Convergence of International Financial Reporting Standards (IFRS) with Indian Perspectives: Issues and Challenges

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Abstract

The concept of International Financial Reporting Standards (IFRS) has gained lot of importance in the past few years. The idea of global harmonization of accounting standards stems from lack of comparability of financial statements across the country. IFRS adopted by IASB has gained worldwide acceptance amongst many countries. IFRS employs a uniform, single consistent accounting framework that is gravitating towards General Accepted Accounting Practice (GAPP) in the future. The international as well as Indian Accounting Standard has a historical background of approximately 42 years. This paper explores the main attraction with adoption or convergence of IFRS is sound business sense. Increasing cross border investing and propagation of financial products have posed a challenge to companies as they faced multiple standards. Organization and convergence with IFRS can greatly contribute to the efforts to build global financial reporting infrastructure. This paper mainly aims at the framework of theoretical background, history and implementation procedure of IFRS in India, and also assesses the convergence of international financial report standards with the Indian perspectives. The paper focuses on the comparative statement of International Financial Reporting Standards with
Indian Accounting Standards and also highlights about the issues and challenges in the process of convergence to adoption of IFRS in India.

**Keywords:** IFRS, IASB, GAAP, Challenges, Convergence.

**Introduction:**

In a world that is becoming flatter by the day, virtually everyone agrees that the movement towards global accounting standards is a good thing. Uniform standards help enhance the free flow of capital, facilitate cross-border transactions, reduce costs for issuers and allow investors to make more meaningful comparisons of their investment options. Accounting Standards are certain guidelines that direct the manner of proper application of a particular accounting principle in the preparation and presentation of the accounts of an entity. Many such standards are available throughout the world. Each country is having its own set of accounting standards on one hand and International Accounting Standards business and it is observed that many countries e.g. India, japan etc, have made changes in the laws governing business to bring in global adaptability. Once a business enters into global platform, it needs to prepare and present its accounts and professional accounting bodies have engaged themselves work towards convergence in a manner that is understandable to the world.

The International Financial Reporting Standards (IFRS) Foundation is a non-government organization based in London. The process of International convergence towards a global set of standards started in 1973. One of its principal objectives is “to develop a single set of high quality, understandable, enforceable and globally accepted in IFRSs through its standard setting body the International Accounting Standards Board (IASB)”. The IASB is the independent standard-setting body of the IFRS Foundation. Its members (currently 15 full-time members) are responsible for the development and publication of IFRSs.

One of the recent developments in the field of standard setting is the International Financial Reporting Standards (IFRS). These are principles-based Standards, Interpretations and Framework adopted by the International Accounting Standards Board (IASB) since its inception in April 2001 (earlier known as International Accounting Standards Committee (IASC).The IASC from 1973 (the year of its formation) till 2001 have pronounced as many as 41 International Accounting Standards (IAS) and the IASB has added eight new standards. These are collectively known as the present IFRS.

**IFRS Implementation Procedure in India:**

In 1949, Indian government to streamline accounting practices in the country established Institute of Chartered Accountants of India by passing ICAI Act, 1949. Accounting
Standard Board was constituted by ICAI in 1977 with a view to harmonize the diverse accounting policies and practices in India.

The other objectives of the Board are:

(i) Conceive of and suggest new areas in which Accounting Standards are needed,

(ii) Formulation of Accounting Standards,

(iii) Examine how far IAS and IFRS can be adapted while formulating the accounting standards and to adapt the same, and

(iv) Review the existing Accounting Standards and revise them regularly as and when necessary, among others. In 2006, a task force was set up by ICAI.

(v) The objective of the task force was to lay down a road map for convergence of IFRS in India. Based on the recommendation made by the Task Force and on the basis of outcome of discussions and public opinions on IFRS adoption procedure, a 3 step process was laid down by the Accounting Professionals in India. This three steps IFRS adoption procedure can be summarized as follows:

**Stage 1 – IFRS Impact Assessment**

In this step, the firm will begin with the assessment of the impact of IFRS adoption on Accounting and Reporting Issues, on systems and processes, and on Business of the firm. The firm will then identify the key conversion dates and accordingly a IFRS training plan will be laid down. Once the training plan is in place, the firm will have to identify the key Financial Reporting Standards that will apply to the firm and also the differences among current financial reporting standards being followed by the firm and IFRS. The firm will also identify the loopholes in the existing systems and processes.

**Stage 2 – Preparations for IFRS Implementation**

This step will carry out the activities required for IFRS implementation process. It will begin with documentation of IFRS Accounting Manual. The firm will than revamp the internal reporting systems and processes. IFRS 1 which deals with the first time adoption of IFRS will be followed to guide through the first time IFRS adoption procedure. To make the convergence process smooth, some exemptions are available under IFRS 1. These exemptions are identified and applied. To ensure that the IFRS are applied correctly and consistently, control systems are designed and put in place.

**Stage 3 – Implementation**

This step involves actual implementation of IFRS. The first activity carried out in this phase is to prepare an opening Balance Sheet at the date of transition to IFRS. A proper understanding of the impact of the transition from Indian Accounting Standards to IFRS is to be developed. This will follow the complete application of IFRS as and when required. First time
implementation of IFRS requires lot of training and some difficulties may also be experienced. To ensure a smooth transition from Indian Accounting Standards to IFRS, Continuous training to staff and addressing all the difficulties that would be experienced while carrying out the implementation is also required.

**Review of Literature:**

Lot of research has been conducted on IFRS over last few decades. The review includes studies pertaining to issues and challenges of IFRS convergence in India.

**Shankari (2008)** undertaken a study on “Globalization of Diverse Accounting Standards” opined that in India research and development in the field of accounting and adoption of accounting standards is very slow when compared to other nations. Integration of diverse accounting standards is very difficult to achieve. Globalization has laid all the nations to adopt a single set of accounting standard. More than 100 countries have recognized the policy of convergence with the IFRS India She suggested that all the countries must cooperate with the International Accounting Standard Board (IASB) in the process of harmonization of accounting standards which will enable the MNCs to engage in financial reporting in a much easier manner.

**Srivastava (2009)** emphasized on “Convergence of Indian Accounting standards with IFRS: Prospects and challenges”. He opined that the convergence will bring forth galore benefits to investors, industry, professionals and the economy as a whole. India’s blue-chip companies have begun to align their accounting standards to the International Financial Reporting Standards (IFRS), finally this can be resulted in international initiative of convergence of Accounting Standards to a common standard viz International Financial Reporting Standards (IFRS) in India.

**Ailemen (2012)** conducted a study on “International Financial Reporting Standard (IFRS): Benefits and intrigues for implementation in Nigeria” and highlighted that the Nigerian Accounting Standard Board (NASB) is not expected to lag behind in the implementation. The article also analyzed the requirements that would assists in the implementation of IFRS in Nigeria. Finally this paper recommended a continuous research in order to harmonize and converge with the international standards through mutual international understanding of corporate objectives and the building of human capacity that will support the preparation of financial statements in organization.

**Sen (2013)** revealed that Standardization of Accounts has been a constant effort and concern to the various professional accounting bodies both national and international. Standards are a set of rules that are aimed at making accounts more consistent, comparable and thereby bringing in a harmonization of accounting policies and principles and practices. The present paper mainly attempts of the recent developments in the field of standard setting in IFRS to focus on the steps adopted in India and problems being faced in the convergence of IFRS with Indian Accounting Standards in India.
Kaur (2014) from his study on “IFRS and India: Problems and Challenges” revealed that globalization has laid down a way for all the countries to adopt a single set of accounting standards. Viewed that globalization has laid all the nations to adopt a single set of accounting standard. More than 100 countries have recognized the policy of convergence with the IFRS India. The reviewer opined that knowledge of IFRS is needed due to e-communication and globalization. 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.

Suresh (2015) emphasized from his study on “Converging Indian Accounting standards to IFRS-A Journey towards global standards” that to know whether IFRS are helpful to companies in preparing their financial statements and what are all the difficulties involved in implanting IFRS with respect to India. Finally the study results to remove the variation in profits, international accounting standards companies irrespective of their locations should follow IFRS in preparing financial statements are commonly accounting standards followed by all member countries.

Objectives of the Study:

The paper is aimed to discuss the following objectives:

1. To understand the framework of theoretical background, history and implementation procedure of IFRS in India;
2. To assess the convergence of International Financial Report Standards with the Indian perspectives;
3. To show the comparative statement of International Financial Reporting Standards and Indian Accounting Standards;
4. To highlight the issues and challenges in the process of convergence to adoption of IFRS in India; and
5. To offer suggestions and conclusion of the study.

Research Methodology:

The data required for the present research is considered as journey from unknown to the known. The present study is purely based on data gathered from secondary sources. The required secondary data constitutes the main source of information, suitable for the purpose of the present study. In this study an attempt has been made to study the uniform accounting principles of International Financial Reporting Standards (IFRS). The secondary sources include the articles from various journals, books, reports of national and international, website of International Accounting Standards, International Financial Reporting Standards, Generally Accepted Accounting Principles, International Accounting Standards Board etc.
1. **Convergences of IFRS with the Indian Perspective:**

   Indian Accounting Standards (AS) is formulated on the basis of the IFRS. While formulating AS, the endeavor of the ICAI remains to converge with the IFRS. The ICAI has till date issued 29 AS corresponding to IFRS. Some recent AS, issued by the ICAI, are totally at par with the corresponding IFRS, e.g., the Standards on ‘Impairment of Assets’ and ‘Construction Contracts’. While formulating Indian Accounting Standards, changes from the corresponding IAS/IFRS are made only in those cases where these are unavoidable considering:-

   **Table No.1**
   **Convergences of IFRS with the Indian Perspectives**

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Subject</th>
<th>IFRS</th>
<th>Indian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>Format of Income Statement</td>
<td>IAS 1 prescribes the format of income statement.</td>
<td>According to the format prescribed in Schedule VI to the Companies Act 1956, Banking Regulation Act for Banks etc.</td>
</tr>
<tr>
<td>3.</td>
<td>Statement of Cash Flows</td>
<td>Mandatory for all entities</td>
<td>Exempted for Level 3 entities as prescribed by ICAI.</td>
</tr>
<tr>
<td>4.</td>
<td>Presentation of extraordinary items</td>
<td>IFRS prohibits the presentation of extraordinary items in the statement of comprehensive income or in the notes.</td>
<td>Indian GAAP requires extraordinary items to be presented in the profit and loss statement of the entity distinct from the ordinary income and expenses for the period. As a result, extraordinary items are considered to determine the profit / loss for the period.</td>
</tr>
<tr>
<td>5.</td>
<td>Dividends proposed after the end of the reporting period</td>
<td>Dividends declared after the end of the reporting period but before the financial statements are authorized</td>
<td>Dividends declared after the end of the reporting period but before the financial statements are approved are recorded as liability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>for issue are not recorded as liability in the financial statements.</td>
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</tr>
<tr>
<td>6.</td>
<td>Depreciation rates</td>
<td>Allocated on a systematic basis to each accounting period during the useful life of the asset.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Depreciation is based on the higher estimate of useful life of the asset, or the rates prescribed by Schedule VI of The Companies Act 1956.</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Change in the depreciation Method</td>
<td>Treated as a change in the accounting estimate and hence is accounted for prospectively.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Treated as a change in the accounting policy and is accounted for retrospectively (i.e. for all the relevant previous years). Any excess/deficit in the case of this kind of recalculation must be adjusted in the period in which the change is affected.</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Goodwill</td>
<td>Goodwill is not amortized under IAS 38 but is subject to annual impairment test under IAS 36.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>AS 14 provides that goodwill arising on amalgamation in the nature of purchase is amortized over a period of 5 years.</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Contingent asset disclosure.</td>
<td>Contingent assets are disclosed in the financial statements only if the inflow of economic benefit is probable.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Contingent assets are disclosed as part of the director’s report (approving authority) and are not disclosed in the financial statement.</td>
<td></td>
</tr>
</tbody>
</table>

Source: www.icai.org.

1. Legal and/or regulatory framework prevailing in the country.
2. To reduce or eliminate the alternatives so as to ensure comparability.
4. Level of preparedness of various interest groups involved in implementing the accounting standards. Level of preparedness.

2. Evidence on Benefits of IFRS Financial Statements

Research on the benefits of IFRS use in other countries generally indicates that companies may be able to get a lower cost of equity and debt capital and earnings quality may improve. However, some studies question these benefits. More research is needed, especially on the role of enforcement of Standards. Other factors to look at are auditor type (e.g. extent of non-audit services provided by the auditors) and ownership and governance arrangements.
(e.g. number and quality of independence directors). For the academic community in India IFRS opens up significant research opportunities.

**Table No. 2**

Comparative Statement of IFRS and AS

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Title of the Standard</td>
<td>Nos.</td>
</tr>
<tr>
<td>1.</td>
<td>IAS-1 Presentation of Financial Statement</td>
<td>AS-1</td>
</tr>
<tr>
<td>2.</td>
<td>IAS-2 Inventories</td>
<td>AS-2</td>
</tr>
<tr>
<td>3.</td>
<td>IAS-7 Cash Flow Statement</td>
<td>AS-3</td>
</tr>
<tr>
<td>4.</td>
<td>IAS-8 Accounting Policies, Changes in Accounting Estimates and Errors</td>
<td>AS-5</td>
</tr>
<tr>
<td>5.</td>
<td>IAS-10 Events After the Balance Sheet Date</td>
<td>AS-4</td>
</tr>
<tr>
<td>6.</td>
<td>IAS-11 Construction Contracts</td>
<td>AS-7</td>
</tr>
<tr>
<td>7.</td>
<td>IAS-12 Income Taxes</td>
<td>AS-22</td>
</tr>
<tr>
<td>8.</td>
<td>IAS-14 Segment Reporting</td>
<td>AS-17</td>
</tr>
<tr>
<td>9.</td>
<td>IAS-16 Property Plant &amp; Equipment</td>
<td>AS-10</td>
</tr>
<tr>
<td>10.</td>
<td>IAS-17 Leases</td>
<td>AS-19</td>
</tr>
<tr>
<td>11.</td>
<td>IAS-18 Revenues</td>
<td>AS-9</td>
</tr>
<tr>
<td>12.</td>
<td>IAS-19 Employees benefit</td>
<td>AS-15</td>
</tr>
<tr>
<td>14.</td>
<td>IAS-21 The Effects of Changes in Foreign Exchange Rates</td>
<td>AS-11</td>
</tr>
<tr>
<td>15.</td>
<td>IAS-23 Borrowing costs</td>
<td>AS-16</td>
</tr>
<tr>
<td>17.</td>
<td>IAS-27 Consolidated and Separated Financial Statements</td>
<td>AS-21</td>
</tr>
<tr>
<td>18.</td>
<td>IAS-28 Investment in Associates</td>
<td>AS-23</td>
</tr>
</tbody>
</table>
In India, universally accepted accounting principles and their complete and fair adoption are not free from challenges. Major challenges that Indian corporate might face are:

- **Awareness of international practices:**
  The entire set of financial reporting practices needs to undergo a drastic change after the adoption of IFRS to overcome the number of differences between the two GAAP’s. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

- **Training in IFRS:**
  The biggest hurdle for the professionals in implementing IFRS is the lack of training facilities and academic courses on IFRS in India. IFRS has been implemented with effect from 2011; but it is observed that there is acute shortage of trained IFRS staff. The Institute of Chartered Accountants of India (ICAI) has started IFRS Training programmes for its members and other interested parties. Yet there exists a large gap between Trained Professionals required and trained professionals available.

- **Amendments to the existing law:**
  A number of inconsistencies with the existing laws are other major challenges which are observed in the Companies Act 1956 and also in the new Companies Act: 2013, SEBI regulations, banking laws and regulations and the insurance laws and regulations. Currently, the reporting requirements are governed by various regulators in
India and their provisions override other laws. IFRS does not recognize such overriding laws.

- **Taxation:**
  
  Currently, Indian Tax Laws do not recognize the Accounting Standards. Therefore, a complete overhaul of Tax laws is the major challenge faced by the Indian Law Makers immediately. In July 2009, a committee was formed by Ministry of Corporate Affairs of Government of India, with a view to identify the various legal and regulatory changes required for convergence and to prepare a roadmap for achieving the same.

- **Fair value:**
  
  IFRS which uses fair value as a measurement base for valuing most of the items of financial statements can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of hard work in arriving at the fair value and services of valuation experts have to be used. Moreover, adjustments to fair value result in gains or losses which are reflected in the income statements. Whether this can be included in computing distributable profit is also debated.

- **Management compensation plan:**
  
  This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP. The contracts would have to be re-negotiated by changing terms and conditions relating to management compensation plans.

- **IFRS systems:**
  
  The disclosure and reporting requirements under IFRS are completely different from the Indian reporting requirements. 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. Existence of proper internal control and minimizing the risk of business disruption should be taken care of while modifying or changing the information systems.

- **Complexity in adoption:**
  
  The researchers feel that the biggest risk in converging Indian GAAP with IFRS is the fact that the accounting entities underestimate the complexity involved in the process. Instead it should be recognized well in advance that teething problems would definitely creep in. Converting to IFRS will increase the complexity with the introduction of concepts such as present value and fair value. In IFRS framework, treatment of expenses like premium payable on redemption of debentures, discount allowed on issue of debentures, underwriting commission paid on issue of debentures etc is different than the present method used. This would bring about a change in income statement leading to enormous confusion and complexities.
• **Risk in adoption:**
  Implementing IFRS has increased financial reporting risk due to technical complexities, manual workarounds and management time taken up with implementation. Another risk involved is that the IFRS do not recognize the adjustments that are prescribed through court schemes and consequently all such items will be recorded through income statement.

• **Time and IFRS:**
  95.00 per cent of companies in Australia and in the European Union took more than a year to the complete IFRS transition, with 40% taking more than two years. Looking at the Indian scenario, we have already delayed the process from the very beginning. In other countries, regulators released final interpretations two to three years in advance of IFRS deadline and provided step-by-step transition road maps for companies. In India, ICAI took so long to finalize the standard—increasing the confusion around standard interpretation.

• **Cost and IFRS:**
  The IFRS transition is expected to cost Indian firms between Rs. 30 lakh and 1 crore, with an average of 16 internal and three external full-time staff dedicated to the transition. Fifty percent of adopters had to implement entirely new IT systems to accommodate IFRS; only 20% of companies did not implement systems changes. Costs such as auditor fees, systems changes, and reporting costs tend to overrun at the last minute in IFRS standards.

**Suggestions for the Study:**

The following are some of the suggestions for the study:

- In keeping with international best practices, IFRS under the auspices of IASB should take cognizance of the GAAP of different countries in its subsequent review so that users can benefit globally.
- IFRS should be included in universities, polytechnic and ICAI curriculum so as to build human capacity that will support the preparation of financial statements in organization.
- In IFRS and other nations reporting requirements, the differences between fair value and carrying value need to resolve in measurement of most financial statements.
- Since tax laws of different nations gives rise to varied tax liabilities, IFRS under the auspices of IASB should also resolve the question of tax liabilities as a result of convergence.
- Insisting on the specialized industries to adopt the formats which are more appropriate in full disclosure of accounting aspects rather than adopting the old method that were prevailing as far.
A continuous research is in fact needed to harmonize and converge with the international standards through mutual international understanding of corporate objectives.

**Conclusion:**

Financial report is authenticated by auditor for reliance to be placed on it by users of the report. In reporting under statute, the auditor must ensure full compliance with statutory requirements. More than 100 countries will adopt IFRS during the next five years. The accounting as a discipline all over the world is improving. In India, development and research in the field of accounting have been very dismal and adoption of accounting standards has been very slow when compared to other nations. Integration of diverse accounting standards may sound very easy, but in practice it is very difficult to achieve. It is also observed that rule-based accounting leads companies to work around the rule. Therefore, there is a need to move away from rules and closer to standard based on principles. Implementation of IFRS is a top priority today for all the regulators and accounting standard setters across the world are working together on adoption of IFRS.

**References:**