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International Financial Reporting Standards (IFRS): A Study on the Present Scenario in India

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ABSTRACT

After the adoption of Liberalization, Privatization and Globalization policy (1991) by Indian Government, Indian economy has got acceleration for economic growth. With the growth of Indian Economy and increasing integration with the foreign economy, Indian corporate is raising capital internationally. Under the circumstances, it would be important for corporate leaders to accept IFRS for their financial reporting. The Ministry of Corporate Affairs has converged Indian GAAP with IFRS in phase wise, first phase on 1st April 2011. The convergence with IFRS stand is set to convert the scenery for financial reporting in India.

The paper tries to explain the present status of IFRS and its challenges and advantages in the Indian scenario. This paper will help in the better understanding of this new language of Financial Reporting.

KEYWORDS: IFRS, India, IAB, IND AS and IND GAAP

Introduction:

International Financial Reporting Standards (IFRS) are a set of accounting standards. These are standards for reporting financial results and are applicable to general purpose financial statement and other financial reporting of all profit oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organized in corporate or in other forms. It also includes mutual insurance companies, other mutual co-operative entities etc. In short, it provides general guidance for the preparation of financial statement which is globally accepted and understood, rather than setting rules for industry-specific reporting.

Reports show that, currently around 120 countries have recently moved to IFRS reporting. Security and Exchange Commission (SEC) is considering allowing US firms to prepare their financial statements in accordance with IFRS. Moreover, it is estimated that around 150 countries or more will adopt IFRS in 2014 including India (all corporate entities must acceptable IFRS within 1st April 2014).

International Financial Reporting Standards (IFRS) are developed and approved by an independent, not-for-profit organisation called the International Accounting Standards Board (IASB). Sometimes, IFRS also called International Accounting Standards (IAS) but they are not similar to each other. International Accounting Standards were issued between 1973 and 2001 by International Accounting Standards Committee (IASC) and IFRS standards were published from 2001 onwards by IASB (which succeeded the IASC). At present, thirteen IFRS have been developed and issued, these are as follows in Fig.-1:

List of IFRS issued by IASB

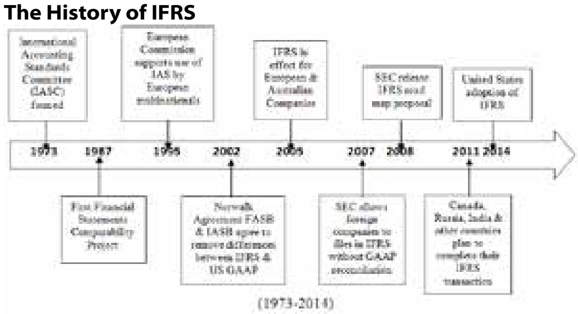
IFRS: 1	First time adoption of International Reporting Standards
IFRS: 2	Share-based Payment
IFRS: 3	Business Combinations
IFRS: 4	Insurance Contracts
IFRS: 5	Non-current Assets held for sale and discontinued operations
IFRS: 6	Exploration for and Evaluation of mineral Resources
IFRS: 7	Financial Instruments: Disclosure
IFRS: 8	Operating Segments
IFRS: 9	Financial Instruments
IFRS: 10	Consolidated Financial Statements
IFRS: 11	Joint Arrangements
IFRS: 12	Disclosure of Interests in other Entities
IFRS: 13	Fair value Measurement

Source: www.Incofirm.com/international-financial.php on 13-07-13
Fig.-1

History of IFRS:

In the earlys 1970s, International Accounting Standards Committee developed a uniform presentation of international standards, it the origin of IFRS. The development of IFRS has been shown below in Fig.-2:

The History of IFRS



Source: www.ifrsportals.in & S. Yadav & D. Sharma (2012) pp. 37
Fig.-2

Objectives of the study:

1. To review the present status of IFRS in India;
2. To estimate the benefit that could be achieved by the corporate sectors by adopting IFRS in the context of India; and
3. To locate the problems in the adoption of IFRS in the context of India.

Methodology:

The paper tries to explain the updated information about the adoption of IFRS in India. For this purposes only qualitative methods have been used and analysed. Thus, information extracted from the various journals, articles and books and discussion with the ICAI members i.e. Chartered Accountants.

India and IFRS:

India is one of the largest jurisdictions and going through the process of convergence with IFRS. At its 269 meeting the Council of ICAI has decided that public interest entities such as listed companies, banks, insurance companies and large-sized organizations to converge with IFRS for accounting period commencing on or after 1 April, 2011. Convergence with IFRS is not just about changing from one set of accounting and reporting standard to another. The MCA will Implement the IFRS converged IND AS in a phased manner after various issues including tax related issues are resolved with the concerned departments. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in Ministry of Corporate Affairs through wide ranging consultative exercise with all stakeholders. Thirty five Indian AS converged with IFRS (henceforth called IND AS) are being notified by the Ministry and placed on the website. Following are the three phases for convergence the Ind AS with IFRS in Fig.-3:

Phases for Convergence

Phase I 1 April 2011*
a) Companies which are Part of NSE -Nifty 50. b) Companies which are part of BSE - Sensex 30. c) Companies whose shares or other securities are listed on stock exchanges outside India. d) Companies, whether listed or not, which have a net worth in excess of Rs. 1,000 corers as computed on March 31, 2009, Computed based on standalone entity financial statements per original Indian GAAP. e) Insurance companies are scheduled to transition on April 1, 2012.
Phase II 1 April 2013*
a) The companies, whether listed or not, having a net worth exceeding Rs. 500 crores but not exceeding Rs. 1,000 crores. b) Non Banking Financial Companies (NBFC) on the NSE- Nifty 50 or BSE-Sensex 30, non listed NBFC with worth about Rs. 1000 corers. c) Commercial banks and Urban Co-operative Banks with net worth above Rs. 300 corers.
Phase II 1 April 2013*
a) Listed companies which have a net worth of Rs. 500 crores or less. b) Urban Co-operative Banks having a net worth in excess of Rs. 200 but not exceeding Rs. 300 corers.

Source: Diana Dumitrescu et al, 'IFRS roadmap or "All roads Leads to Covergence?"

Fig.-3
(*If the financial year of a company commences at a date other than 1 April, then it shall prepare its opening balance sheet at the commencement of the immediately following fiscal year.)

The MCA and the Indian standard setters are currently working on the development of the IFRS converged Indian Accounting Standards and also amending the various laws and regulations to facilitate conversion by Indian companies to these IFRS converged standards. The Indian standard setters and the MCA have still not finalised the nomenclature for the IFRS converged Indian Accounting Standards; accordingly, the terms 'IFRS' and 'IFRS converged Indian Accounting Standards' have been used synonymously in this guide. Further, the Indian equivalent of IFRS 1 has not been published or notified and in the absence of a final standard in India on this area, we have used the existing IFRS 1 as issued by the IASB in preparing this guide.

Benefits of adopting IFRS in India:
The growth of globalize business and benefits of nations stands to achieve from IFRS. It would encourage the foreign investors and the nation gets more inflow from them. All investors, creditors, shareholders etc. need financial statement reliable, relevant, timely, comparable and sustainable across the jurisdictions.

IFRS would increase the comparability between financial statement viz., Balance Sheet and Profit and Loss Account of various companies across the nation. It gives better understanding of financial globally as compare to IND AS and GAAP. Indian industry would be able to raise capital from foreign markets at reasonable cost when they create confidence to the foreign investors that their financial statement comply with globally accepted accounting Standard.

Through the adoption of IFRS, Indian people would get an opportunity to work as global clients and increase their work mobility in different parts of the world.

Converging accounting standards are very important because of the current globalised nature of business worldwide and the benefits of nations stand to achieve from convergence of standards. However, it is necessary to note that convergence of accounting standards does not make financial report more reliable but rather standard setters should concentrate more on ethical issues of integrity, objectivity, accountability, independence that promote reliability, comparability, consistency and quality financial report than issues of converging standards without taking into consideration the dynamics of culture and business practices across nations.

Challenges of IFRS in India:
The adoption and implementation of the IFRS in India takes place in an environment that is affected by the country's economy, politics, law and culture. Therefore, it is very difficult to explain if the same set of international standards can be used both in developed and developing countries like India.

IFRS has been come into effect in India on 1st April 2011 and onwards but it is noticed that there is shortage of trained IFRS staff. The ICAI has started its training program. Yet there is a gap between trained professionals required and trained professionals available.

A number of contradictories with the existing laws viz., Indian Companies Act 1965, SEBI regulations, Banking laws and regulations and Insurance law and regulations. At present, the reporting requirements are governed by various regulations in India and their provisions override the laws. IFRS does not examine the overriding laws.

Presently, Income tax laws unable to admit the IND AS. So, it is one of the challenge to complete examine tax law by the Indian law makers immediately. In July 2009, MCA formed a committee. The main objectives of the committee are to identify the various legal and regulatory changes required for convergence to prepare a roadmap for achieving the same.

In India, ICAI is one of the leading institution to formulate and developed the IND AS. But the ICAI unable to interpret and finalize the international reporting standards.

There are several similarities between Indian GAAP and IFRS but there are some differences also which may impact business decisions/ financial performance of the entity.

Conclusion:
IFRS is the new concept of fiancial reporting and communicating to the existing and prospective investors. As a new concept, it is not fully familiar the Indian corporate entities.

It is clear that convergence of IND AS with IFRS has entire changes in accounting transition as well as reporting system. India has already announced the convergence of Ind. AS with IFRS in a phased manner viz., Phase I on 1 April 2011; Phase II on 1 April 2013; Phase III on 1 April 2014. No doubt, transition from IND GAAP to IFRS will face many problems but it has also some advantages.

It is hard to say that adoption of IFRS or convergence of accounting practices helpful the entity and the country as well. All the debates in against and with the IFRS are based on perception because there is lack of impact study in India. It is not easy to properly study the impact of adoption of IFRS before implementation. The impact might differ across countries because the gap between the accounting practices before adopting of the IFRS varies widely across countries. Therefore, the assessment of the impact of IFRS should be country specific.

Presentation of financial reporting coverage with the IFRS, the corporate sectors will get benefit in the long term because it is a global accounting language.

Suggestions:
Ensuring high-quality corporate financial reporting environment depends on effective enforcement mechanisms. Merely adopting international accounting and auditing standards is not enough. Three important links exist in the enforcement sequence: (a) directors and top management must ensure that financial statements are prepared in compliance with established standards; (b) auditors must act independently and judiciously to ensure that financial statements comply with applicable accounting standards and represent a true and fair position of the enterprise's financial condition; and (c) regulators, both self-regulatory organizations and statutory regulators, must implement arrangements for efficient monitoring of regulatory compliance and consistently take appropriate actions against violators.

a. On 1st April 2011 and onwards (conditions apply) Indian Corporate must present their financial reporting with converse with the IFRS, which is inevitable for India. Thus, Indian Government and Accounting body are taken all possible steps for a smooth transition process. Awareness and proper training should contribute to process of adopting new language.

b. In order to ensure a minimum quality standard in teaching accounting and auditing courses in all Indian universities, workshop, seminars etc. an initiative is necessary for curriculum development and training-the-trainers activities.
c. Taxation laws should address the treatment of tax liabilities arising on convergence from India.

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