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First Time Adoption of Ifrs - Problems and Challenges

Meena Jivrajbhai Makwana Student of M.Phil(commerce)}-Saurashtra University

ABSTRACT

In present era India has become an international force, last decade has observed various changes of doing business across the world. This process of financial reporting of business activities also underwent a great change. The International Financial Reporting Standards (IFRS) aims to make international financial reporting comparisons as easy as possible because each country has its own set of accounting rules. IFRS represents the most commonly accepted global accounting framework as it has been adopted by more 100 countries. IFRS are developed and approved by IASB (International Accounting Standard Board). These are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. Profit- oriented entities included those engaged in commercial, industrial, financial and similar activities, whether organized in corporate or in other forms also includes mutual insurance companies other mutual co-operative entities etc.

The summary of the present research paper is as under:

Introduction , Objectives of the study, Methodology, Requirement of IFRS ,IFRS procedure in India, Problem & Challenges in the process of adoption of IFRS in India, Steps taken to address the challenges, Conclusion and References

KEYWORDS: Requirement of IFRS, IFRS procedure, Problem & Challenges of IFRS

1.1 INTRODUCTION:-

The Accounting Standards Board of the Institute of Chartered Accounting of India (ICAI) was constituted on 21st April, 1977 to formulate Accounting Standards applicable to Indian enterprises. Initially the Accounting Standards was accorded for the companies in the companies Act, 1956 by introduction of section 211(3C) through the companies Act, 1999, whereby it is required that the companies shall follow the Accounting Standards notified by the Central Government on a recommendation made by the National Advisory Committee on Accounting Standards (NACAS) constituted under section 210 A of the said Act.

The timelines for convergence of IFRS In India are divided in three phase. Phase-1 was adopted 1st April 2011 for the (i) companies which are part of NSE, Nifty 50 (ii) companies which are part of BSE-Sensex 30 (iii) companies whose shares or other securities are listed on stock exchanges outside india (iv) companies whether listed or not which have a net worth in excess of Rs. 1000 crores. Phase -2 1st April 2013 the companies whether listed are not having a net worth exceeding Rs.500 crores but not exceeding Rs. 1000 Crores.Phase-3 1st April 2014, listed companies which fall in the following. Categories will not be required to follow the notified accounting standards which are Converged with IFRS (Through they may voluntarily opt to do so)

The companies are:

- Non-listed companies which have a net worth of Rs 500 Crores or less and whose shares or other securities are not listed on stock exchange outside India
- Small and medium companies (SMCs)

1.2 OBJECTIVES OF THE STUDY:-

- To discuss the requirements of IFRS
- To discuss the procedure of IFRS
- To discuss the challenges and problems of IFRS

1.3 METHODOLOGY:-

For the purpose of the present study literature survey and secondary data had been used the required secondary data collected from the authorized annual reports and various journals, books and research papers have been surveyed in making this study.

1.4 REQUIREMENTS OF IFRS:-

- IFRS are increasingly being recognized as global reporting standards for financial statements.
- As global capital markets become increasingly integrated many countries are moving to IFRS.
- National GAAP is becoming rare.
- More than 100 countries such as European Union, Australia, New Zealand and Russia. Currently permit the use of IFRS in their countries.

1.5 IFRS ADOPTION PROCEDURE IN INDIA :-

In 1949, Indian Government to streamline accounting practice in the country established Institute of Chartered Accountants of India by passing ICAI Act1949. 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) Revise them regularly as and when necessary among others. In 2006 a task force was set up ICAI. 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 Professional in India. This three steps IFRS adoption Procedure can be summarized as follow:

Step-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 will be laid down. Once the training plan is in place the will have to identify the key financial Reporting Standard 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.

Step-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 system and processes. IFRS 1 which deals with first time adoption of IFRS will be followed to Guide through the first time IFRS adopting 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 is applied correctly and consistently, control systems are designed and put in place.

Step-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.

1.6 PROBLEM & CHALLENGES IN THE PROCESS OF ADOPTION OF IFRS IN INDIA:-

In spite of several benefits as may be looked out by the different people, there will be several challenges that will be faced by the way of IFRS convergence.

- **Issues of GAAP Reconciliation :-**

The Securities Exchange Commission (SEC) laid out two options in its proposal-one calling for the traditional IFRS first time adoption reconciliation the other requiring that step plus an ongoing unaudited reconciliation of the financial statements from IFRS to U.S .GAAP. Clearly the second one is a more costly approach for companies and the investors.

- **Difference in GAAP and IFRS :**

Implementation of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statement.

- **Training and Education :**

Lack of training facilities and academic course on IFRS will also pose challenge in India. There is needed to be educated on IFRS and its application. Chalses No ski, former chief financial officer and Vice chairman of the Board of AT & T Corporation and a former Deloitte & Touché partner noted that 'Educating 100000 employees on how they must do their business is not a trivial activity'

- **Taxation :**

IFRS convergence would affect most of the items in the financial statements and consequently the tax liability would also undergo a change. Thus the taxation laws should address the treatment of tax liablitis arising on convergence from Indian GAAP to IFRS.

- **Legal and Regulatory considerations :**

Currently, the reporting requirements are governed by various regulators in india and their provisions override other laws. The regulatory and legal requirements in India will pose a challenges unless the same is been addressed by respective regulatory.

- **Fair value Measurement:**

IFRS users fair value as a measurement base for valuing most of the items of financial statement. The use of fair value accounting 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 valuation experts have to be used.

- **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.

- **Reporting systems :**

Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information system should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions etc.

1.7 STEPS TAKEN TO ADDERESS THE CHALLENGES:-

- For changes required in rules and regulations of various regulatory bodies, draft recommendations have been placed before Accounting Standard Board.
- The ICAI issued 30 interpretations of accounting standards, with a view to resolve various intricate interpretations issues arising in the implementations of new accounting standards.
- Guidance notes have been issued by ICAI for providing immediate guidance on accounting issues.
- To facilitate discussions at seminar, workshops etc, ICAI has issued background materials on newly issued accounting standards.
- For the purpose of assisting its members the ICAI council has formed an expert advisory committee to answer queries from its members.

1.8 CONCLUSION:-

The steps taken by ICAI and the other regulatory agencies to facilitate the smooth convergence of IFRS are commendable and give the positive idea that the country is ready for convergence. The need is to have a systematic approach to make the organizations and the investors ready for the change and the standards ready for renovation. Corporate need to gear themselves for constant updating and not only for the first time adoption.

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