World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 19, February 2023
ISSN: 2749-3628,

INTERNATIONAL STANDARDS OF FINANCIAL REPORTING

Kuvatova Dinara Anvarovna
Senior lecturer of the "Accounting" department of the Tashkent Institute of Finance

Article history:

Received: 10th December 2022
Accepted: 8th January 2023
Published: 14th February 2023

Abstract:

Finance professionals are dependent on accounting information provided in annual reports. Companies located in over 144 countries base the preparation of their annual reports on International Financial Reporting Standards (IFRS). This widespread adoption of IFRS has been supported by the assertion that it is an important means of enhancing comparability of financial statements across countries. IFRS are developed in English and translated into 48 languages. Importantly, it is mainly assumed that all translated IFRS convey the same consistent information and that comparability of financial information is not compromised when different languages are used. However, we show in this short communication that differences exist between the IFRS language versions. Our discussion on relevant linguistic effects on the interpretation and application of IFRS helps future research to systematically analyze why equally qualified professionals exercise their professional judgments differently.

Keywords: Language, Translation, International Financial Reporting, Standards Financial decision-making.

The objective of this short communication is to extend Hellmann (2016) who showed the importance of behavioral aspects related to the preparation of financial statements and highlighted that biases and limitations originating from the preparation of financial statements are particularly critical to behavioral finance researchers.

Finance professionals are dependent on accounting information provided in annual reports and other both formal and informal information. International Financial Reporting Standards (IFRS) are a set of accounting standards which have been developed for a global market as an important means of enhancing comparability of financial statements across countries. Primarily as a result of forces of globalization, over 140 countries have adopted IFRS to ensure that financial statements have greater reliability and global comparability (IFRS Foundation, 2018). Importantly, achieving the broad aim of improving reliability and enhancing global comparability in financial reporting depends upon several factors including addressing the limitations of translation of IFRS, enhancing the quality of professionals' judgments and decisions, and understanding whether equally qualified accounting professionals interpret IFRS in a similar and consistent manner across countries.

Although originally promulgated in English, IFRS are often prepared in the local language of each country. In the EU, for example, the endorsement process requires the translation of IFRS from English into 24 official languages. While there are benefits of translating IFRS, extensive translation of IFRS in many languages can also be an important factor that may work against the claimed advantage that IFRS improves global comparability. For example, it is highlighted in the linguistic and communication literature that critical meanings are often lost in translation. In this context, Hellmann pointed out that this raises the potential for translation and interpretation problems, both of which can undermine a consistent application of IFRS. Significant differences in meanings of IFRS across language versions may not only have an impact on the decision usefulness of accounting information and comparability of accounting information across countries but may also result in legal disputes and court actions. This is important because accountants in a particular country may make inferences about the meaning of IFRS that is not consistent with the meaning intended by the IASB simply because the accounting standards are promulgated in English and then translated globally into 48 languages.

Given the highly globalized financial environment, systematically analyzing relevant linguistic effects on the interpretation and application of IFRS will also interest behavioral finance researchers to understand why bilingual finance professionals may make inconsistent decisions when using translated versions of financial statements. Research in linguistics and psychology demonstrate that subjects make systematically different judgments in a foreign language and in their native language.

Given the global importance and extensive use of translation, researchers have established both the limitations and the positive effects of translating IFRS

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 19, February 2023
ISSN: 2749-3628,

and its influence on subjects' judgments and decision making. Several studies, such as Nobes (2006), Doupnik and Richter (2003), Hellmann et al. (2010), Baskerville and Evans (2011), and Kettunen (2017), have mostly highlighted the limitations of IFRS translations. For example, Nobes (2006) questioned the claims of international comparability by providing examples of inaccurate translations and hypothesized that different translations would lead to different practices. Moreover, using experienced accountants as subjects in the context of IFRS in English and Spanish, Huerta et al. (2013, p.1) conclude that "the use of IFRS in languages other than English creates the potential for translation differences that may introduce variations in accounting outcomes when different languages are used". Moreover, they show that the translation of accounting-specific phrases has less variation than generic phrases.

Linguistic effects related to the interpretation of IFRS could be examined at two levels. First, IFRS consist of specific technical concepts such as "depreciation" and "inventory valuation" and ambiguous probability expressions such as "probable", "reasonable", "likely" and "virtually". These probability expressions are important for principle-based standards such as IFRS and are used for the recognition, measurement and disclosure of various financial items. Second, translation errors contribute to inconsistent interpretations of IFRS.

Translation issues related to IFRS

The consistent interpretation and application of technical terms and probability expressions depend on a shared meaning of users across countries. Meanings can broadly be differentiated into two dimensions. Denotative meaning refers to the "referential, objective, and cognitive meaning — called the dictionary meaning". The denotative meaning of an accounting term is its literal meaning, as described in the accounting standards. For example, in the context of accounting, an asset is a resource controlled by an entity. Connotative meaning, in contrast, refers to "association, subjective, and affective meaning. It refers to the effect of a word on people in different cultures". In an accounting context, for example, the concept of "fair value" is vague and open to subjective interpretation. It is important to note that denotative and connotative meanings are not in two separate watertight compartments, but together they complement and provide additional insight into meanings in various contexts.

Moreover, technical concepts may not be directly translatable into a foreign language. For example, the literal translation of the IFRS term "asset" into German would be "Vermögensgegenstand", which focuses on the potential to cover liabilities rather than on "future economic benefits" as defined by the International Accounting Standards Board. Furthermore, a necessary requirement for the concept of "Vermögensgegenstand" is its independent usability (i.e. it must represent an economically usable potential to cover company debts). As such, the denotative meaning of the IFRS concept, "asset" is broader than "Vermögensgegenstand" and does not accurately reflect the original English concept. The German regulators addressed this problem by creating a new term, "Vermögenswert", which is similar to "asset", but not used in the German Commercial Code. Therefore, this concept may have created confusion among stakeholders who are familiar with the German Commercial Code. Importantly, evidence suggests that translation is not simply a technical exercise, and perfect equivalence between languages does not exist. Accounting is interpreted differently in various languages and their related cultures.

Similarly, evidence suggests that interpretations of probability expressions such as probable, reasonable and control are different among accountants in different countries. For example, Doupnik and Richter (2003) provide evidence that significant differences in meaning exist between English-speaking and German-speaking accountants with respect to 16 uncertainty expressions commonly found in IFRS. They argue that these differences in interpretation may be the result of a language culture effect and/or poor translation and a lack of an equivalent term in the target language. While Doupnik and Richter (2004) suggest that translation problems that exist with uncertainty expressions may partially resolve themselves when they are placed in the context of a standard, this may not always be the case. Simon (2002) and Han et al. (2016) show that several uncertainty expressions have similar and related meanings. For example, Simon (2002) shows that UK auditors interpret the uncertainty expressions 'probable', frequently', 'normally', 'likely' and 'intended' as being similar. The fine nuances may be especially difficult to translate.

Understanding both the limitations and positive effects of translation of IFRS has implications for improving the quality of professionals' judgments and decision-making. Several studies have shown the positive effects of translation, and future research may examine under which circumstances the negative effects of using translations might outbalance the positive ones (or vice versa). Our discussion of the linguistic and communication effects establish that accounting professionals perceive and interpret accounting concepts, probability expressions and standards inconsistently. Such inconsistencies and differences are problematic and hinder the consistent application of IFRS across countries resulting in reducing relevance and comparability across 140 countries that have adopted IFRS. Furthermore, incorrect translations of IFRS may impede an accurate transfer of meaning across countries. Consequently, the meanings of important concepts may be lost through mistranslations. These problems may result in non-comparable and inaccurate information contained in financial reports provided by companies in various countries.

Finally, translation issues affect accounting professionals' judgments and decisions. We suggest that researchers and professionals need to rigorously examine the foreign language — effect to understand why and how subjects make inconsistent judgments and decisions in English and their native language. Given the inconsistent decisions of bilingual financial professionals, we suggest that future research may adopt mixed methodologies that combine elements of qualitative and quantitative research approaches to provide more holistic insights. Under which circumstances the negative effects of using translations might outbalance the positive ones (or vice versa) is an interesting topic for further research. Such empirical findings will help professions, firms, and standard setters to develop communication and language strategies and policies.

REFERENCES

1. IFRS Foundation, 2017. IFRS Translations. Retrieved from: https://www.ifrs.org/issued-standards/ifrs-translations/#other-available-translations (Accessed 26 June 2020).
2. IFRS Foundation, 2018b. European Union. Retrieved from: https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-jurisdiction/europeanunion/#translation (Accessed 26 June 2020).
3. IFRS Foundation, 2018a. Use of IFRS standards around the world 2018. Retrieved from: https://cdn.ifrs.org/-/media/feature/around-the-world/adoption/useof- ifrs-around-the-world-overview-sept-2018.pdf. (Accessed 26 June 2020).