OPORTUNITIES AND CHALLENGES FOR ADOPTING IFRS CONVERGED IND-AS

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Abstract:
The International Financial Reporting Standards (IFRS) being the global accounting language have received world wide acceptance and are been adopted by many leading countries like the United States, the European Union, Australia and Brazil. The IFRS now being the universally accepted form of Accounting the adoption of IFRS in India has been motivated by the need to ensure greater comparability, higher transparency with high quality of financial reporting. The emergence of IFRS in India like the rest of the nation marks out to be the biggest revolution in financial reporting, notwithstanding the challenges of convergence in India. In order to harmonize the financial reporting worldwide, the Institute of Chartered Accountants of India (ICAI) has come up with guidelines in adapting to these standards. In this context, now the Ministry of Corporate Affairs (MCA) of India has made IFRS a mandatory affair of financial reporting. In order to smoothen this complex and significant process with minimal flaws, the ICAI has come up with IFRS converged Indian accounting standards popularly called Ind-AS in phased manner considering its practical viability in the Indian context. Keeping in view the present development status of accounting reforms in India, this descriptive study focuses on the extent to which India is prepared for convergence to IFRS with its compatibility in the India’s economic, legal and regulatory environment. The aim of the study is to identify the
unique challenges of convergence and offer suitable suggestions to address those challenges identified. The study attempts to establish the comparison of India’s initiative in this regard as a developing nation adapting to the international standards with that of other developing countries like Nigeria, New Zealand and China who are half way through in adopting these global accounting standards along with such 100 more nations besides the United States. The study discusses about the major benefits that the new accounting reform offers to stakeholders both national and global also highlights the unique challenges faced by India in this process of convergence. The study is based on the secondary source of data wherein the opportunities and challenges of convergence is explored at the outset. The study finds that in spite of the fact that there are some real time measures have been adopted to make IFRS Converged Indian Accounting Standards drive successful in India there are some measures that are required to be taken by all the stakeholders in addition to the existing level of preparedness in order to ensure that they on par with the international accounting map. The result of the study stresses on the urgency in equipping the professionals, accounting researchers, academicians and the accounting community at large with the advanced technical accounting skills which can be attained through complete understanding of the Ind-AS with their practical applicability, through intensive training, wide exposure and experience in the field backed by the effective compatibility with the Law of the nation.

**Key words:** IFRS, IND-AS, convergence, preparedness, accounting reforms.

**Part I: Introduction:**

IFRS, formerly known as International Accounting Standards (IAS) are the standards that provide framework for the preparation and presentation of financial statements adopted by International Accounting Standard Board (IASB). On 1st April 2001 the new Board named International Accounting Standard Committee (IASC) took the responsibility of setting new International Accounting Standards which are now called IFRS. IFRS are the principles based set of standards that establish broad rules and also dictate specific treatments. International Financial Reporting Standards comprises of:

- International Financial Reporting Standards (IFRS) - standards issued after 2001
- International Accounting Standards (IAS) - standards issued before 2001
- Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC) - issued after 2001
- Standing Interpretations Committee (SIC) - issued before 2001
The objectives of this paper are:

1. To know the structure of IFRS; and
2. To explore the opportunities and challenges of adopting IFRS Converged Ind-AS; and

IFRS has set a new revolution in global accounting as it offers the wide range of benefits like uniformity, transparency and comparability of financial reporting which is imperative to compete in the world market and also to attract foreign investments because of the fact that IFRS offers common language of understandability. India being a growing market for investments too is on the road of complying with global accounting requirement by coming up with new form of Accounting Standards (ASs) called Indian Accounting Standards (Ind-AS) which are in line with IFRS feasible to the Indian context. The ICAI has presented a tentative road map to the Ministry of Corporate Affairs (MCA) for implementation of IFRS as an apex accounting standards setting body in the country. The road map outlined the implementation of IFRS for different companies as follows:

• Companies which have net worth of Rs. 1,000 crores, listed or unlisted, should implement IFRS from the year commencing April 1, 2015.

• Companies which have net worth of between Rs. 500 crores and 1,000 crores, listed or unlisted, should implement IFRS from the year commencing April 1, 2016.

• All other listed companies which have net worth of below Rs. 500 crores, should implement IFRS from the year commencing April 1, 2017.

• The road map does not apply to banking, NBFCs, and insurance companies, but it is left to the discretion of regulatory authorities like RBI, IRDA (Insurance Regulatory and Development Authority) to decide the road map for banking and insurance companies, respectively.

There is an urgent need to converge the current Indian accounting standards with the International Financial Reporting Standards (IFRS) or else the Indian economy’s trade with other countries will suffer and the investments by other countries in India will also decline. Thus, India is now into the convergence of IFRS.

Methodology:

The Study is exploratory in nature. The data required for the study has been collected from the secondary source. The discussion is made based on the theoretical issues relating to IFRS Converged Ind-AS. The study has explored the opportunities for India in the process of Convergence and identified the challenges of adopting IFRS in the Indian scenario and suggestions have been offered to address the challenges so identified.
Part II: Discussion

The process of convergence Accounting Standards with IFRS started in 2001. Developing countries like China, Nigeria, Newzealand and many others have already started adopting their Accounting practices in line with IFRS. A statistical study made on economic consequences of IFRS adoption in Nigeria (Tsegba, W.E, 2013), revealed that there is lack of education, understanding and experience by preparers of financial reports with the use of IFRS. Another study on economic consequences of IFRS adoption in Newzealand (Nurul Houqe, 2013) on the sample of 354 listed companies found that there is negative association between IFRS adoption and cost of capital. The study showed that IFRS are a higher quality set of standards that require greater updating of knowledge.

The results of above studies evince the fact that convergence or adoption of IFRS needs lot of preparation and in this respect it may be observed that India has taken almost a decade for adopting the convergence process. It has strategically planned the implementation of the same in a phased manner considering various regulatory and legal issues prevalent in India by addressing to the intricacies involved in the first time adoption of IFRS. Thus, the ICAI being the statutory body, with support of other Accounting Standards Setting Bodies like NACAS, SEBI and also with the help of other relevant Acts like Companies Act of 1956 and Income tax Act has come up with the new set of Accounting Standards called the Indian Accounting Standards (Ind-AS) keeping in view all the probable issues that could contradictorily encounter the smooth adoption of IFRS in India. The MCA has also stressed on the implementation of the same on mandatory basis.

The ICAI set out roadmap with support of MCA for implementation of IFRS converged Indian Accounting Standards are in a phased manner, Phase – I beginning from the accounting period commencing on or after 2011, Phase – II commencing from 2013 and the Phase – III commencing from 2014. Hence, Ind-AS is certainly an evolution in India.

Part III: Opportunities of IFRS Converged Indian Accounting Standards:

High quality financial reporting standards are imperative for the economic development and for the effective functioning of capital market in emerging third world economies like India. In this context, Ins-AS offers wide opportunities to various stakeholders like investors, corporate, Regulatory Bodies, Accounting Professionals, Government and Economy at large.

a. For investors: Ind-AS provides greater insights to both local and foreign investors in decision making in terms of determining the investment portfolios as India is emerging out to be the investment hub during the recent past.
b. **For Corporate**: adopting Ind-AS is a sign of competitiveness which gives them a better edge to enter the global platform. Besides, the IFRS has turned out to be the need of the hour for major Indian companies to adopt international standards of financial reporting which encourages them to be listed on foreign stock exchanges.

c. **For Regulatory Bodies**: Enforcing such high standards of financial disclosures that indeed serve good the governance purposes.

d. **For Accounting Professionals**: Acquiring the knowledge of Ind-AS and IFRS not only keeps the accounting professionals at par with the global trend since there is lack of resourceful personnel in this regard it also advantageous for them to create huge demand to sell their professional expertise.

e. **For the Government**: there will be huge inflow of investment as wide spectrum of transparency is ensured.

f. **For the Economy**: India being a growing economy has a greater need to attract foreign investments, IFRS is an appropriate system that makes it possible due to the fact that the expectations of foreign and local investors like the uniformity of accounting language, transparency in financial reporting and comparability are satisfied.

Apart from the benefits mentioned above, IFRS converged Indian Accounting Standard provides wide scope for universal comparisons of financial statements which is major factor of investment decision making as it also offers the advantage of universal understandability and acceptability of the financial disclosures. It also helps in better policy formulation of companies and Government at large.

**PART I V: Challenges of Adopting Indian Accounting Standards:**

The major challenges faced by India in the process of Convergence of Indian Accounting Standards with IFRS are:

i. **Resistance to Change**: As unlearning the acquainted local Accounting standards to equip with entirely different and complicated knowledge of international Accounting standards for accounting professionals and stakeholders becomes a tedious job. This leads ‘resistance to change’ as it psychologically affects the mindset of some professional.

ii. **Difficulty in 100% compliance**: It is very difficult to ensure 100% compliance to global standards as countries cannot modify certain standards that are inn national interest. Incomplete compliance leads to incomparability of financial statements which turns out to be a major demerit.

iii. **Overriding prevailing rules and regulations**: Ind-AS at its verge of making the nation IFRS ready may override prevailing rules and regulation in the country. To mention,
the Income Tax laws in India are very complex and not much conducive to the implantation of international standards.

iv. **Fear of losing profits**: Indian companies are bound to incur decline in profits during the initial stages of switching over as their accountants will be still learning the process of new financial reporting.

v. **Cost of Training**: Ind-AS requires intensive technical training required to be imparted to the management and staff of the companies, National Accounting Standard Setters, Accounting professionals and academic community at large which is laborious and expensive process.

vi. **Uncertainty of expected yield**: Besides the above mentioned challenges, what the really the benefit that the country will reap by implementing such a complicated process is uncertain because every nation has its own economic conditions.

**PART V: Present Status of Convergence:**

Despite the challenges, formulation of IFRS Converged Ind-AS is considered to be the most significant milestone in the Indian Accounting system and the present status of Convergence is precisely presented below:

1. IFRS are thoroughly reviewed and no change is made unless essential, taking into consideration the Indian conditions.
2. Optional treatments prescribed by IFRS, are removed to ensure compatibility to Indian environment.
3. Conceptual differences that arise in compliance are identified and dealt separately by IFRS. As far as the ICAI is concerned, presently 36 Standards are cleared by the Council and two more standards are set before Accounting Standard Board for clearance. The NACAS has cleared 23 Accounting Standards and issues regarding 13 more to be resolved in the subsequent meetings.

**MCA initiates for Convergence:**

A press release by MCA revealed that, two separate sets of AS u/s 211 (3C) of the Companies Act, 1956.

a. Ind-AS converged with IFRS will be applicable to the specified class of companies in three phases
b. Accounting Standards are applicable to small and medium companies to whom the convergence is optional.
MCA has constituted the core group headed by the MCA secretary comprising of two subgroups to finalize the roadmap of convergence, to amend certain rules and regulations and to address certain industry specific issues.

Recent Developments:

The recent developments in the process of Convergence are:

- IFRS compliant Schedule VI to the Companies Act has been formulated and approved by NACAS.
- Draft of Schedule XIV to the Companies Act will be finalized shortly.
- Scheme of numbering IFRS converged Ind-AS has been finalized.

Significant initiatives taken by ICAI to achieve convergence to overcome the challenges are:

ICAI is playing a predominant role in providing education and training to all the concerned stakeholders for the implementation of IFRS.

- Certificate courses on IFRS have been launched. Around 2000 members have undergone this course.
- IFRS e-learning course has been started.
- A large-scale IFRS awareness drive has gained momentum by conduction of workshops at various parts of the country in collaboration with MCA. As a part of this awareness drive, 14 workshops have been organized and attended by more than 850 delegates (Raghu, C.K, 2014).

Suggestions and Conclusion:

Following are the some of the suggestions that can be taken into consideration with regard to effective implementation of Ind-AS:

1. The number of workshops, seminars and conferences that are been conducted should be increased rigorously to Academicians, Industrialists and professionals at large.
2. The gap between accounting theory and practice needs to be built by organizing orientation programmes amongst Industrialists and Academicians.
3. Leading Indian Associations like CII (Confederation of Indian Industries) should pro actively participate in the drive of educating Industrialists and Accounting professionals.
4. Effective implementation of IFRS converged Indian Accounting Standards is possible only when researches are conducted on the Global case studies. Thus, researches should be pervasive.

5. The preparedness in incorporating Ind-AS can be successful only when the knowledge towards the field is imparted from grass root level to the higher end. Thus, IFRS certainly needs to be included in the pedagogy of the UG and PG courses of commerce and management in India.

To conclude, the convergence of IFRS is no doubt a complex process that involves high cost, time and resources. As the benefits expected to accrue to the firms are significant, consistent efforts are to be made by firms for speedy convergence of IFRS. This requires a high level commitment by the top level management to train its staff in understanding and application of the IFRS. The benefits derived by those companies who are already adapting IFRS may be thoroughly analysed and their experiences may be helpful for easy adaptation by others. Thus, the need of the hour is to motivate top management to adapt faster to IFRS, provide training to accounting staff on IFRS and create awareness in investors about IFRS.

References


