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A Historical Approach to the Financial Reporting Under IFRS

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Abstract
By placing the financial reporting in its business background, a better understanding of the accounting world is reflected by managers. This paper provides a historical evolution of the financial reporting under International Financial Reporting Standards (IFRS) from a professional and academic literature review. It also ensures a history of contemporary accounting dilemmas by disclosing the quantitative and qualitative characteristics of the financial information. As a result of improving the quality of financial reporting, the adoption of IFRS is considered the main output of the globalisation. The primary purpose of the IASB is to apply a single set of global accounting standards, leading to the highest level of reported financial information quality. These rules are followed by an increasing number of listed companies around the world. The findings show that mastering accounting information has to be consolidated on a solid financial reporting according to IFRS or the national rules in force. By presenting economic substance rather than legal substance, IFRS standards involve the timely recognition of losses, diminishing managerial discretion and smoothing revenue management. Concerning the digital reporting, XRBL appeared to revolutionize the management and financial reporting of accounting data. All these issues provide a challenge for the future research concerning the financial reporting under IFRS.
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I. INTRODUCTION

A famous philosopher, Karl Max, states that there is no business without accounting, except for the ancient world (Walton, 2013). Accounting through the results obtained, highlights and makes possible the understanding and the management of the company. Regarding the emerging countries, the lack of accounting knowledge, the independent auditors to verify financial statements and the resources needed represent the main impediment to the economic progress (El-Helaly, 2020). In more details, managers can know the accounting of some companies only in terms of financial reporting, and not the department itself (Downes, 2018). Through financial reporting, an overview of the company is provided, regarding the field of activity, its structure and the financial situation of the entity at a given time (Houqe, 2018).

To understand the importance of the historical evolution of the financial reporting under IFRS, the next question is asked: Which is the aim of the introduction of the financial reporting under IFRS? The answer is found in all the steps taken in order to improve the financial reporting, from the first centuries to the present. This paper is organised as follows. Section 2 is the core introduction of financial reporting and it comprises the background and the historical development. It covers the historical evolution of financial reporting from the ancient reporting to the global reporting under international rules. Therefore, it is presented the conceptual framework of International Accounting Standards Board (IASB) and the financial statements of the listed companies. Section 3 covers the types of actors in financial reporting. Section 4 provides an useful background concerning financial reporting under IFRS worldwide and IFRS in Europe. Section 4 involves the challenges brought by the introduction of the project XBRL (eXtensible Business Reporting Language) in order to increase the accuracy of standardized data. Section 6 comprises a discussion about how financial reporting is influenced by the impact of IFRS and its role in the transparency of financial statements and Section 7 resumes the general conclusions of the present research.

II. BACKGROUND AND HISTORICAL DEVELOPMENT

2.1. The history of financial reporting

Accounting records as *"property lists"* are the first reports included in Luca Paciolo's treatise (1494). Financial statements were used to organize accounting data (Littleton, 1996), but only having a passive role and not

helping in the decision-making process. The previous literature (Casta, 1989) shows that accounting normalization is defined as a harmonization of the presentation of financial statements that was not possible until the eighteenth century. With the evolution of accounting, the annual financial statements were correlated with the Florentine business records. The literature captures the following stages in the evolution of financial reporting:
Luca Paciolo [1494] - established equality between cash accounts and capital accounts;
Colbert [1763] - recorded the notion of balance sheet, for the first time, in France;
De la Porte [1912] - highlighted the classification of accounts of owners, things and people;
Edmond Degrange [1793] - introduced the theory of accounts of goods, house, received effects, the effect of the account of payment (Profit & Loss Account, P&P account);
Quincz L.J. [1817] - amended the cash account and the Profit & Loss Account in the cashier's account and the capital and property account;
Cerboni [1873] - introduced separate accounts: owner accounts and business accounts;
Schrott Joseph [1881] - introduced the following forms of accounts: private equity accounts and total capital accounts;

Littleton (1966) divides the presentation of financial statements in financial information recorded in double-entry accounts, with separate accounting records and financial information recorded in double-entry accounts but which are not presented in separate accounts. Moreover, Chartfield (1977) argues that the first were British traders, who began to present the balance sheet separately from the accounting books (accounting books, Eng.). Over time, the purpose of financial reporting has shifted from fairness control to the chronological presentation of a company's assets and liabilities.

For the first time, in 1673, France introduced a financial reporting model that includes the annual balance sheet used against bankruptcies. Later, in 1807, the French model was part of Napoleon's Commercial Code. To report profitability, the Profit Reporting Statement is taken into account by the 16th Amendment to the US Constitution. In Romania, the first balance sheet was presented in The Commercial Rule by E.I. Nikifor (1873). After 1900, financial reporting was normalized by several bankruptcies and merchant reforms, and most firms began publishing parts of their accounting information. The British market began to publish more financial information than required by law (Edwards, 1989). Over time, the improved accounting methods have led to real changes in accounting. In Romania, the greatest impact on the accounting system was achieved by IT systems (Morosan-Danila, 2015). Richard Stone and Wassily Leontiev (1938) were the initiators of discussions on national accounting systems. With the Accounting Congress in Paris (1967), some authors such as Kirschen S (Belgium) and Paul I. (France) continued to influence accounting systems (Demetrescu, 1972).

2.2. *Anglo-Saxon Accounting versus Continental European Accounting*

Financial reporting has been influenced by two main currents, namely: Anglo-Saxon accounting and continental European accounting. According to the IASB, the financial statements have their roots in Anglo-Saxon or Anglophone accounting. In particular, countries such as England, the USA, Canada or New Zealand disclosed some of the financial information, but there was no obligation to do so until the twentieth century. In 1799, Britain introduced the measurement of profit in terms of calculating taxes, which emerged as a legal requirement. The legal obligation to report financial information was imposed when economic scandals such as the Enron fraud or the fall of Wall Street in 1929 broke out and the Security Commission (SEC) emerged as a solution from the US government. In the context of the Anglo-Saxon current, financial statements were a function of the company's financing system, a function that originated in the industrial revolution (Alexander and Archer, 2000). At that time, managers were no longer the ones financing the companies, and the financial reports were useful for other categories of investors such as banks or shareholders. The annual accounts have been created to increase investor confidence in the process of investing their own money. Moreover, the idea of independent audit emerged to increase shareholders' confidence in the financial statements reported by management (Halaoua et al., 2017).

Continental European accounting has its origins in the history of business, but not in the Anglo-Saxon accounting. The European current has its origins in the French model (Savary Ordonance, 1673) which was synthesized and published later in Napoleon's Commercial Code (1807). The French model has established an annual inventory (balance sheet) for all business, and countries such as Spain, Belgium and Italy have borrowed European accounting. Therefore, the regulation of the economy in France was imposed by the government, as a result of the destabilization of the economy due to bankruptcies over time. European accounting has created a tradition whereby all businesses are guided by accounting rules where accounting regulation is established by the state, and not by the accounting profession or companies. Income taxes were introduced in the twentieth century, immediately after the advent of accounting regulations. A new element such as the consolidation of financial statements has emerged as a result of the consolidation of accounts for large groups of companies in the world. Moreover, the application of taxes does not exist at group level, but only at the level of individual

companies. Therefore, large companies can easily differentiate the measurement of economic performance from the measurement of tax profit. The real profit of a company can be measured accurately only in the context in which the firm has settled the resources and the owners share all the money (Walton, 1995). Thus, at the end of the year, the profit is reported based on an unproven estimate.

2.3. ***Conceptual framework of the International Accounting Standards Board (IASB)***

The private organization, the International Accounting Standards Board (IASB), was established in 1973 in London. The IASB issues a set of standards that are used to prepare financial statements, namely: International Accounting Standards (IASs) have been issued by the IASB (2001) as well as International Financial Reporting Standards (IFRSs). Currently, the term IFRS refers to the set of rules (IAS / IFRS). The IASB (1989) conceptual framework introduces the objectives of financial information, qualitative characteristics and components of financial statements.

The original form of this project was entitled *"Conceptual Framework for the Preparation and Presentation of Financial Statements"*, Which gradually developed, trying to reach a project of convergence with American standards (US GAAP, eng.) and consolidation with financial standards (FASB). The attributes of financial information are represented by the qualitative characteristics of financial reporting, namely relevance and faithful representation. According to the IASB conceptual framework, the relevance of financial information must have predictive value and confirmatory value. At the same time, the accurate representation of financial information must be complete and neutral (Tarca, 2020).

To enhance the quality of the above characteristics, the IASB has introduced the following features of financial reporting: comparability, verifiability, timeliness and understanding the financial information. Accounting information is useful insofar as it is current and relevant. The topicality of the accounting information includes estimates and other uncertainties that lead to a real tension. Another way to highlight the importance of the characteristics of financial information highlights the fact that the substance takes precedence over form in reporting under IFRS (Beest and Mraam, 2006). According to the ISA (International Standards of Audit), the preparation of financial statements involves rather difficult judgment, taking into account the risk involved in estimating future income. These judgments are based on the choice of accounting methods that involve certain choices made by certain people in the company. In this case, it can be explained why the government is involved in accounting regulations, namely, for the proper functioning of the economy.

Figure 1 shows the IASB IASB-Standard-setting process, from the research point to the effective date of the new IFRS.

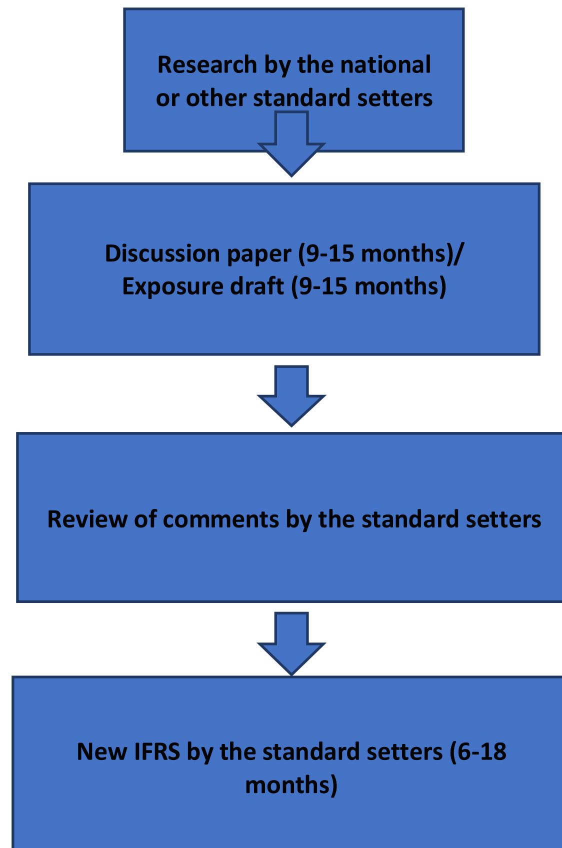

Figure 1: IASB-Standard-setting process, from the research point to the effective date

2.4. *Financial statements of listed companies*

All commercial companies produce annual financial statements or annual reports, which are presented to internal/external users. In particular, for the most large companies, the financial statements are public so that customers, suppliers, creditors or other competitors can have access to documents (White et al., 2002). In general, the annual financial statements include the following elements, namely:

-The situation of the financial position (or *"Balance Sheet shows"*, at the end of the financial year, the overall image of the company, which were the sources of financing and how the company's money was invested);

-The profit and loss statement and other elements of the overall result (also called *"Profit and Loss Account"* that report the company's expenses, income and profit, which is also an indicator of the company's performance. Moreover, the IASB's name of *"statement of comprehensive income"* highlights the clear distinction between the two components);

-The statement of changes in equity details the payments regarding the dividend situation and all changes that may occur at the level of equity;

-The cash flow statement presents the cash situation of the company from the operational activity, the cash expenses and from the loans;

-Explanatory notes to the financial statements (include between two and fifty notes detailing certain elements of the financial statements and are subject to audit. Moreover, the notes include the company's accounting policies);

-The audit report incorporates the audit opinion issued by the independent auditor of the company;

The annual report is published within a maximum of four weeks for companies listed in the EU, respectively in the USA, between six and ten weeks. Therefore, the company's financial statements are a public and independent performance indicator, which is used by both internal and external users of companies. The main objective of financial reporting (IASB, 2010) is to provide the necessary information to potential investors, suppliers or customers in the future decision-making process regarding an entity.

III. TYPES OF ACTORS IN FINANCIAL REPORTING

The types of accounting regulations differ depending on the market limits, namely: at international level, IFRS applies, at regional level European directives or regulations apply, and there may be regulations at national level as well. It should be noted that banks and insurance companies are not subject to the same accounting regulations given that the government wants to control the economy using certain limits in financial information (Ball, 2006). The types of national regulatory bodies differ from state to state, as follows:

-The government (for tax collection and for economic management) is interested in the functioning of the economy without fraud and correct financial reporting;

-The Stock Exchange regulates the flow of financial information for listed companies;

-Private sector regulators such as the FASB contribute directly to the regulation of the general set of accounting standards;

-The bodies of the accounting profession include a technical committee that brings recommendations to the accounting regulatory bodies;

-Specialized industrial organizations are able to contribute suggestions, given the diversity of industries and new problems in each more developed country (Walton, 2013);

In addition to national bodies, there are also international regulatory bodies that provide important rules, namely the IASB, the most well-known accounting body in the world. The European Commission (2002) established that the standards issued by the IASB should be applied by all EU countries, starting with 2005. The central aim of the Commission is Regulation 2002/1608 which aims to create a single market without barriers to entry. / output. Therefore, most countries apply IFRS, including US states may adopt IFRS given that the SEC has decided to equate GAAP standards and China has issued its own accounting regulations. Later, in 2008, this convergence between US standards and IFRS occurred. The AXA case (2007) succeeded in convincing the SEC of the high reconciliation costs of about $ 12 million/year.

Also, in the private sector, ISAR (Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting) discusses current accounting issues, representing one help for the government, but also for the IASB. The United Nations Annual Conference on Trade and Development (UNCTAD) discusses audit and accounting issues at the corporate level. Also, in New York there is the International Federation of Accountants (IFAC), which makes recommendations on corporate auditing, education and other topics of interest in the field of accounting. IFAC together with the International Public Accounting Standards Committee (IPSASB) finds solutions to existing financial reporting problems for all levels of government. IPSASB issues International Public Sector Accounting Standards (IPSAS) on financial reporting provided by the state and other public sector entities, and IPSAS has its origins in IFRS standards (Jensen and Smith, 2013). Here we can point out that the private sector is different from the public sector, if we take into account that the annual reports from the private sector are limited in time, given that they sum up the

interim reports. In the public sector, the reports are presented each year often explaining a single source of income and its accounting consequences, being presented as a multitude of individual reports (Kidwell and Lowensohn, 2019). Often, in the public sector, no distinction is made between short-term expenditure and long-term expenditure.

IV. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

4.1 IFRS worldwide

In this context, it should also be mentioned the distinction between IAS and IFRS related only to the timing of events related to accounting regulations. The International Accounting Standards Committee (IASC) first appeared in 1973, when the accounting profession recognized the diversity of accounting rules but also the globalization of trade. Since 1975, financial reporting has been based on Federal Financial Accounting Standards (SFFAS), developed by the FASB and International Accounting Standards (IAS / FRS) by the IASB. The financial statements published by the company are the basis for internal reporting (Barth, 2007). Their external dissemination converges with a set of accounting rules issued by the International Accounting Standards Board (IASB), which replaces the International Accounting Standards Committee (IASC) since 2001. The regulations issued by the IASC are called International Accounting Standards (IAS) and those issued by the IASB are called International Financial Reporting Standards. However, the term IFRS also incorporates the old IAS standards and the new standards issued by the IASB. Interpretations of these standards are issued by the International Financial Reporting Interpretations Committee (IFRIC), which until 2002 was called the Standards Interpretations Committee (SIC). The interpretations issued by IFRIC exist as a result of apparent conflicts between standards and provide a solution to questions not covered by IFRS.

The International Financial Reporting Standards (IFRS) issued by the IASB are recognized as one of the most rigorous sets of rules, used in the preparation of the financial statements of most companies in the world, and accepted by most security authorities. IFRSs are used as national accounting requirements and are also a reference for countries that adopt their own accounting regulations (Tache et al., 2020). The IASB is a private sector body and works independently of the public sector. The primary purpose of the IASB is to apply a single set of global accounting standards, leading to the highest level of reported financial information quality. Under these conditions, users of financial reporting will be able to make the best decisions for the entity, even if the IASB is not an enforcement authority.

Developing countries intend to apply IFRS or adopt their own national standards, but these standards also derive from IFRS. For example, Hong Kong and the Philippines have adopted national standards identical to IFRS, which include all accounting options, and Singapore has adopted IFRS, modifying the recognition and measurement principles into several standards. In South Africa, IFRSs are mandatory for all listed companies and in Japan, only foreign listed companies can use IFRS, but domestic companies are not allowed to use IFRS (Ames, 2013). China is still in the process of developing a representative set of national accounting standards, which are similar to the corresponding IFRSs, and countries such as Canada, Brazil and South Korea have already adopted IFRSs. Regarding the USA, the FASB and the IASB have committed to converge US norms with IFRS standards, taking into account the complex nature of issues that will persist over time, as anticipated by the FASB (2002). The United States does not directly supplement accounting standards. Therefore, US financial accounting retains the name *"Generally Accepted Accounting Principles"* (GAAP), which sets out the accounting rules based on the preparation, presentation and reporting of financial statements for a variety of entities. GAAP standards include the applicable local accounting framework, connected accounting legislation, accounting rules and standards. The most important difference between GAAP and IFRS is that US standards are based on general rules and IFRS is based on principles. IFRS focuses on a control-based model, in which risks/compositions are incorporated and control is not apparent, while American standards (GAAP) use a dual consolidation decision model, taking into account the prevailing assessment of a model. variable interest rate and then a vote control model. GAAP standards are not required by law, but the US SEC requires that GAAP standards be met in financial reporting. Therefore, US companies registered with the US SEC receive the requirement to prepare financial statements in accordance with US GAAP standards.

4.2 IFRS in Europe

IFRS is a revolution in accounting principles, and these standards were created to help investors globalize. As financial accounting information must be objectively collected and reported throughout the period, IFRS has been designed to ensure the consistency of third parties over time (El-Helaly et al., 2020).

From a historical point of view, European accounting standards have been established by legal directives, which aimed at the legal harmonization of the participating states. The first accounting rules were laid down in the Fourth and Seventh Company Law Directives, also called Accounting Directives. EU Member States have been obliged to incorporate these directives into national legal requirements.

Council Directive IV of 25 July 1978, pursuant to Article 54 (3) (g) of the Treaty, on the annual accounts of certain forms of company (78/660 / EEC), contains the accounting rules for when preparing and presenting the financial statements of legal financial entities (individual accounts). The 7th Directive, of June 13, 1983, pursuant to art. 54 para. (3) lit. (g) of the Treaty on consolidated accounts (83/349 / EEC) lays down the basic rules for the preparation and presentation of the financial statements of a company regarded as an economic entity, usually a group of individual legal entities but interdependent in terms of economic (group or consolidated accounts). Even under these conditions, when the degree of comparability of the financial statements has increased considerably, there are still uncovered differences, given that these accounting rules in the stated directives have not been sufficiently detailed (Kieso et al., 2020). It happens that the harmonizing effects of directives are counteracted by discretionary national requirements. In 1995, the European Commission modified the accounting strategy by adhering to the IASB standards, in order to strengthen European reporting requirements. In June 2000, the European Commission proposed the requirement to use IFRS for the consolidated financial statements of all listed European companies, a proposal made by the IAS Regulation (2202/1608) in June 2002.

IFRSs, issued by the IASB, are validated by an approval mechanism to ensure compliance with EU public policies. This clearance mechanism is based on a two-tier structure: a regulatory level (Accounting Regulatory Committee, CRA) and an expert level (European Financial Reporting Advisory Group, EFRAG). The CRA decides whether to recommend the European Commission to adopt or reject an EU application standard, and EFRAG advises the European Commission on the technical assessment of individual IFRSs for application in the EU.

In 1995, the EU established a new accounting strategy, namely accession to the IAS instead of further developing specific European accounting standards. Later, in 2000, the plan to request the IAS for consolidated financial statements was announced and since 2001, the EU has applied the Fair Value Directive which allows/requires the measurement of the fair value of specific items in the balance sheet. One year later, the EU approved the IAS regulation, and in 2003, the Modernization Directive was approved, which highlights the developments in IFRS in the fourth and seventh directives, in order to reduce incompatibilities between European accounting rules and IFRS standards.

Since 2005, all listed companies apply IFRS and entities that were exceptions to this rule have been applying IFRS since 2007. The adoption of IFRS in the European Union has increased the credibility of the IASB worldwide (Brown, 2013). The number of countries adopting IFRS has increased to 175 and the number of countries is constantly growing (IASB, 2020)

The IAS Regulation applies only to listed companies, and the European Commission has left it to the Member States to decide on the extension of IFRS to unlisted companies. As mentioned above, one problem that has had an impact on European companies is that the EU does not approve all IFRSs issued by the IASB. Following pressure from French banks, the Accounting Regulatory Committee excluded part of IAS 39 with respect to the measurement of financial instruments. In determining the basis on which their accounts are drawn up, EU listed companies are required to specify whether they have complied with EU-approved IFRS standards. This also created problems at the US level, when the SEC approved the use of IFRS standards issued by the IASB, without reconciliation. In order to equate the standards applied with GAAP standards, listed companies must state that they comply with the IFRSs issued by the IASB, and this must be included in the audit report.

At the level of the European Union, Hamberg et al., (2011) analyze the mandatory adoption of IFRS, within the INTACCT project (European Revolution of IFRS: Compliance, Consequences and Political Lessons). It was concluded that the effects of adopting IFRS will never be uniform, due to different incentives from developers, but also from the method of application (Picker et al., 2019). Regarding the adoption of IFRS, it has a considerable impact on the company's costs (Hail et al., 2010). Regulators argue that IFRS improves the quality and comparability of global financial reporting, suggesting that these audit costs may be reduced as a first result of adoption (Choi et al., 2018; De George et al., 2013).

V. DIGITAL REPORTING

Digital reporting has begun to develop as part of the XBRL (eXtensible Business Reporting Language) project, which provides an electronic format for financial reporting to increase the accuracy of standardized data. In this context, XRBL appeared to revolutionize the management and financial reporting of accounting data (Cohen et al., 2005). Instead of treating accounting information as a cumulative text, XBRL provides an identification tag for each individual piece of information, such as individual accounts in a general chart of accounts. The labels are read by the computer and automatically process the related financial information by the software. These specific labels are called working taxonomies, like dictionaries and coexist for financial reporting purposes (Ahmi and Nasir, 2019). Therefore, a viable solution to link IFRS and national reporting taxonomies is XBRL. The only problem arises when national jurisdictions need their own taxonomies to reflect their local accounting regulations. However, one possible solution would be for XBRL to automatically convert

the taxonomy to a general IFRS standard. Once the appropriate XBRL taxonomies are established and data are collected accordingly, different types of reports using different subsets of data can be produced with minimal effort. The accounting department can generate internal and reliable management reports, financial statements for publication, taxes and other regulatory records, as well as credit reports for borrowers. Consequently, time-consuming data processing processes are eliminated and errors are incorporated, in order to improve financial data through automatic checks made by XBRL (Beerbaum et al., 2019). The standardized format and universal reading language will open the access of stakeholders to compare the reported financial information. In the 19th century, the IASC accepted the proposal to support XRBL and IT reporting, even though the benefits of XRBL were not fully provided. The IASB's consistent efforts to balance the information disclosed were not sufficient, given the large number of detailed disclosure requirements. A CFA study reports that most companies disclose excessive or redundant financial information rather than the reliable content of traditional financial reporting (La Torre et al., 2018).

VI. CONCLUSIONS

The historical approach of the financial reporting under IFRS comprises the key for the question research and the high quality of the financial reporting worldwide represents the main output of the globalization. The objective of this paper is to explain consistently the sources of financial reporting in the accounting environment and the actual framework of financial reporting under IFRS. A consistent review, of what the financial information flow is for and how is checked by governments or the other actors of financial reporting, represents the first step in order to deepen the knowledge about the root of financial reporting. Furthermore, the historical evolution of financial reporting attests that the role of IFRS is provided by the high quality of financial statements and the level of transparency concerning the financial reporting has decreased in time. The findings show that mastering accounting information has to be consolidated on a solid financial reporting according to IFRS or the national rules in force. Due to the economic problems associated with the flow of financial information, regulators and regulators have a direct interest in financial reporting. Ultimately, by presenting economic substance rather than legal substance, IFRS standards involve the timely recognition of losses, diminishing managerial discretion and smoothing revenue management.

Academic research is a useful resource that supports standard regulators in understanding the possible effects of accounting standards. Accounting research identifies problems by providing evidence to accounting settlers that can help informally support current research.

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