposals, and, if necessary, should require the IASB to clarify the standards. This would prevent differences in the interpretation of standards (Ernst & Young, 2012, 8).

An important role the IASB has in making efforts to overcome differences in the practical application of the IFRS, and in particular differences of judgments caused by cultural factors, should be that of the conceptual framework for the IFRS, which, in fact, is „the IASB's statement about its own accounting culture" (Whittington, 2008, 497). To achieve true accounting convergence, it is necessary that the conceptual framework, which so far has primarily been aimed at ensuring the consistency of the standards and providing guidelines for situations not covered by the standards, should gain a new role of the promotion of the fundamental basis of financial reporting in a manner that overcomes the existing cultural differences between countries. The process of the conceptual framework reform, which is well under way and whose essence reflects in the review and modification of that fundamental basis, is a good opportunity to move the framework closer to interested parties around the world through their involvement in the reform process and by respecting their needs and interests. The reform of the conceptual framework, as one of the most important segments of the project of convergence between IFRS and U.S. Generally Accepted Accounting Principles (GAAP), should provide an opportunity for those who did not participate in the creation of the previous version of the framework (such as many EU countries) to express their views. Therefore, in order to achieve greater uniformity in financial reporting practices at a global level, the formal acceptance of the IFRS by national regulators should be followed by achieving as great a degree of a global consensus on the fundamental principles embedded in the framework as possible. The IFRS conceptual framework should promote the objectives, assumptions and fundamental principles of the IFRS worldwide, thus helping to better understand their philosophy and harmonize judgments from country to country.

It is impossible to achieve a consistent quality of the audit of financial statements on the global scale as a prerequisite of the consistent application of the IFRS without a single global set of auditing standards, which are being under construction. The International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC) stand for the basis of the process of the global convergence of the auditing standards in the same way that the IFRS are the basis of the global convergence of the financial reporting standards. In addition to the harmonization of the auditing standards between countries, it is very important to harmonize the standards of professional ethics which accountants and auditors adhere to, and it is necessary to build an effective and globally harmonized system of licensing auditors, control and disciplining, so that investors could have absolute confidence in financial statements prepared and audited in different countries (Willemain, 2008, 2). Finally, there should be high-quality and consistent systems for educating accountants.

It is clear that a ultimate success in increasing the consistency of the IFRS application primarily depends on national financial reporting regulators, i.e. their willingness to consistently (without modification) incorporate the IFRS into their national regulatory frameworks and ensure the strict implementation of the same. National regulators also need to refrain from publishing their own IFRS interpretations and guidelines. Instead, in the case of any doubt or disputed issues, they should consult the IASB.

The reform of the worldwide regulatory environments, as a prerequisite of the ultimate success of the process of the global convergence of the financial reporting standards, is a long-term and challenging process (PricewaterhouseCoopers, 2007b, 4). Financial reporting regulators around the world need to work together in order to prevent occurrences of significant differences in regulatory environments.

The problem of national variations in the IFRS application could partially at least be overcome through the global supervision of the IFRS application. Thanks to global supervision, users of financial statements would be able to learn whether companies from a country declaring itself to be a follower of the IFRS truly apply all their provisions or not. Under conditions of global supervision, countries themselves would be interested in a consistent and timely adoption and strict implementation of the IFRS because putting a country on the list of those that do not strictly follow the IFRS would make it harder for their companies to attract foreign capital and would also have a negative impact on its international image. In recent years, the IASB has undertaken activities in this field by publishing jurisdiction profiles, in which, among other things, it specifies the areas where the national versions of the IFRS differ from the original version and explains the procedures of the national regulatory framework harmonization with the changes in the IFRS, including the translation of the IFRS.

CONCLUSION

The adoption of the IFRS by many countries in the world globally contributed to the harmonization of accounting practices. However, the research conducted in this paper has shown that a single global accounting practice is still far from reality, i.e. the characteristics of the IFRS themselves, the procedure of their incorporation into national regulatory frameworks and the weaknesses of national incentive mechanisms create a room for diversity (variations) in the application of the IFRS, thus confirming the main hypothesis of the study. Today, as a result of weaknesses and inconsistencies in the procedures of the incorporation of the IFRS into national regulatory frameworks, instead of a single version of the IFRS, there are a significant number of their nationally colored versions worldwide.

The key contribution of the paper reflects in identifying the causes of variations in the application of the IFRS, using the three-layer model based on dividing the causes to those related to the characteristics of the IFRS themselves, those related to the process of the incorporation of the IFRS into national regulatory frameworks, and those related to the implementation of the adopted IFRS (in the original or a modified form) at the national level. The contribution is also visible in pointing out the main activities to be undertaken in order to overcome the above-mentioned variations and the key actors to implement them – the IASB and national regulators. In addition to this, the paper highlights the need for the globalization of the financial reporting standards to be followed by the globalization of the auditing standards and the procedures for the supervision of auditors by the authorized government bodies as well as the need for the education and training of accounting professionals due to the fact that the lack of an adequate effort in any of these areas can significantly counteract the efforts made in establishing the global financial reporting standards. The idea of the establishment of the global supervision of the application of the IFRS is also discussed.

The analysis of the activities in the updating of the financial reporting regulatory framework in the Republic of Serbia in accordance with the development of the IFRS, together with the general remarks on the ways how to overcome the variations in the application of the IFRS, suggests opportunities for improving the implementation of the IFRS in RS in the future. The Serbian financial reporting regulators should take care of the up-to-date translation of all the relevant IASB documents, with a continuous review and improvement of the translation quality, and should continuously strengthen mechanisms for disciplining auditors. Also, the national regulators should strive to refrain from adopting the regulations that would modify the provisions of the IFRS, wherein any modifications should only be made in a case of an extreme necessity. The accounting profession should work on the continuous improvement of training programs for accountants, with an emphasis on the proper understanding of the conceptual foundation of the financial reporting based on the IFRS. To the extent possible, regulators and the accounting profession should actively be involved in the development of the IFRS, primarily by their being allowed to make comments on drafts of the standards and interpretations and, should there be any dilemmas regarding the provisions of the already adopted IFRS, by their addressing the IASB.

The research in this paper is mainly focused on the estimation of the room for national variations in the application of the IFRS, which is also the major limitation of the paper. Therefore, the actual variation in the financial statements of companies from different countries declaring themselves to be the followers of the IFRS could be the subject of future research in this area. Taking into consideration the fact that special attention in the paper is paid to the incorporation of the IFRS into Serbia's regulatory framework, the comparability of the financial statements of the Serbian companies with the financial statements of companies from the other countries that have adopted the IFRS and the problems that RS accountants face in applying the IFRS are also the potential subjects of future research.

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Vladimir Obradovic is an Assistant Professor at the University of Kragujevac – the Faculty of Economics, where he has obtained his doctor's degree. He teaches the following courses: Financial Reporting, Special-purpose Financial Statements, and International Financial Reporting in the Specific Scientific Field of Accounting, Auditing and Business Finance. His scientific interests are primarily related to the international aspects and standards of financial reporting.