Why adopt International Financial Reporting Standards (IFRS) 2/30/20

Although the global economy is undergoing significant transformation as a result of Covid-19, capital keeps moving across borders and investors are still interested in investing. In these uncertain times, investors are particularly keen to maximise the diversification of their investments in order to mitigate the consequences of the financial crisis.

Historically, each country has developed its own bookkeeping and accounting standards according to its local customs, mentality, and past events. This diversity of accounting principles often makes it difficult for international investors and organisations to understand the financial indicators and accounting methods chosen by companies coming from different countries, which raises the price of pre-acquisition investment valuations and increases the complexity of consolidating companies already acquired.

IFRS partially address this issue, as they are international standards intended for international markets and they help investors make faster economic decisions and easier comparisons between investment alternatives through uniform principles of accounting, measurement, and disclosure. Like any accounting method, IFRS have their advantages and disadvantages, as explored below.

Advantages of adopting IFRS

- IFRS are internationally recognised guidelines that make transactions more transparent, allowing companies to apply uniform accounting principles and methods regardless of the country they operate in.
- Adopting IFRS makes your company data more comparable with other multinational companies in your industry.
- IFRS help investors make informed economic decisions by making different companies comparable under uniform accounting principles.
- Along with investors' ability to make decisions, adopting IFRS promotes international investors' interest in investing in the particular country and increases the inflow of foreign capital.
- In the case of multinational enterprises, adopting IFRS minimises the time and money it takes to prepare various statements, as all the statements are prepared under uniform principles.
- IFRS offer very detailed interpretations on a considerably wider range of issues than, for example, the Latvian Company and Consolidated Accounts Act, as IFRS have been developed over several years and they deal with many complex topics. This allows users of IFRS to access considerably more details of accounting requirements and methods as well as their interpretations.

Undesirable consequences of adopting IFRS

- First-time adoption of IFRS causes companies to incur extra expenses in aligning their existing accounting principles with the new ones.
- When adopting IFRS, finance professionals and accountants have to acquire new expertise, spending both time and money on training, as the language used in IFRS is quite complicated and their updated versions are usually available in the English language.

- IFRS permit the use of many accounting estimates, which dishonest operators may exploit in order to brighten up their financial position and actually deceive investors.
- Adopting IFRS also demands additional expertise from auditors and supervisory authorities, as they have to be aware of IFRS requirements and evaluate assumptions made by company management and accountants to ensure they conform to facts.
- Adopting IFRS increases the workload of company accountants in terms of preparing and filing financial statements, and the company may need to involve some of its other functions as well as accountants in preparing its financial statements.
- In Latvia, only a small number of companies are permitted to adopt IFRS in preparing their financial statements, while other companies are subject to the requirements of the Company and Consolidated Accounts Act. Thus, for example, an average unlisted company wishing to prepare its financial statements according to IFRS would have to simultaneously prepare its statements according to the Company and Consolidated Accounts Act, a duplication of financial reporting work.

Things to do before adopting IFRS and things to consider in future

Before adopting IFRS, every company should assess whether this move will have more advantages than disadvantages. We note that globally, listed companies are required to adopt IFRS in 144 countries, while 12 countries permit their adoption as good practice, according to a survey conducted by IFRS Foundation. Many countries permit IFRS as reporting standards, and Latvian companies are increasingly taking the option available under the Company and Consolidated Accounts Act to measure certain financial items according to IFRS.

PwC’s Academy provides training on specific IFRS aspects and runs regular courses on IFRS developments. We are ready to help you navigate through the first-time adoption of IFRS and prepare your financial statements according to IFRS, as well as explaining specific IFRS aspects applicable to your business. Please feel free to contact us.