

# 'IMPACT OF IFRS APPLICATION ON MANAGEMENT ACCOUNTING CONCEPTS & PRINCIPLES'

## Key findings of an e-survey carried out by the Research & Publications Department, ICMAP

The Management Accountants have to play a definite role in the IFRS conversion process by providing professional input for MIS development; working out the impact of IAS change on financial statements; providing information required for the disclosures and strategic decision making. There is also need for integrating 'management accounting requirements' with the Management Information System (MIS) under IFRS conversion process, for achieving better control, decision making and system transparency.

These are one of the key findings of an 'e-survey' carried out by the ICMAP Research & Publications Department on 'Impact of IFRS Application on Management Accounting concepts/ principles'. The core areas of the survey were as follows:

### Core Areas of Survey

- o Historical Cost Accounting vs. Fair Value Accounting
- o LIFO vs. FIFO and Average Methods of Inventory Valuation
- o Integration of Management Accounting System with MIS
- o Convergence of Financial and Management Accounting, Leading to Integrated Management Accounting System
- o Management Accountant's Role as 'Information Provider' for Financial Valuation Purposes

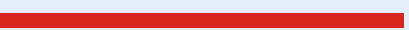
### Key Findings of the Survey

- **100%** respondents agree that '**Management Accountants' role is expanding gradually and they have to play a definite role in the IFRS conversion process.**' They can provide professional input for MIS development; work out the impact of IAS change on financial statements; provide information required for the disclosures and strategic decision making.
  - **73%** respondents agree that the role of Management Accountants is changing under IFRS as '**information provider**' to Financial Accountants for disclosure or valuation purposes.
  - **100%** respondents acknowledge the need for integration of '**management accounting requirements**' with the Management Information System (MIS) under IFRS conversion process. This would result in better control, decision making and system transparency.
  - **95%** respondents agree that Management Accountants can play the role of a '**catalyst**' or a '**changing agent**' in conducting an '**Impact Assessment**' to analyze the anticipated changes, as a result of IFRS application.
  - **95%** respondents agree that valuation of assets based on '**current cost**' (instead of historical cost) will have a direct impact on the following costs:
    - o Raw material
    - o Overheads
    - o Finished goods
  - **97%** respondents say that this would ultimately impact the '**Cost of Production**'.
  - **100%** respondents agree that change in inventory method from LIFO to **FIFO or Weighted Average** would have a resultant affect on the following:
    - o Balance Sheet
    - o Profit & Loss Account
    - o Cost of Good Sold / Cost of Sales
    - o Profitability
- Almost all respondents indicate that profit would increase due to decline in cost of production.

- **51%** respondents indicate that an 'Integrated MAS' has already been implement / completed or is being implemented in their respective organization. **22%** respondents have, however, conveyed that their organizations have no intention or plan to implement an Integrated MAS in future, as they already have a separate MAS.
- **92%** respondents agree that 'management approach' as provided in IASs/ IFRSs has relevance to the management accounting principles.
- **68%** respondents are of the view that IFRS application would impact different costing methods, whereas 32% respondents do not endorse this viewpoint.

### Survey Results

**Q.1. Do you think that valuing assets based on current cost (instead of historical cost) would have any impact on the costs of raw material, finished goods and overheads?**


**Yes**  **95%**


**No**  **5%**

**95%** of the respondents have agreed that valuation of assets based on 'current cost' will impact the costs of raw material, finished goods and overheads.

Out of 95% response, the following impact assessment on the above costs has been provided:

 **Raw materials**  **29%**

 **Finished Goods**  **34%**

 **Overheads**  **37%**

Majority of the respondents have indicated that valuation on current cost would change/ increase the depreciation, thereby making the costs of overheads and finished goods high.

**Q.2. Do you think that valuing assets based on current cost (instead of historical cost) would have any impact on the "Cost of Production"?**

**Yes**  **97%**

**No**  **3%**

**97%** of the respondents are of the view that valuing assets based on 'current cost' (instead of historical cost) will have a direct impact on 'cost of production'. The main factors responsible for impact on production cost, as highlighted by the respondents, are outlined below:

- o Increase in Depreciation of Fixed/ Non-current Assets (e.g. Property, Plant & Equipment) used in the production process
- o Increase in cost of Raw material and Overheads

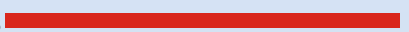
**Q.3. Do you think that change in inventory valuation method from LIFO to FIFO or Weighted Average would have any impact on 'current assets' account in Balance Sheet, and "net income" in Income Statement ?**

**Yes**  **100%**

**100%** respondents have agreed that change in inventory method from LIFO to FIFO or Weighted Average would have a resultant affect on the Balance Sheet and Profit & Loss Account. The following factors, affecting the current assets, are indicated by respondents:

- o Application of old rate to new purchases
- o Change in inventory cost

**Q.4. Do you think that change in inventory valuation method from LIFO to FIFO or Weighted Average would have any impact on the "Cost of Good Sold / Cost of Sales" and Profitability of the company?**

**Yes**  **100%**

**100%** respondents have agreed that change in inventory valuation method to FIFO or Weighted Average would greatly impact the COGS/ Cost of Sales and Profitability of company. All of them have indicated that profit would increase due to decline in cost of production.

**Q.5. Do you agree that management accounting requirements need to be integrated with the MIS under IFRS conversion process? Do you foresee any role for Management Accountants?**

**Yes**  **100%**

**100%** respondents have acknowledged the need for integration of 'management accounting requirements' with the Management Information System (MIS) under IFRS conversion process. The benefits of such an integration, as pointed out by respondents, are as under:

- o Better decision making
- o Effective control
- o Transparency
- o Quick disposal of work
- o System standardization

Almost all the respondents have agreed that Management Accountants have a definite role in the conversion process and their role is expanding gradually. Few of the important tasks that the Management Accountants can perform, under the IFRS conversion process are as follows:

- o To provide professional input for development of MIS
- o To work out impact on financial statements due to change in IAS
- o To provide information required for disclosures

**Q.6. Do you think that a Management Accountant has a possible role in conducting an "Impact Assessment" to analyze the anticipated changes (as a result of IFRS application) to measurement bases of relevant statement items, including current assets, current liabilities, revenue, cost of goods sold etc?**

**Yes**  **95%**



**No**  **5%**



**95%** respondents are of the opinion that a Management Accountant can play a contributory role in carrying out an 'Impact Assessment' to analyze the anticipated changes, as a result of IFRS application. Few significant roles identified by the respondents are as under:



- o To play the role of catalyst or changing agent
- o To analyze impact on financial statements due to change in IAS
- o To provide relevant information for decision making


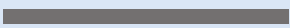
**5%** respondents do not agree with the above perspective and are of the viewpoint that the Management Accountants are not supposed to conduct impact assessment of purely financial nature. Their main responsibility is to provide relevant information to the management for policy formulation and strategic decision-making.

**Q.7. Did your company implement an 'Integrated MAS' in the course of IFRS application/ conversion?**

 **Already Implemented**  **22%**

 **Presently being implemented**  **29%**

 **No Plan for MIS implementation**  **22%**

 **Undecided**  **27%**

This question has drawn mixed response from the respondents, with almost 51% saying that an 'Integrated MAS' has already been implemented / completed or is being implemented.

**22%** respondents have indicated that their company has no intention or plan whatsoever, to implement an Integrated MAS in future, as they already have a separate MAS.

**27%** respondents are undecided or have offered no comments to this question.

**Q.8. Do you think that the Management Accountants' role is changing under IFRS as Information Provider to Financial Accountants for disclosure or valuation purposes?**

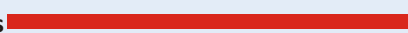
**Yes**  **73%**

**No**  **27%**

73% respondents have agreed that the role of Management Accountants is changing under IFRS as information provider to Financial Accountants for disclosure or valuation purposes.

Most of the respondents have indicated that a Management Accountant has a possible role in designing the MIS by visualizing the legal requirements of the company, as well as to highlight critical areas to the management for better decision making. They should also decide about relevant information required for segment reporting disclosures.

**Q.9. Do you agree that the 'management approach' as provided in different IASs / IFRSs has any relevance to the management accounting principles?**

**Yes**  **92%**

**No**  **8%**

92% respondents have agreed that the 'management approach' as provided in different IASs / IFRSs has relevance to the management accounting principles.

There is consensus of respondents that the Management Accountants seek guidance from IAS / IFRS to advise the management in making effective decisions and to make the business operations cost effective. The management

approach helps them in collecting and presenting the relevant information and data required for facilitating decision making.

8% respondents have not agreed to relevancy of management approach with the management accounting principles. It is argued that all the IFRSs are designed to provide guidance in preparation of financial statements, and the Management Accountants are basically involved in providing management with the information for future use and strategic decision making,

**Q.10. Do you think that different costing methods viz. Activity based Costing (ABC), Target Costing, Standard Costing, Marginal Costing etc, would also have impact from IFRS application?**

**Yes**  **68%**

**No**  **32%**

68% respondents are of the view that IFRS application would impact different costing methods, whereas 32% respondents do not endorse this viewpoint.

It has been indicated by the respondents that the Management Accountants normally use 'marginal costing' method for decision making, whereas IFRS prohibits the use of 'marginal costing' method for financial reporting purposes. Secondly, IAS 2 on 'Inventories', and IAS 16 on 'Property, Plant & Equipment' are impacting the costing methods and techniques.

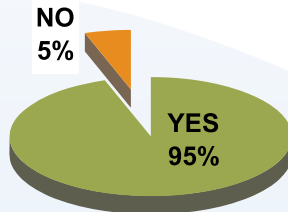
Those respondents who do not agree that IFRS application would have any impact on the costing methods, argue that the Management Accountants are mainly concerned with internal reporting and financial reporting and IFRS application do not come under their purview.

### Disclaimer

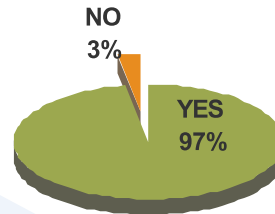
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## Graphical View of Feedbacks Received from Respondents

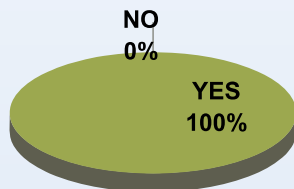
**Q:1: Impact of current cost asset valuation on raw materials, overheads and finished goods**



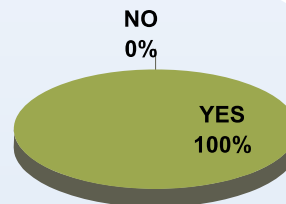
**Q:2: Impact of current cost asset valuation on 'cost of Production'**



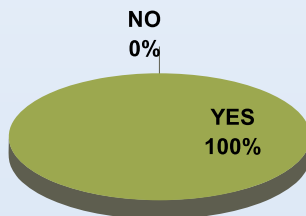
**Q:3: Impact of FIFO or WA inventory valuation on Balance Sheet and Income Statement**



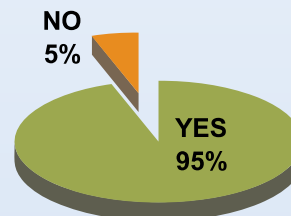
**Q:4: Impact of FIFO or WA inventory valuation on Cost of Sales & Profitability**



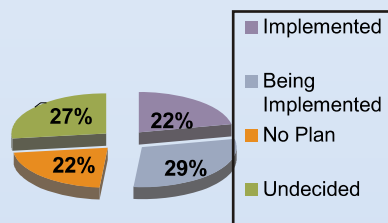
**Q:5: Integration of Management Accounting requirements with MIS**



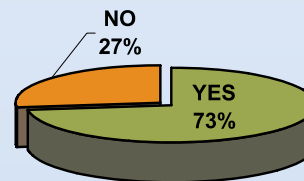
**Q:6: Management Accountants' role in conducting 'Impact Assessment'**



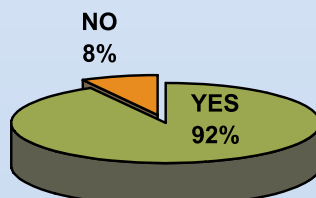
**Q:7: Implementation of Integrated MAS**



**Q:8: Role of Management Accountant as Information Provider**



**Q:9: Relevance of 'management approach' to 'Management Accounting Principles'**



**Q:10: Impact of IFRS application on different inventory costing methods**

