OPPORTUNITIES AND CHALLENGES IN ADOPTING IFRS IN INDIA

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Abstract

There is a growing international consensus on the International Financial Reporting Standards as acceptable standards for assessment of the financial health of a company across the globe. For entities that are globally active, the differences in financial reporting requirements create extra complications in terms of preparing, consolidating, auditing, and interpreting financial statements. IFRS are issued by the International Accounting Standards Board (IASB) are increasingly being recognized as the Global Financial Reporting Standards. Convergence with IFRS has gained momentum in recent years all over the World. India being an important emerging global economy, the Government of India has committed to convergence of Indian Accounting Standards with IFRS from April 1, 2011. Moreover the financial communication such as accounting and financial results is just as important for business leaders and employees to master. Hence Proponents of International Financial Reporting Standards (IFRS) claim that mandating a uniform set of accounting standards improves financial statement comparability that in turn attracts greater cross-border investment. The purpose of this paper is to analyze the impact of the new accounting system involving a major shift from prescriptive norms to the system involving greater judgment.

Key words: IFRS, IASB, Financial Statement, Accounting Standards, Convergence.
INTRODUCTION

Accounting is a mode of communication for those who are interested in it. AICPA defines accounting as “The art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof.” Accounting that provides information to people outside the business entity is called financial accounting and provides information to various users and interested parties. International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board, and they specify exactly how accountants must maintain and report their accounts. IFRS were established in order to have a common accounting language, so business and accounts can be understood from company to company and country to country.

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.

The objective of IFRS is to develop and introduce a single set of top quality global Accounting Standards to produce transparent, top quality, information in financial reporting statements to make the statements more comparable and more comprehensive to the concerned users for taking appropriate decisions based on the reporting statements. Hence the global use of IFRS can be able to boost the confidence of the investors throughout the world.

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”
A BRIEF REVIEW OF LITERATURE:

Most of the available literature on IFRS and its implementation cover the data from European Union. Few studies have been carried out analyzing the data from other countries including India. A study on the importance of the uniformity in reporting in an environment of technology upgradation and political reorganization of nations across the globe was conducted by Joseph (2000) and it was seen that consistency in reporting enables to attract global entrepreneurs and investors by increasing the rate of investment and also lead to the integration of the individual economy to the international economy. Another study was conducted by Kannan (2003) regarding international standards with respect to banking operations and importance of corporate financial reporting in corporate governance and documentation of the changes occurred in corporate reporting practices and they provided justifiable suggestions for their gradual introduction in the Indian banking sector. Dangwal and Singh (2005) made certain valuable observations concerning quality of financial reporting which enables the banks to capitalize their underlying strengths, disclosure practices and social viability after undertaking a study of certain interesting issues with regard to the financial reporting of banking companies in India.

Lantto & Sahlstrom (2009) also undertook a study of key financial ratios of companies of Finland and later found that the adoption of IFRS changes the magnitude of the key accounting ratios and also showed that the adoption of Fair Value Accounting rules and stricter requirements on certain Accounting issues are the reasons for the changes observed in Accounting Figures and financial ratios. Siqi Li (2010) carried out a study of 1084 European Union firms during the period of (1995-2006), concluded that on average, the IFRS mandate significantly reduces the cost of equity for mandatory adopters. And also the reduction is present only in countries with strong legal enforcement and that increased disclosures and enhanced information comparability are two mechanisms behind the cost of equity reduction.

OBJECTIVES OF IFRS

The main objective of IFRS development is harmonization in financial statements reporting. Some additional objectives are:
1. To create the global financial reporting infrastructure.
2. To generate sound business sense among the beneficiaries.
3. To generate the dimensions of fair presentation of financial statement.
4. The reason behind to implement the International Financial Reporting Standards (IFRS) in India.
HISTORICAL BACKGROUND:

The origin of IFRs can be traced back to the early 1970s, when the International Accounting Standards Committee developed a single set of international standards. These well-publicized amendments to International Accounting Standards (IAS) 39: Financial Instruments: Recognition and Measurement have gained acceptance and traction in all major regions of the world.

IFRS IN GLOBAL SCENARIO:

Currently, about 120 countries use IFRS in some way, and 90 of those require them and fully conform to IFRS regulations. IFRS are maintained by the IFRS Foundation. The mission of the IFRS Foundation is to "bring transparency, accountability and efficiency to financial markets around the world." Not only does the IFRS Foundation supply and monitor these standards, but it also provides suggestions and advice to those who deviate from the practice guidelines.

The goal with IFRS is to make international comparisons as easy as possible. This is difficult because, to a large extent, each country has its own set of rules. For example, U.S. GAAP is different from Canadian GAAP. Synchronizing accounting standards across the globe is an ongoing process in the international accounting community.

IFRS IN INDIA:

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).

Ind-AS are accounting standards converged with International Financial Reporting Standards (IFRS). Given the background of serious global economic setbacks seeing the light of the day in the recent years, there is an increased concern over implementation of more stringent accounting and disclosure norms. Also, the global business practices of corporate houses in the advent of expanded global market spanning over multiple countries not only had
opened up the cross country business opportunities, but also compliance with more than one reporting frame works belonging to respective countries. This has also made the need for a common reporting frame work across boundaries felt leading to the unanimous preference to IFRS as the reporting framework world over given.

India is the first country to comply with the whole of core principles of IFRS including the controversial IFRS – 15 – ‘Revenue from contracts with customers’ and IFRS – 9 – ‘Financial Instruments’ through mandatory implementation of Ind AS 115 - ‘Revenue recognition’ and Ind AS – 109 – ‘Financial Instruments’. Soon after the long-awaited roadmap for implementing the Indian Accounting Standards (Ind AS) was announced in January this year, the Ministry of Corporate Affairs (MCA), moved quickly and notified its phase-wise roadmap for the adoption of Ind AS–India’s accounting standards, converged with the IFRS. The notification of Ind AS is a positive development and places India well at the centre of high quality financial reporting. The MCA issued a notification on 16 February this year, announcing the Companies (Indian Accounting Standards) Rules, 2015, for the application of Ind AS. The application of Ind AS is based on the listing status and net worth of a company. Ind AS will first apply to companies with a net worth equal to or exceeding 500 crore INR beginning 1 April 2016. This will also require comparative Ind AS information for the period of 1 April 2015 to 31 March 2016. Listed companies as well as others with a net worth equal to or exceeding 250 crore INR will follow these new accounting norms from 1 April 2017 onwards. From April 2015, companies covered in the first phase will have to take a closer look at the details of the notified 39 new Indian accounting standards. It is important to note that Ind AS will also apply to subsidiaries, joint ventures, associates as well as holding companies of the entities covered in the roadmap.

The road map as announced regarding the convergence of IFRS converged Ind – AS can broadly be divided on to three phases

1. Phase – 1 - Voluntary compliance – form 1st of March 2015
2. Phase – 2 – Mandatory compliance – stage 1 – Ind-AS compliance made mandatory to Companies with net worth of INR 500 crore or more including holding, joint venture, subsidiary and associate companies of such companies – from 1st of March 2016
3. Phase – 3 – Mandatory compliance – to the following companies
   a. Listed companies having net worth of less than 500 crores
   b. Unlisted companies having net worth of INR 250 crores or more
   c. Holding, subsidiary, joint venture and associate companies of above companies

Though not a very complex implementation road map, it involves complex transition process involving presentation of financials in compliance with two reporting frame works – Presentation and disclosure as per the GAAP and accounting standards in vogue, Presentation
and disclosure as per IFRS converged Ind AS. Reconciliation needs to be done as per the road map prescribed by MCA (Ministry of Corporate Affairs) in respect of the transitional period from existing framework to the proposed Ind AS regime in respect of the first year i.e, from 1st April 2016 to 31st March 2017. Financials can be presented only in accordance with IFRS converged Ind AS from the year starting on 1st April 2017.

Implementation of Ind AS regime is going to cause major reforms in terms of presentation and disclosures as well an enhanced and a better outlook in terms of global market perception regarding the believability and trustworthiness of the information accounted and disclosed.

**NEED FOR IFRS IN INDIA**

India already played an increasing important role in the global economy and many Indian companies occupied significant positions in International Capital Markets. IFRS adoption is demand of the day in order to enter global market. India’s convergence to IFRS will not only help the economy, but also further the acceptance of IFRS as global accounting language which provides single set of high quality information globally. The need for India to adopt IFRS is as follows:

- Adoption of IFRS provides better access to global market as there is single accounting standards which are globally accepted and also helps investors to compare financial statement of different countries which allows them to enter into global market.
- It provides better comparability of financial statement of different countries as single accounting standards are followed which helps the investors and other stakeholders to compare financial statement of one country with other country which allows competing globally.
- Adoption of IFRS is expected to result in better quality of financial reporting due to consistent applications of Accounting Principles and improvement in reliability of financial statement. As IFRS follows a concept of Fair value accounting which help the firms to reflect their true worth of Assets held by them.

**BENEFICIARIES OF CONVERGENCE WITH IFRS:**

IFRS provides a common platform for accounting internationally. It helps in synchronization of accounting standards globally which ensures comparison, and more reliable and transparent financial statements. The implementation of IFRS will help the efficient allocation of capital globally by attracting investment through transparency, reducing the cost of capital and increasing world-wide investment. There are many beneficiaries of convergence with IFRS such as the economy, investors and industries.
The Economy:

The convergence benefits the economy by increasing growth of its international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby economic growth. It encourages international investing and thereby leads to more capital flows into the country because the people all over the globe will be able to understand the financial statements based on the international standards of a very high quality financial reporting.

To investors:

The investor will be benefited in as the way accounting information made available to them will be more reliable, relevant, timely and most importantly the information will be comparable across different legal framework. IFRS would enhance the comparability between financial statements of various organizations managing business across the globe. It will develop better understanding and confidence among the investors to take better investment decisions by comparing different financial statements.

Role of Professionals in IFRS:

The professional, both in practice and in employment will get benefits as they will be able to provide their services in various parts of the world. The practicing chartered accountants would get opportunities to serve international clients. It would increase their mobility to work in different parts of the world either in industry or practice.

CHALLENGES FACED:

There are number of challenges that India is likely to face with regard to convergence with IFRS. Convergence with IFRS is not only just technical exercise but also involves overall changes in not only the perspective, but also the very objective of accounting in the country. Despite of the various benefits of adopting IFRS, implementation of IFRS is a herculean task in India. Following are a few challenges faced during adoption and implementation of IFRS:

Interaction between Legislation and Accounting:

There are concerns about the compatibility of Indian laws with IFRS in certain matters pertaining to accounting, such as formats and presentation requirements. Similarly, there is uncertainty over tax treatments of items arising from convergence such as unrealized gains and losses and the move from a tax basis for depreciation (IGAAP) to one of useful economic life (IFRS).
Issue of GAAP Reconciliation

The Securities Exchange Commission (SEC) laid out with two options in its proposal—firstly calling for the traditional IFRS first time adoption process, secondly requiring that step plus an on-going unaudited reconciliation of the financial statements from IFRS to US GAAP. Clearly the second one is a more costly approach for firms and its users.

Efficient Financial Reporting Processes:

Although many Indian companies have still not thought about the impact on their information systems. These will require a fundamental review and initial costs could be significant. At the same time, it is important to have in place sound systems in order to ensure that subsequent generation of reporting information is efficient.

Taxation

The convergence of IFRS in India will not only affect the Financial Statements but also the tax liabilities would also get changed. Present scenario, Indian Tax laws do not recognize the Accounting Standards. To entertain immediate change in the Indian Tax Law is the major challenge faced by the Indian Law makers.

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.

CONCLUSION:

Convergence to IFRS is expected to improve the relevance, reliability and comparability of financial reports and thus benefit global investors. It is expected that the global financial reporting process will eventually be based on a single set of high-quality accounting standards as issued by the IASB. The efficiency and competitiveness of global capital markets depend on the ability of financial statement preparers to effectively communicate with investors through financial reports.

IFRS is a demand of the day as already 150 countries and more than 12000 companies has already adopted IFRS where as in India has planned to converge with IFRS through IND AS to all the sectors including SMEs by 2017.

Finally, as India has already playing an important role in the global economy and many Indian companies occupied significant positions in International Capital Market. IFRS adoption is need of the day in order to enter global market. IFRS will not only help economy, but also further the acceptance of IFRS as global accounting language which provide be single set of high
quality information globally which is benefitted to all the stakeholders in order to take better investment and financial decisions.

**References:**


