



Impacts of IFRS on the company ESPO S.A. for the period 2014 to 2016

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ABSTRACT

In Colombia, accounting processes have evolved in response to global trends, which is why this article will present the impacts of the implementation of IFRS in organizations, having as a reference the Empresa de Servicios Públicos de Ocaña S.A., hereinafter ESPO. S.A.

This article is made up of five sections, namely, firstly, it exposes the reader of the situation in context, secondly, the theoretical framework of IFRS is presented; thirdly, the methodological framework is presented; the fourth section is dedicated to the results in which the most significant aspects of the implementation of IFRS in the study company will be detailed and finally the conclusions are drawn up as a final section.

Keywords: IFRS, financial information, SMEs, globalization, financial management

1. Introduction

The world of the XXI century, as a result of globalization and interconnectivity of countries and their organizations, accelerated the adoption of the International Financial Reporting Standards - IFRS mainly in Europe and the United States, allowing a voluntary standardization and later becoming mandatory by order of the legislature as a measure of tax evasion and control of financial fraud, The universality of the financial language has been the most convincing reason for the executive leaders of the countries to implement the IFRS, since it allows to improve the decision making process by making it easier to compare with other companies. The standard was developed by the International Accounting Standards Board - IASB, with the support of the largest consulting firms (Cantillo, Vergara, Puerta, & Makita, 2022)

The adoption of IFRS in Latin America is still a new project, some isolated research has shown that the reporting of financial information to stakeholders has improved thanks to the implementation of IFRS, however in countries such as Argentina, Mexico, Peru, Brazil and Chile, from having their accounting standards established that impair the quality and usefulness of their finances, the implementation of the international standards standard has allowed them to gain legitimacy in front of investment funds from other countries, which has caused the curiosity of researchers to establish the impacts of IFRS on organizations (Freitas de Moura & Gupta, 2019).

Colombia started its globalization process approximately in 1994 when former President Cesar Gaviria, in his State policy, initiated the economic opening with the sole purpose of making Colombian companies more competitive and that ultimately Colombians would be the greatest beneficiaries with the entry of a variety of new products. Different efforts have been made by the presidential governments in this matter, among which the following stand out: free trade agreements, tax incentives for foreign investors and, of course, the adoption of the International Financial Reporting Standards - IFRS.

With the issuance of Law 1314 of 2009, Colombia began with the implementation of a single and universal language in financial matters with the sole

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purpose of standardizing information and making it transparent and comparable with the rest of the world, so that any foreign investor, private bank, the IMF, the World Bank and any entity could know and interpret the financial information of a company and thus be able to make investment decisions, mergers or in the case of private banking a loan. The implementation of IFRS is mandatory for Colombian companies, since 2014 the transition process had to be carried out, for which in 2016 the financial statements had to be issued under the new standard, this in the case of SMEs.

The objective of this article is focused on determining the effects of the implementation of the international standard in the financial statements for the years 2014, 2015 and 2016 in the company ESPO S.A., date on which the company carried out the process of adoption and transition to said standard. Finally, this analysis will allow for future research to make a comparative of the impacts of IFRS in similar companies of domiciliary public utilities.

2. Theoretical Framework

(Giraldo-Prieto & Bedoya Rios, 2018) identified the economic effects of IFRS on financial statements taking as a starting point research conducted in finance, accounting and economics, in which they were able to identify the costs and benefits of this process mainly in the capital market, additionally they formulated suggestions to protect external investors and ensure the disclosure of information in relation to the economic infrastructure of the organization, as a strategy for long-term financial strengthening.

Through a literature review (Bohórquez Forero, 2015) investigated the economic consequences of the adoption of IFRS in Colombia focusing on inventories under IAS 32, summarizing that although the standard generates positive effects, the transition to IFRS may exceed the budget for small and medium-sized companies, so the Colombian State should help companies to lead the process.

The positive impacts of IFRS adoption are reflected in the strengthening of equity and sustainability as a primary factor of a going concern. Thus, (Manzano - Durán, Peñaranda - Peñaranda, & Luna - Quintero, 2021) explained how sustainability must be everyone's responsibility, mainly in an organization, since this will allow, with the achievement of positive results, to improve the quality of life of the current generation and that of future generations, and the adoption of IFRS, being transversal within an administrative process, has led to the inclusion of corporate policies apart from social and ethical responsibility as a characteristic factor of the continuity of a business, in aspects such as the credibility of its consumers regarding the transparency of the information and the behavior with the environment and society.

Taking into account that the IFRS adoption process is not the responsibility of the general manager and much less of the financial director, but on the contrary, being a systematic process in the organization, it is necessary, as stated by (Álvarez - Silva, Guarín - Rivera, & Bermeo - Giraldo, 2020) in their research, to define roles within the collaborators in order to carry out the IFRS adoption process successfully, avoiding resistance to changes in regulations and procedures. They conclude in their research that the best way to reduce this resistance obstacle is through a comprehensive training process on the new methodology to be applied.

In the research conducted by (Zambrano - Mercado, Muñoz - Hernández, Brito - Aleman, & Caro - Florez, 2020) stated that financial management is necessary and mandatory for the projection and structuring of the economic studies required by organizations, as it allows accounting operations to be executed in the correct manner, thus reducing threats. They also commented on the importance for the organizations of having a standardized and updated accounting management, since they are able to accelerate the procedure for decision making in investment activities, purchase and sale, credit management, among others, allowing the organizations to obtain greater benefits.

It is necessary to emphasize that the decision-making process in an organization is limited to the amount, timeliness, availability and adequacy of the available information, therefore, as stated by (González - Castro, Manzano - Durán, & Torres - Zamudio, 2021), it is necessary that the financial leader creatively and innovatively takes advantage of the evolution of ICT's in the world, in order to facilitate decision-making, whether individual or group, but without losing focus of the common financial objective of the organization in the search for maximizing profitability.

IFRS as a global standard for transparency and universality of information has been the subject of interest of several researchers, so much so that (Macías Cardona & Quintero, 2015) established the favorable and unfavorable consequences that such implementation has had in developing countries in different continents. The result obtained was achieved through a literature review of studies published in the Scopus journal and in which they concluded from the financial point of view that there is a low impact on cash flows and quality of information and diversity of views on the part of investors and those responsible for preparing financial reports in these developing countries.

Then, according to (Parra Urgiles, 2016), although the impact originated by the implementation of IFRS is synthesized in an affectation of the accounts of the statement of financial position, previously called balance sheet, it is necessary to clarify that the greatest international benefit is in the transparency of financial information, although this has been a great challenge for the business sector of SMEs, since to carry out such implementation depended on the academic capacity of the manager or accountant who in many occasions did not know the process.

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3. Methodology

This article is elaborated by means of a documentary type analysis, under a descriptive technique oriented towards qualitative characteristics; based on the collection and understanding of information from different research on the impacts of IFRS, for its subsequent analysis. The information was broken down in such a way as to provide research elements to facilitate future articles comparing the results and implications of the adoption of the international standard. Finally, the implications of the adoption of IFRS in the financial statements of ESPO S.A. in the period between 2014 and 2016 were analyzed.

4. Results

Considering that most of the companies in Colombia are family companies or SMEs, the IFRS process was analyzed in Empresa de Servicios Públicos de Ocaña S.A. "ESPO S.A.", classified in group 2. Initially the company had the need to hire an expert consultant in international standards called Ernst & Young, an international firm expert in IFRS, who for about \$ 80 million pesos as fees supported this process, it was also necessary to request the accounting software provider a new module to integrate IFRS policies with tax accounting, incurring in higher development costs.

On the other hand, the administrative process advanced by ESPO S.A. was costly, this matter consisted in standardizing the internal operational, technical and financial processes to the new accounting policy, for which support personnel was hired to help in the collection of information on fixed assets and their valuation, to make the calculations of net present value and to establish their residual value, according to the recommendations of the hired firm.

Today ESPO S.A. presents its financial reports under the international standard for SMEs to all its stakeholders, among which the shareholders and the Superintendence of Public Utilities stand out. To say that the IFRS has been a process of much attention and work, mainly for the leader of the financial area is not very far from the great majority of the Colombian SMEs, on the other hand, the monetary effort that the companies that are not listed in the stock exchange as the great majority of the SMEs had to assume for the implementation of the international standard was one of the most determinant implications.

Within the scope of the IFRS in the financial statements of ESPO S.A., the higher value of fixed assets, the increase in liabilities, mainly due to deferred tax and decommissioning provisions, which initially affected the company's ratios, stand out. With respect to revenues, the new standard requires that they be recognized when the service is rendered and not when it is invoiced, which affected the tax bases for determining income tax.

The IFRS process at ESPO S.A. was useful because it established a financial policy that ensures that the leader in charge of the financial area and senior management have criteria for the recognition of revenues, costs, expenses, assets and liabilities in such a way that it provides security and confidence to the users of the financial statements.

For ESPO S.A. the transition process to IFRS led to formulate a corporate social responsibility proposal, since the main input for the provision of the service is a non-renewable resource as a business sustainability factor. Taking into account the need to preserve water, it is important to highlight from the research of (Pacheco - Sánchez & Rodríguez – Téllez, 2019) the urgent need of the business sector to address the problem of social and environmental impacts that the Earth plant has had over the years due to man, so they propose good practices in the use of non-renewable resources, which ultimately will indirectly translate into a better perception of consumers and thus an increase in income.

5. Conclusions

The impacts of the IFRS on the financial statements of ESPO S.A. were determined and it was concluded that although it is not a company that values its shares in the stock exchange, it has the legal responsibility to adapt them. For the companies categorized in group 2, the impacts are not of great size, since most of them were limited to the valuation of fixed assets and the recognition of a deferred tax, but it did lead to an outlay of resources that affected the cash flow, since in order to achieve the implementation and avoid the penalties for omission, they incurred in hiring experts to support them in this process.

Finally, IFRS are important mainly for listed companies, because they allow companies from different countries to use the same globalized and standardized language, which will facilitate the analysis of financial information, on the other hand, it will be a factor of trust between the parties because it guarantees the transparency and suitability of the information provided, allowing the negotiation between companies from different countries to be carried out in a more agile way and without the parties feeling deceived.

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