Abstract

Globalization has laid down a way for all the countries to adopt a single set of accounting standards. Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. More than 100 countries have converged or recognized the police of convergence with the IFRS. IFRS are the globally accepted accounting standards and interpretations adopted by the IASB. In Present era of globalization multinational companies are establishing their businesses in emerging economies and they are increasingly accessing to global markets for capital needs by getting their securities listed in the stock exchanges outside the country. Such environment requires uniform accounting standards for global business. Hence one global accounting standard was developed and companies had to switch over from GAAP to IFRS. This paper focuses on the effects of implementation of IFRS on Indian companies for which the main issues is to know about the convergence of IAS with IFRS and all the issues related to convergence with Indian perspectives. This paper discusses the IFRS adoption procedure in India and the utility for India in adopting IFRS, the problems and challenges faced by the stakeholders and its impact on India. Lastly, paper concludes with the ways through which these problems can be addressed.

Key words: GAAP, IFRS, Convergence.
INTRODUCTION:
Globalization has changed the close economy into open economy. Now a day's national economy is integrating in international market with other countries by spreading their trade and business outside their own country. Foreign Direct Investments, Foreign Institutional Investors, Merger and Acquisition, Franchising and Business Outsourcing are some example of international transaction in global business. For the integrity of different country's business together in the world market it was necessary for the business to adopt a common set of accounting standard, since accounting is the language of a business. Therefore in 1973, international professionals from different countries established the International Accounting Standard Committee. Main objective to this committee is to issue International Accounting Standards, at this present time Ministry of Corporate Affairs notified 35 Accounting Standards.

In 2001 International Accounting Standard Committee are superseded as International Accounting Standard Board. Now the board issues the International Financial Reporting Standard formerly known as International Accounting Standards. Accounting Standards were prepared for some benefits in global market which are compelling. The use of common set of accounting standards throughout the world provides an easy way of comparability and transparency of financial information. It also reduces the cost of preparing financial statements. A constant use of accounting standards provides higher quality information which enables the investors to make a better decision. Indirectly fund will allocate in more efficient manner in the market and the company can reduce its overall cost of capital.

What is IFRS?
“A single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions”. IFRS in Indian context at present, Accounting Standards Board (ASB) formulates and issues accounting standards in India which are more or less in line with IFRS except for a few instances where departure is necessary to comply with the legal, regulatory and economic environment. Council of the Institute of Chartered Accountants of India (ICAI) opined in May 2006 that adopting IFRS was considered and supported by the ASB. IFRS task force was set up to provide a road map for convergence and it decided to converge with IFRS from the accounting period commencing on or after 1 April 2011. In India, Ministry of Corporate Affairs carried out the process of convergence of Indian Accounting Standards with IFRS after a wide range of consultative process with all the stakeholders in pursuance of G-20 commitment and as result thirty five Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called IND AS).
OBJECTIVES OF THE STUDY

1. To study the convergence of Indian GAAP with IFRS
2. To study the benefits of convergence of Indian GAAP with IFRS
3. To study the adoption procedure in India.
4. To study the beneficiaries of convergence in INDIA
5. To study the problems and challenges of IFRS.
6. To know the measure taken to address the challenges.

The convergence of Indian GAAP with IFRS

IFRS leads to more transparent financial reporting benefiting investors, customers and other stakeholder in India and overseas as it increases comparability among different sectors, countries and companies. Convergence with IFRS enables Indian companies to access Global Capital Markets and eliminate cross border listing and encourage more foreign capital flow to the country. Uniform Accounting Standard enables investors to understand better investment opportunities as against with different set of national accounting standard. Corporate would come to know its true worth as Fair valuation is mandated for many balance sheet items. Convergence to IFRS will increase the opportunities for Indian professionals.

Adoption or Convergence with IFRS

Adoption is the process of adopting IFRS as issued by IASB with or without modifications. Whereas Convergence is harmonization of national GAAP with IFRS through design and maintenance of accounting standards in a way that financial statements prepared with national accounting standards are in compliance with IFRS. Convergence to IFRS which is indeed a complex process will brings about a change in the following:

- Change in existing GAAP
- Changes in numbers reported
- Changes to the accounting policies
- Changes in procedures adopted by the company
- Changes in financial reporting systems and
- Improving the IFRS skills for company personnel.

Either convergence or adoptions both has important implication and will require synchronization of both internal and external reporting keeping in view that it can have a deep and wide impact on overall aspects of the organization as such mentioned below:

- Affecting investor relations
HR rewards
Debts covenants
Performance measures and
Investors and market expectations.

India has become an international economic force. Indian companies have surpassed in several sectors of the industry that includes ITES, software, pharmaceutical, auto spare part etc. To stay as a leader in the international market, India opted the changes it need to interface Indian stakeholders and international stakeholders and comply with the financial reporting in a language that is understandable to all of them. In response to the need several Indian companies have already been providing their financial statements as per US GAAP and/or IFRS on voluntary basis.

**IFRS financial statements consist of:**

a) Balance Sheet

b) Income Statements

c) Statement Showing Changes in Equity

d) Cash Flow Statement

e) Accounting Policies & Notes

**Benefits of convergence of Indian GAAP with IFRS**

Globalization has prompted more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognize the benefits of having commonly accepted and understood financial reporting standards. Following are some of the benefits of adopting IFRS:

- Improved access to international capital markets
- Lower cost of capital
- Benchmarking with global peers
- Enhanced brand value
- Avoidance of multiple reporting
- Reflecting true value of acquisitions
- Transparency in reporting

**Key study on convergence with IFRS in India**

Adoption of IFRS has become a vital issue of discussion and debate in the different country. Due to the variation in different country’s GAAP of an individual country, a threat is always sustain on the harmonization of accounting standards. IFRS is one of the best financial reporting
systems, which does not include any country with variation of accounting policies. Now a single set of financial reporting is final statement to present across the world at a reduced cost and more reliable, transparent and fair reporting of an entity. These benefits are attracting each country to set mandatory for adopting IFRS in their country. India has also mandate the IFRS for financial reporting statement from 1st April 2011 but still India have been not succeeded to resolve its issues relating to conversion with IFRS such as taxation. Corporate Affairs Minister Salman Khurshid said on the sidelines of an Assocham seminar on International Financial Reporting Standards (IFRS) here “We are still working on fair value concepts and other issues like depreciation, but I can assure you that we will stick to the roadmap laid for the convergence of Indian standards with the IFRS”.

After enactment of Companies Act 2013 the ministry of corporate affairs has focus to implement IFRS from April 1 2011. According to the draft plan the ministry announce to implement IFRS in the companies having turnover over Rs. 1000 crore from April 1 2015 and from April 1 2016 for those whose turnover is between Rs. 500 crore to Rs. 1000 crore but the professionals are still having difference on how to get fair value of assets and liabilities. Therefore India needs to develop its conference regarding to IFRS convergence. Also need to develop some training programs for IFRS policies. For the purpose of successful conversion of IFRS with Indian Corporate, India needs to have efficient professionals to operate in this field. Apart from this, IFRS require the fair market value applications in financial reporting this may create significant differences in financial information currently presented in financial reports. This may result in the reduction in earnings of the company. Therefore Indian companies will have to create awareness amongst its customers, investors and stakeholders as well as they need to make clear themselves to explain the reason for this changes and maintain understanding, transparency and reliability of their financial statements. Due to the lack of availability of professionals with adequate valuation skills to stimulate Indian Corporate to get fair value estimate, India has not gain benefits of IFRS. But those companies are talking the challenging of convergence of IFRS effectively have succeed to get more earning in the last year like IT companies have gain benefits from the convergence with IFRS.

AzimPremji, Chairman of Wipro, commenting on the results said – ”There are positive indicators on the global economy. Client confidence is on the uptick and we see it reflected in our results.”

**IFRS adoption procedure in India**

To rationalize accounting practices in the country, the Indian government in 1949, established Institute of Chartered Accountants of India by passing ICAI Act, 1949. Accounting Standard Board was constituted by ICAI in 1977 in order to create harmony among the diversified
accounting policies and practices in India. Three steps process was laid down by the accounting professionals in India which are summarized as follows:

**Step 1- IFRS Impact Assessment.**

This is the first step. In this step the firm will assess the impact of IFRS adoption on Accounting and Reporting issues, on procedures and systems, and on core business of the entities. Then the firm will find the key conversion dates according to IFRS training plan has laid down. As and when the training plan is in place, the firm will have to identify the important Financial Reporting Standards which will apply to the firm and also the variations among the present financial reporting standards being followed by the firm and IFRS both.

**Step 2 – Preparations for IFRS Implementation**

This is the second step of the process, which will carry out such activities required for IFRS implementation process. Then the firm will reform the internal reporting systems and processes. IFRS first deals with the adoption and implementation of first time adoption process.

**Step 3 – Implementation**

This is the final step of the process which deals with the actual implementation of IFRS. The initial phase of this step is to prepare an opening Balance Sheet at the date of transition to IFRS. To understand the actual impact of the transition from the Indian Accounting Standards to IFRS is to be developed. This will follow the full application of IFRS as and when it is required. At the initial stage of implementation of IFRS requires lot of training and various technical difficulties may be experienced. The smooth implementation of the transition from Indian Accounting Standards to IFRS, regular training to personals and identify the problems while carrying out the implementation.

**Beneficiaries of Convergence with IFRS**

The researchers have pointed out several beneficiaries to the convergence of Indian Generally Accepted Accounting Principles (GAAP) with IFRS. Some of them are discussed here below.

1. **The Investors:** Convergence of Indian Accounting Standards with IFRS makes accounting information more reliable, relevant, timely and comparable across different legal and economic frameworks and requirements since it would then be prepared by using a common set of accounting standards which will facilitate the investors who willing to invest in the countries apart from India. It will also develop better understanding of financial statements worldwide which increase the confidence among the people as investors.

2. **The Industry:** The other important set of beneficiary the researchers come across is the industry which in the event of convergence with IFRS will be benefited because of some basic
reasons. Firstly it will enhance confidence in the minds of the foreign investors, secondly, it decreases the burden of financial reporting. Thirdly, it would make the process of preparing the individual and group financial statements easier and simplest, and the last and important one is that this will reduce cost of preparing the financial statements using different sets of accounting standards.

3. **Accounting Professionals**: However, there would be initially many problems but convergence with IFRS would surely benefit the accounting professionals and it will be helpful them to sell their talent and expertise across the globe.

4. **The corporate world**: Convergence with IFRS would build the reputation and long lasting relationship of the Indian corporate world with the international financial entities. Moreover, the corporate entities back in India would be benefited because of several reasons. The higher level of consistency will be maintained between external and internal reporting, two, because of better access to global financial markets, three, it will improve the risk rating and makes the corporate world more and more competitive globally as their comparability with the global competitors will increase.

5. **The Economy**: All the discussions made above explains how convergence with IFRS would help industry grow and is beneficial to the corporate entities in the country as this would make the internal and external highly consisted, and it will report improvement in the risk rating among the foreign investors. Moreover, the international comparability is also benefiting the industrial and capital markets in the country which lead to better economy across the country.

**PROBLEMS AND CHALLENGES**

IFRS are formulated by International Accounting Standard Board. However, the responsibility of convergence with IFRS vests with local government and accounting and regulatory bodies, such as the ICAI in India. Thus ICAI need to invest in infrastructure to ensure compliance with IFRS. India has several constraints and practical challenges to adoption and compliance with IFRS. So there is a need to change some laws and regulations governing financial accounting and reporting in India. There are some legal requirements which determine the manner in which financial information are presented in financial statements. For example...The Companies Act provides the format for preparation of financial statement but this may be different from the requirement under IFRS. One more example is related to Business Combination-under Indian GAAP, acquisitions are accounted at book values of identifiable assets and liabilities of the acquire, with the excess of consideration over the net book value recognized as goodwill. Under IFRS, accounting is done for all assets including hidden intangibles at fair value. As the assets are recognized at fair value, amortization of these assets will reduce future year profits under IFRS. Other problem is there is lack of adequate professionals with practical experience of IFRS conversion; therefore Indian Companies have to
rely upon external advisors and auditors which are costly. Another issue is Indian GAAP should have been formulated on the basis of the principles of IFRS which may show differences between Indian GAAP and IFRS. At the end some principles need to be amended, implements or remove in the Indian GAAP. For example, use of pooling of interests method in accounting for business combination is not available in the principles of IFRS. Thus it should be eliminated from Indian GAAP.

Therefore there are several challenges that will be faced on the way of IFRS convergence. These are:

1. Difference in GAAP and IFRS: Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

2. Issue of GAAP Reconciliation: The Securities Exchange Commission (SEC) laid out two options in its proposal—one calling for the traditional IFRS first-time adoption reconciliation, the other requiring that step plus an on-going unaudited reconciliation of the financial statements from IFRS to U.S. GAAP which is clearly more costly approach for companies and for investors.

3. Training and Education: Lack of training facilities and academic courses on IFRS will also pose challenge in India. There is a need to impart education and training on IFRS and its application.

4. Legal and Regulatory considerations: Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.

5. Taxation: IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.

6. Fair value Measurement: IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of instability and prejudice to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.

7. Re-negotiation of Contract: The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP.

8. Reporting systems: Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should
be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc.

MEASURES TAKEN TO ADDRESS THE CHALLENGES
1. For changes required in rules and regulations of various regulatory bodies, draft recommendations have been placed before Accounting Standard Board.

2. The ICAI issued 30 interpretations of accounting standards, with a view to resolve various intricate interpretational issues arising in the implementation of new accounting standards.

3. Guidance notes have been issued by ICAI for providing immediate guidance on accounting issues.

4. To facilitate discussions at seminar, workshops, etc., ICAI has issued background material on newly Issued accounting standards.

5. For the purpose of assisting its members, the ICAI council has formed an expert advisory committee to answer queries from its members. Moreover to face the challenges we need to take more effective steps like we should build adequate IFRS skills professionals by investing in training processes for Indian accounting professionals to manage the conversion projects for Indian corporate. This can be done by research on effect of IFRS conversion in different countries and brief knowledge of IFRS should be added into the studies for professional courses with worldwide latest examples.

CONCLUSION
From the above debate it is very much clear that conversion from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended because the measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS are creditable and give the positive idea that the country is ready for convergence. Keeping in mind the fact that IFRS is more a principle based approach with limited implementation and application guidance. All accountants whether practicing or no practicing have to participate and contribute effectively to the convergence process so the need is to have a systematic approach to make the organization and the investors ready for the change and the standards ready for renovation. Moreover, corporate need to gear themselves for constant updating and not only for the first time adoption. This would lead to subsequent revisions from time to time arising from its global implementation and would help in formulation of future international accounting standards. A continuous research is in fact needed to harmonize and converge with the international standards and this in fact can be achieved only through mutual international understanding both of corporate objectives and ranking attached to it. However, senior management at many companies views IFRS as a Finance priority because of the required
changes in accounting practices but Indian Corporate World which has been preparing its Financial Statements on Historical Cost Basis will have tough time while shifting to Fair Value Accounting.

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