

Impact of convergence with international financial reporting standards: with special reference to licensed finance companies in Sri Lanka

D.G.M. Weeraratne and P.L.W. Priyadarshani*

¹ *Department of Business Finance, Faculty of Management, University of Peradeniya,
Sri Lanka*

**wathsala_pl@yahoo.com*

To converge Sri Lanka Accounting Standards with International Financial Reporting Standards the Institute of Chartered Accountants, Sri Lanka made a vital decision with effect from 1st January 2012. As a developing country which is in need of growth in foreign direct investments and increased access to foreign capital markets to finance its economic growth the adoption of IFRS has vital importance.

The Banking and Finance industry plays a key role in the Sri Lankan economy through adding high value to the society by engaging in quality financial services. With the convergence of IFRS, the Finance Companies faced vigorous changes in its financial reporting. Further it is crucial to study the impact of convergence, since it is not mere accounting process but also affects to all business processes leading for more credibility in financial statements and better reflect the economic reality and insights of the financial information. Therefore this research focuses to address the impact, issues, challenges and the benefits experienced by the Finance Companies following the mandatory adoption of IFRS.

The research was conducted through qualitative exploratory research with Multiple Case Study method using 03 licensed Finance companies. Chief Financial Officers and Executives were interviewed in a series of in-depth interviews during the period from October to November 2015. Responds were analyzed through the process of transcription, coding and interpretation.

According to the findings for an effective implementation of IFRS, finance companies had to introduce new business processes and realign the existing business processes. The convergence has led to use of a variety of new and complex definitions, recognition criteria, measurement bases and disclosure requirements in the financial statements. Further the comparability and acceptability of financial information have been increased due to convergence. In contrast, valuation of assets and liabilities, resource constraints, new transactions evolving from the application of IFRS, changes in IT systems and business processes, requirement of professional judgment, high cost for training process and creating awareness among stake holders and top management were identified as key issues and challenges emerged during the process of convergence.

Findings suggest important insights to regulators and practitioners to have an effective and smooth IFRS convergence process.