SHEPHERDING INTO THE EPOCH OF COMMUNICATING WITH STAKEHOLDERS: NEED TO EMBRACE THE ADOPTION OF IFRS IN OMAN

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ABSTRACT

Although the sway of cross-border trading activities and flow of capital is currently being countersigned around the globe, and the supplication for the espousal of International Financial Reporting Standards (IFRSs) is becoming increasingly evident, IFRS refers to a single set of accounting standards to assist corporates to communicate, and various stakeholders to compare financial and accounting information across the globe. In accordance with directives from Capital Market Authority of Oman, Central Bank of Oman and Tax Authority of Oman, IFRS are required to be applied by all corporates in Oman. This paper aims to provide an explanation and emphasizing the essential to adopt International Financial Reporting Standards in selected jurisdictions which guide the corporates to disseminate accounting and financial information to the various users and stakeholders around the world. The main purpose is to ease the comparability analysis amongst the corporates. The concluding observation is premeditated in such an approach which contributes and impart hypothetical knowledge to professional practice and provides future prospects for further research.

Keywords: IFRS, Accounting Standards, Capital Market Authority of Oman, Central Bank of Oman, Tax Authority of Oman.

INTRODUCTION

International Financial Reporting Standards, IFRS, is a common set of high quality accounting standards which guide the corporates to disseminate accounting and financial information to the various users and stakeholders around the world. The main purpose is to ease the comparability analysis amongst the corporates. Presently more than 120 countries have already adopted the use of IFRS.

In the year 2005 Australia, South Africa, and European Union it has become obligatory for the corporates, listed and traded in the respective capital market, to espouse IFRS while preparing their financial statements. South Korea, Canada, and Japan has decided to adopt IFRS in the beginning of 2011

In 1970, the inauguration of His Majesty Sultan Qaboos put in set his vision of how to establish a stable country economically. Since 1986, Oman is mandatory in using International Financial Reporting Standard for all the listed companies except for Islamic Institutions, which still are not required to use it. After the establishment of the Capital Market Authority, CMA, in the year 1998 and the Disciplinary Committee in the year 1999 it has become compulsory for

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corporates to adopt the International Accounting Standards. The Central Bank of Oman relies on independent auditors to check compliance of finance and investment companies with international accounting standards and surveillance department of capital market authority is responsible for all other companies. Moreover, International Financing Reporting Standards, IFRS, for Small and Medium Enterprises, SMEs, is prohibited and although there has been some initiative from the CMA to introduce the same, it has yet to undergo the Royal Decree. IFRS 9 is introduce in the year 2010 to replace IAS 39 and will be implemented from January 1, 2013. The adoption of phase 1 allowed the companies to report the financial information for the period ending December 2009.

The primary role of Capital Market Authority is to supervise the capital market and insurance sector in the Sultanate of Oman. Apart from that CMA is responsible to:

1. Regulates, Licenses, and monitor the issuance of securities,
2. Supervises public shareholding companies,
3. Supervises audit firms ascribed to audit the financial statement of the corporates regulated by CMA,
4. Develops and reviews legislation relating to capital market law, which gratifies the use of IFRS.

The commitment of corporate community to follow the IFRS made the jurisdiction in support of moving towards a single set of high quality global accounting standards. The commitment of the Sultanate of Oman to IFRS has been made in various legislation adopted in the Sultanate. The main objective of the present study is to assess the impact of IFRS adoption on various financial Activities of corporate sector in the Sultanate of Oman.

RESEARCH METHODOLOGY AND LIMITATIONS

Research Problem

The paper discusses how provide an explanation and emphasizing the essential to adopt International Financial Reporting Standards in selected jurisdictions which guide the corporates to disseminate accounting and financial information to the various users and stakeholders around the world (AICPA, 2008).

Collection of Data

The study is based upon secondary data, and mainly based upon literature reviews, that have collected from various sources. Literature review is more relevant tool as a research method for an exploratory research because designing a research on existing knowledge will be a building block for academic research.

Several research journals including research papers and articles have been used by the researcher. Additionally, various reports, websites and books have been referred during the study. The data collected is mainly secondary in nature.

Objectives of the Study

1. To examine the traditional approach; GAPP of communicating with stakeholders.
2. To determine the drawbacks of the said traditional approach.
3. To identify the alternatives to the GAAP.
4. To analyze the role of IFRS in the process of communication financial information.

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Limitations

The study is based mainly on secondary data as the researcher did not have sufficient access to primary data.

Research Question

1. What was the traditional approach; GAPP, of communicating financial information?
2. What are the drawbacks of the said traditional approach?
3. What are the alternatives to the traditional approach?
4. What is the role of IFRS in the process of communication financial information to various stakeholders?

LITERATURE REVIEW

Kim Nilson, (2008), stated that assimilation of International Financial Reporting Standard, while preparing financial statement, will have a great influence in the process of communicating accounting information to various stake holders. Steps have already been put forward to incorporate IFRS and IAS into the accounting system, but still several impediments need to be addressed.

The primary objective behind implausible progression of espousal of IFRS is to abridging global accounting issues, but in addition to national and regional differences in the interpretation and application of accounting principles and standards still several obstacles yet to be resolve (Gujarath, 2008) and also the capricious level of transparency in the IFRS adoption process is a enormous issue (Steffee, 2009).

According to Capital Market Authority of Oman, (Capital Market Authority, 2015), financial reporting is mandatory for all the companies and should comply with IAS that have raised their capital by offering their securities through initial public offers (IPO), unless other accounting standards are notified by the Ministry of Commerce and Industry of Oman. According to the banking circular issued by Central Bank of Oman IAS will be followed while preparing annual reports by the licensed banks.

It has seen that financial statement for Small and Medium Enterprises prepared by following IFRS are comparatively more credible than without following IFRS (Business Today, 2009). The corporate community of Oman will be pre-equipped to adopt IFRS9 to replace the existing IFRS39 with effect from January 2013 (Manayseh, 2015).

Dr. K Shankaraiah, 2004, advocates the accounting standards are important for the corporate governance as the application of accounting standards boost the confidence to the corporate management and the disclosures will be more effective. Ashok, 2014, revels that apart from various challenges adoption of IFRS in India enhanced the transparency in financial disclosures. To enhancement the regional cooperation in the field of mutual trade amongst GCC countries synchronization of accounting standards will play a key role (P L Joshi, 2003).

Ms. Archana Petro, Dr. V. K. Gupta, 2012, stated that accounting standard will have notable influence on the working of capital markets but still there is a very little awareness amongst the investors community so that a detail and understandable guideline is needed to aware them. Rahul Kamath, 2014, investigates that how IFRS influence the financial activities of corporates in India and concluded the remarkable influence of IFRS upon financial indicators, investment and operating activities but on other hand financial risk and debt covenants fails to do that.

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Aisbitt (2006) and Cordazzo (2008) showed that with compare to shareholder's equity, the impact of IFRS adoption has greater influence upon net income. Some studies could not recognize an unblemished outline regarding the influence of IFRS on earnings (Jaruga et al., 2007). The profit adjustment is independent of firm size or nominal profit (Perramon and Amat, 2006). Application of IFRS has shown reduction in cost of capital and escalation in equity valuation. Analysis also discloses that liquidity is greater in the countries where IFRS has already adopted (Daske et al., 2008).

Researchers has varied opinions regarding the effect of IFRS on earnings management (Van Tendeloo & Vanstraelen, 2005; and Zéghal et al., 2011). However, IFRS adoption has not led to any improvement in earnings management in India (Rudra & Bhattacharjee, 2011). However, IFRS is fair valuebased and is more transparent than Indian GAAP, which is conservative (Swamynathan & Sindhu, 2011).

Titas Rudra, 2012, investigate that most of the prior outcomes centered on developed countries by demonstrating that firms adopting IFRS are more likely to smooth earnings compared to non-adopting firms. These findings could prompt the regulators to think about the effectiveness of IFRS in reducing opportunistic earnings management in an emerging economy, like India, especially, when the Indian accounting standards are undergoing substantial changes with the convergence of IFRS in a phased manner.

SIGNIFICANCE OF IFRS

In the present-day era of globalization, to facilitate seamless trading and flow of capital across national boundaries, most of the international organizations and professional accounting bodies are converging towards the adoption of IFRS.

The wide purpose of IFRS standards is to enable Transparent reporting throughout the stretch of globe, so as to herald international comparability and quality and at the same time serving investors and other market players to make informed economic decisions.

Accountability is other major area of concern addressed by IFRS as they aim to bridge the information gap between providers and consumers of capital. By making certain note-worthy disclosure mandatory in financial reporting, management can be held responsible for their actions while also providing vital information to regulators around the globe. By enabling investors to carry out a SWOT (Strength, Weakness, Opportunity, and Threat) analysis, they have contributed towards **Efficiency** as capital is wisely allocated across industries. Similarly, a unified accounting language would reduce the cost of capital and reporting costs for businesses.

IFRS would bring about shrinking of national boundaries since a single-set of standards for all organizations and regulators would allow friction-free movement of capital, thereby creating **opportunities** globally. There would be a scope of streamlining internal operations as each entity would be confident of industry-wide norms applicable to the players in same industry.

IFRS also present an opportunity for companies to freely invest in one-another due to policies being unified. For **Foreign Direct Investment (FDI)** to take pace, there is a growing need to eliminate multiple standards as they create an atmosphere of uncertainty and risk arising due to trade-off between reporting requirements in different countries.

THE NEED TO SHIFT FROM GAAP TO IFRS

Today, we are witnessing a global surge in economies which makes it pertinent for businesses and professionals to be updated with differences between the two major accounting

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standards in use around the world. As the name suggests, IFRS, developed by the International Accounting Standards Board (IASB) present an international set of reporting standards whereas, GAAP, propounded by the Financial Accounting Standards Board (FASB), apply only to the US.

Below are the 10 biggest differences between IFRS and GAAP:

Local vs. Global- Today, more than 110 nations, including the EU and many other Asian and South American countries have adopted the use of IFRS. On the contrary, GAAP is currently in use only in the US which is causing complexities for the US based companies in global reporting.

Rules vs. Principles- While GAAP specifies certain industry-specific guidelines and norms to follow, IFRS is more inclined towards Principle-based approach requiring the application of individual judgement in a given situation. Hence, GAAP tend to be rule-based whereas, IFRS tend to be more of Principle-based.

Inventory Methods- While both GAAP and IFRS allow inventory valuation using First In, First Out (FIFO), weighted-average cost, and specific identification methods, GAAP alone also allows Last In, First Out (LIFO) method. The LIFO method may not reflect the actual flow of inventory within an organization thereby, deflating the Net Income and Margins of the reporting company and hence, is prohibited under IFRS.

Inventory Write-Down Reversals- Inventory is allowed to be written-down to the market value under both GAAP and IFRS with the only difference being that under IFRS, such write-down can be reversed in case market value upticks in the future, making the process more volatile and dynamic. Such reversal is however prohibited under GAAP.

Fair Value Revaluations- Assets such as, inventories, property, plant & equipment (PPE), intangible assets, and investments in marketable securities are required to be marked-to-market basis fair value under IFRS. This may result in either increase or a decrease in the asset's value. Whereas such revaluation is not allowed under GAAP reporting, except for marketable securities.

Impairment Losses- Both IFRS and GAAP allow Impairment Loss to be recognized on assets having a life of more than one operating cycle (typically, 12 months) when the market value of the asset falls. However, under IFRS, if the market jumps and the value of previously devalued asset rises, the Impairment Loss can be reversed for all types of assets, excluding Goodwill. GAAP, on the other hand, is conservative on this front as it prohibits all such reversals.

Intangible Assets- Certain internal costs such as, development cost which are expected to bring about future economic benefits, are allowed to be capitalized to Intangible Assets under IFRS. Such costs are however, expensed-off under GAAP, except for internally developed software. If the software that is to be used externally can demonstrate technological feasibility, the development costs can be capitalized to it, under GAAP. No specific guidance on software is provided by IFRS.

Fixed Assets- Under IFRS, the assets which have a life of more than one operating cycle, can be valued at Historic cost with subsequent depreciation with later revaluation to market value. The different components of the same asset with different useful lives can be depreciated separately. Under GAAP, such assets can only be valued at Historical Cost with no scope of marking to market.

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Investment Property- A separate line-item of Investment Property made up of assets such as those held for earning rentals or for capital appreciation is required to be reported in the Statement of Financial Position under IFRS. They are initially valued at cost with subsequent revaluation to fair value. However, no separate categorization is specified under GAAP.

Lease Accounting- IFRS have revolutionized accounting for leases by specifying two types of leases namely, Financial Lease and Operating Lease. Any lease that follows a financing arrangement is categorized under Financial Lease and all other under Operating Lease. Additionally, IFRS also recognizes lease of some kinds of Intangible Assets whereas, it is excluded from the scope of GAAP.

ADOPTION OF IFRS IN OMAN

Application of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) provide a solid base for the strategic planning of an organization. The corporate sector in Oman has shown a strong commitment towards the adoption of both. According to IFRS foundation, Omani jurisdiction has made a commitment in support of moving towards a single set of high quality accounting standards. Omani government understands very well the advantage pf adopting IFRS, so the Sultanate has involved in various legislations towards the application of IFRS in Oman. There are clear directives from the Capital Market Authority of Oman, Central Bank of Oman, and the Tax Authority of Oman to the corporate community to adopt IFRS. Capital Market authority plays a principle role to supervise Muscat Security Market (MSM), the only stock market in Oman. It regulates licenses and has a controlled monitoring towards the issuance of securities. CMA has its own regulations under which professional firms, working in Oman are supervise which ensures right practice of adoption of IFRS in Oman.

According to the Capital Market Law (Royal Decree 80/1998) Article 282 every listed company shall prepare financial statements in accordance with guidelines of IFRS. The Law of Organizing the Accountancy and Auditing Profession (Royal Decree 77/1986): Article 30 states that while preparing the financial statements it is compulsory to follow the accounting standards approved by the committee of unified international accounting standards, until a decision is issued by the Ministry of Commerce and Industry. Income Tax Law (Royal Decree 47/1981): According to Article 79 and 61 it is mandatory to treat finance lease as per International Accounting Standards.

Omani Banking Law makes it mandatory for all the licensed banks in Oman to submit annual financial accounts to Central Bank of Oman according to requirements specified in banking circulars by following international accounting standards. Presently the accounting professionals associated with various sectors of economy feel that it is necessary to adopt IFRS promulgated by the IASB without any amendments since it is fathomable and expedient for the stakeholders. The code of corporate governance also supports it and requires corporates to prepare financial statements according to the IFRS.

CONCLUSION

In a nut-shell, regulatory bodies such as IASB, Government regulators and other industrial forums and trade organizations are looked upon to play a pivotal role in effective and smooth convergence with IFRS. Collaborative efforts of these organizations are expected to result in reaping the benefits of IFRS as their knowledge base and industry-wide reach can be

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leveraged into spreading awareness and providing guidance on issues arising during transition to IFRS and thereafter. Moreover, the structure and framework relating to international standards and their applicability can also be addressed by key members of such organizations.

The simplicity, relevance, adaptability and consistency in application of these standards can be expected to be achieved under the umbrella of these regulators and enablers. These stakeholders are also expected to ensure that the standards are appropriately translated into Arabic for the purpose of Government Notification and press release as to the effective dates of application by the industry and any further guidance thereon.

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