Convergence of Indian Accounting Standards with IFRS – Prospects & Challenges

Dr. Ramesha V,
Assistant Professor and Coordinator,
Department of PG Studies in Commerce,
Govt. First Grade College for Women,
Hassan - 573201.
mathrushree.ramesh@gmail.com
09141067677

Abstract
The New Economic Policy 1991 opens doors to Indian companies to expand their business activities across the world. This LPG policy emerged the development of many MNCs in the world. The fruits of globalization are many. But the major problem is mismatching in accounting standards prevailing the different countries. Each country has its own rules and regulations besides generally accepted accounting practices in preparation of financial statements. In time of globalization each company wants to grasp the opportunity at global level, it is very hard to understand numbers and take decision for stakeholders and management. All these problems forced for the development of International Accounting Standards Committee in the year 1982 and it sets various standards to harmonize accounting practices. To acquaint with it, Indian Accounting Standard would need to converge with IFRS. Thus, it is necessary to know that to whom it will be benefited and which are the barriers in the name of challenges to face. This paper throws a light on SWOT analysis of IFRS and benefits of convergence.

Key Words: New Economic Policy, LPG, MNCs, IASC, Convergence, IFRS and SWOT.

Introduction
Accounting is called language of the business by which business can communicate with the stakeholder of the business. Each and every company should prepare the financial statements to communicate with them by their countries Generally Acceptable Accounting Principles (GAAP). To make uniformity in the all world new system of presenting financial statement or the new language of accounting for the world is International Financial Reporting Standard (IFRS).

The International Financial Reporting Standards (IFRS) aims to make international financial reporting comparisons as early as possible because each country has its own set of accounting rules. For example, US GAAP is different from Canadian GAAP and both are far apart from India.
GAAP. Synchronizing accounting standards across the globe is an ongoing process in the international community.

The increasing pace of globalization over recent years has forced the pace for the adoption of truly comparable and consistent international accounting standards. A decade ago, national versions of GAAP were commonplace. Nowadays, IFRS has gained broad acceptance and is used in over 100 countries. The United States is moving towards the convergence of US GAAP and IFRS, with the present time table indicating that the set of standards will be applied to large public companies in 2014, though some should have the option to make the move even earlier. Since early 2008, IFRS has been allowed in the United States without reconciliation for foreign private issuers. The Securities and Exchange Commission’s (SEC) road map suggests that the decision over the future may be subject to delays.

Presently, the widespread use of US GAAP rather than IFRS can create difficulties for financial analysts, given the challenges in making financial comparisons. However, the timeliness for change are far from clear. A joint initiative by the Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB) is aiming to converge existing standards into a single set of standards. In contrast, IFRS has been a requirement in Europe for listed companies since 2006.

In light of the increasingly international trend of IFRS, some emerging economies have been quick to adopt IFRS as their national version of GAAP.

Therefore, in the present era of technology the implementation is necessary for the legal as well as from the interest of the stakeholder’s point of view. For acquainted with the world, India will implement IFRS with in short period with the full dedication.

**Research Methodology**

The study is analytical one. It has been carried out with the help of secondary data collected from various journals, text books and internet sources. The official website of ICAI and IFRS have been referred in writing this paper.

**Statement of the problem**

The New Economic Policy 1991 envisaged the development of LPG and opened doors for international business. This creates ample of opportunities but at the same time it creates a problem of accounting diversity. Since 1970s attempts are continuous in solving these diversities. This prompts the academic researcher to undertake the problem.
Objectives of the study

1. To study the Indian scenario of IFRS adoption.
2. To study the advantages of IFRS adoption.
3. To give suggestions regarding IFRS adoption and academic study.

Literature Review

Chand & White (2007) in their paper on Convergence of Domestic Accounting Standards and IFRS, demonstrated that the influence of Multinational enterprises and large international accounting firms can lead to transfer of economic resources in their favor, wherein public interests are usually ignored.

Elena et al (2009) in their article dealing with the issues of convergence between US GAAPs and IFRS were of the opinion that the adoption of IFRS in the USA undoubtedly would mark a significant change for many US companies. It would require a shift to a more principles based approach, place for greater reliance on management judgment and super major changes in company processes and systems.

Vellam (2004) discusses whether the convergence between national GAAP and IAS/IFRS can be achieved in practice, by describing the differences between polish financial reporting and the IASB conceptual framework. The preference of polish accounting system for a tax orientation and the lack of an effective enforcement of international accounting standards are perceived as the main reasons of a full compliance of IAS/IFRS requirements.

SWOT analysis of IFRS

It is a curiosity to study the SWOT analysis of the IFRS to understand the status of IFRS the list of strengths and weaknesses are as follows.

A. Strengths:
   ➢ Easier to compare with other systems (US GAAP or other national rules)
   ➢ Consistent systems are common
   ➢ Increased transparency
   ➢ Easier review of changes in the accounting rules

B. Weaknesses:
   ➢ Resistance to transition from the standards
   ➢ Common to the UK and North-America systems
   ➢ Inflexible structure built on existing standards
C. Opportunities:
- Instead of uniform world standards, uniform global accounting law
- Global system of references
- Support to the American transition

D. Threats:
- Reaction to changes in the world is less flexible in a fixed structure (e.g. accounting of new types of revenues) after getting accustomed.

Advantages of IFRS compared to GAAP reporting standards

The following are the advantages of IFRS when compared to GAAP reporting standards:

1. **Focus on investors**
   One of the significant advantages of IFRS compared to GAAP is its focus on investors as they can read and understand the financial statements which are in simplified form.

2. **Comparability**
   As all companies, preparing their consolidated financial statements, have been reporting under one reporting standard have improved the comparability not only for investors, but also all stakeholders who use the financial statements.

3. **Standardization of accounting and financial reporting**
   The most mentioned factor about the advantages of IFRS has been the standardization of financial reporting which eventually improves the comparability of financial statements in major financial markets. This also removes the trade barrier, as this was one of the key factors as why the EU has been trying to adopt single reporting standards.

4. **Improved consistency and transparency of financial reporting**
   This factor can also be mentioned as one of the crucial advantages of converting to IFRS as it makes the EU member countries to be consistent not only on macroeconomic aspects, but also on financial reporting which improves relationship between investors and companies among member countries.

5. **Better access to foreign capital markets and investments**
   As thousands of companies in Europe and other joining countries across the world has already created a huge base for IFRS adoption, it also improves the companies to access to financial markets by having the financial statements prepared under one reporting standards.
6. Improved comparability of financial information with global competitors

The comparability of financial statements under IFRS will be improved only if the adoption of IFRS expands including more countries. However, the comparability of financial statements get worse if the same country uses two different sets of reporting standards, thus IFRS and national reporting standards.

Disadvantages of IFRS compared to GAAP reporting standards
1. The most noteworthy disadvantage of IFRS is related to the costs related to the application by multinational companies which comprise of changing the internal systems to make it compatible with the new reporting standards, training costs and etc.
2. The issue of regulating IFRS in all countries, as it will not be possible due to various reasons beyond IASB or IASC control as they cannot enforce the application of IFRS by all countries of the world.
3. Issues such as extraordinary loss/gain which are not allowed in the new IFRS still remain an issue
4. Another major disadvantage of converting to IFRS makes the IASB the monopolist in terms of setting the standards. And this will be strengthened if IFRS is adopted by the US companies. And if there is competition, such IFRS vs. GAAP, there is more chance of having reliable and useful information that will be produced during the course of competition.

IFRS: The Road Ahead

The Indian Ministry of Corporate Affairs (MCA) has released a roadmap for the adoption of Indian Accounting Standards (Ind AS), which are largely converged with International Financial Reporting Standards (IFRSs), by Indian banking, insurance and non-banking finance companies. These companies were exempt from the general roadmap announced in January 2015. In January 2015, the MCA released a roadmap requiring that companies with a net worth of Rs. 500 crore or more will have to mandatorily follow Ind AS from 1 April 2016. Corporates having a net worth of less than Rs. 500 crore but are listed, or in the process of getting listed, and companies with a net worth of Rs. 250 crore or more will have to follow the new norms from 1 April 2017. For banking, insurance and non-banking finance companies, which were exempt from the general roadmap, a separate one has now been drawn up that will see a phased approach with Ind AS adoption beginning from 1 April 2018. The details of the new road map are: Banks and insurers: Scheduled commercial banks (excluding regional rural banks) and insurance companies will be required to prepare Ind AS based financial statements for accounting periods beginning from 1 April 2018 onwards. Ind AS will be applicable to both consolidated and individual financial statements. Holdings, subsidiaries, joint ventures or associate
companies of scheduled commercial banks (excluding regional rural banks) will be required to prepare Ind AS based financial statements for accounting periods beginning from 1 April 2018 onwards. Urban cooperative banks and regional rural banks are not required to apply Ind AS and will continue to comply with the current accounting standards applicable to them. Non-banking financial companies: Phase I companies required to prepare Ind AS based financial statements for accounting periods beginning from 1 April 2018 onwards (consolidated and individual financial statements) are: non-banking financial companies having net worth of Rs. 500 crores or more; and holdings, subsidiaries, joint ventures or associate companies of the companies above other than those companies already covered under the general corporate roadmap. Phase II companies required to prepare Ind AS based financial statements for accounting periods beginning from 1 April 2019 onwards (consolidated and individual financial statements) are: non-banking financial companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than Rs. 500 crores; non-banking financial companies that are unlisted companies, having net worth of Rs. 250 crores or more but less than Rs. 500 crores; and holdings, subsidiaries, joint ventures or associate companies of the companies above other than those companies already covered under the general corporate roadmap. Non-banking financial companies having net worth below Rs. 250 crores and not covered under the above provisions shall continue to apply the current accounting standards applicable to them. did not match with any results.

**Convergence**

The term convergence refers to bringing together two or more things. It is essential since there are accounting diversities. Convergence with IFRSs means “to design and maintain national accounting standards in a way that financial statements prepared accordance with national accounting standards draw unreserved statement of companies with IFRSs. Convergence is harmonization of national GAAP with IFRS through design and maintenance of accounting standards in a way that financial statements are prepared with national accounting standards are in compliance with IFRS.

**Need for convergence**

The convergence of Accounting Standards is gaining importance among accounting circles. There are pressures in favor of accounting convergence. The main objective is arriving uniform set of accounting standards. The main reasons for the development of convergence are

- International of national business concerns.
Need of increased foreign capital.

Growth of international markets.

Business Process Outsourcing (BPO)

Growth of international audit firms.

Beneficiaries of Convergence

1. **The Investors**: The investor will be benefited as the information made available to him is more reliable, relevant, timely and most importantly the information will be comparable across different legal framework. It develops better understanding and confidence among them.

2. **The professionals**: The professional, both in practice and in employment will get benefits as they will be able to provide their services in various part of the world, as few years after everybody will follow the same reporting standards.

3. **The corporate world**: The Indian corporate world reputation and relationship with international finance community will elevate because of achievement of higher level of consistency between reporting structure and requirements, better access to international markets, improving confidence among the international investors.

4. **Benefit to economy**: If an economy has adopted the policy of globalization and liberalization, the convergence with IFRSs in increasingly required. The convergence increases the confidence of all people.

Opportunities from IFRS’s Convergence

1. **International Opportunity**: Indian CAs can take their professional abilities and deep knowledge anywhere around the world.

2. **Potential Demand of Valuation Experts**: As per the IFRSs assets and liabilities are to be recognized at fair values. This fair valuation will require valuers. This is one new area that can be explored by CAs.

3. **Appointment in Companies as IFRS specialist**: Companies would be working along the teams of experts and consultants. CAs would be required for interpreting the various complex issues and preparing financial statements according to the standards. The banking industry in India which is most affected by the implementation of IFRSs will also require these professionals as this industry will have to prepare its financial statements as per the new standards.

4. The persons with expertise in international accounting standards will also have an edge over others in educational institutes which are running certificate diplomas and training programmes in this area.
5. **Continuing Professional Education**: Intensive IFRS training needs to be imparted to key management personnel of companies. ICAI has taken steps in this regard.

**Arguments for and Against the Convergence of International Accounting Standards**

**Arguments for the convergence are**
- Renewed clarity,
- Possible simplification,
- Transparency
- Comparability between different countries on accounting and financial reporting.
- An increase of capital flow and international investments, which will further reduce interest rates and lead to economic growth for a specific nation and the firms with which the country conducts business. Timeliness and the availability of uniform information to all concerned stakeholders will also conceptually make for a smoother and more time-efficient process.

**Arguments against accounting standards convergence are**

- The unwillingness of the different nations involved in the process to collaborate based on different cultures, ethics, standards, beliefs, types of economies.
- The time it will take to implement a new system of accounting rules and standards

**Challenges in convergence with IFRS**

In spite of lot of benefits enjoyed by several people, Implementation of IFRS is not a cup of tea for each country. There are several impediments & practical challenges for the adoption of IFRS.

1. **Significant costs of convergence**: Each country’s accountants, regulators, faculty, students & auditors must learn IFRS. There should be relevant text books for learning. There should be proper infrastructure facilities also.
2. **Legal & regulatory requirements**: The national accounting body has to coordinate with the rules and regulations of statutory regulators.
3. **Special auditing challenges**: All business entities in the country have to meet certain requirements with the companies act.
4. **Level of preparedness**: It is imperative to Indian corporate to improve their preparedness for IFRS adoption within deadlines.
5. **Educating investors**: It is a very challenging task to education over populated country where still illiteracy is more 50% and uneducation is more than 90%.
6. **Conceptual differences:** The differences between IFRS and Indian Accounting Standard may produce certain hurdles in implementation of IFRS. E.g., present value and fair value measurement and recognition are different.

7. **Training:** Proper training in the form of international seminars, conferences and workshops must be provided to educate professionals. But due to deadline, it is a very short period to educate through education and training.

8. **Problem of co-operation:** The success of the convergence effort in India depends on cooperation received by ICAI from the government, regulators, tax authorities, courts & tribunals.

9. **Shortage of resources:** Adoption of IFRS by approximately 6000 listed companies would result in a significant demand for IFRS resources.

10. **Taxation:** IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change.

**Conclusion**

IFRS is a single language of accounting which is very much helpful for the preparation and presentation. Different people opines differently for the adoption of IFRS. The switching over to IFRS is a major challenge, but it is also an opportunity for audit firms to review their programs, procedures and practices to make them more effective and efficient. Like any major shift, the changeover will not be easy and will require considerable resources and time. Good planning will be crucial to cope with the obvious increase in workload and to maintain the quality of services offered. Accounting team work, proper strategy and effective leadership is required.

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