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IFRS & INDIA – BENEFITS, PROBLEMS & CHALLENGES

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ABSTRACT

The global harmonization of accounting standards came from lack of comparability of financial statements across the country. In recent years, International Financial Reporting Standards convergence has achieved momentum all over the world. The European Union is a regional economic union aimed at harmonizing economic, social, fiscal and monetary policies among its member's countries. As part of its implementation in 2002, the EU approved an Accounting Regulation requiring EU companies listed on a regulated market to adopt IFRS in the consolidated financial statements starting in 2005. In India, ICAI has decided to adopt the IFRS by April 2011 but still there is no growth in the implementation of IFRS. This paper discusses the procedural aspects of adoption of IFRS in India, the benefits if adoption and the problems and challenges faced by the stakeholders and its impact on India.

KEYWORDS : – IFRS, Convergence, IASB, ICAI

Introduction

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which are comparable, understandable, reliable and relevant as per the internal or external users.

They are also known as International Accounting Standards (IAS). IASs were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On 1 April 2001, the new International Accounting Standards Board (IASB) had replaced IASC and the newly settled ISAB has taken over the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards International Financial Reporting Standards (IFRS).

IFRS stands for International Financial reporting standard.

The term (IFRS) has both broader and narrow meaning.

Narrowly it means new numbered series of pronouncement that the ISAB is issuing as different from international Accounting standard issued by its predecessor international accounting standard committee.

In broadly it refers to entire body of ISAB pronouncement, including standard and interpretation approved by IASB.

Structure of IFRS

IFRS are as principles based set of standards that establish broad rules and also dictate specific treatments. International Financial Reporting Standards comprises of:

International Financial Reporting Standards (IFRS) – standards issued after 2001.

International Accounting Standards (IAS) – standards issued before 2001

International Financial Reporting Interpretation Committee (IFRIC) – issued after 2001.

Standing Interpretation Committee (SIC) –issued before 2001.

List of IFRS

There are 65 standard in total. It includes….

9 IFRSs

29 IASs

16 IFRSC interpretations and

11 SIC Interpretations

Meaning of Convergence with IFRS

Convergence means to achieve harmony with IFRSs; in precise terms convergence can be considered "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs", i.e., when the national accounting standards will comply with all the requirements of IFRS. But convergence doesn't mean that IFRS should be adopted word by word, e.g., replacing the term 'true & fair' for 'present fairly', in IAS 1, 'Presentation of Financial Statements'. Such changes do not lead to non-convergence with IFRS.

REVIEW OF LITERATURE:

The Study conducted **(Armstrong et al 2010)** on 1084 European Union firms during the period of 1995-2006 and result showed a positive reaction to IFRS adoption events for firms with high quality pre adoption information, consistent with investors expecting net convergence benefits from IFRS adoption It is increasingly felt that IFRSs would be the right choice for a single global standard, since it has been prepared with much considerations and consultations (Pinky Dholakia)

The Study conducted by **(Sunitha Ajaykumar Rai 2012)** Says there are many challenges in first time adoption of IFRS that corporate needs to gear themselves for constant updating in all the uniform standards to have a systematic approach in the financial statements.

Prof. Jyoti H. Pohane (2012) in their study the real estate industry continues to be a good example of the differences that can arise from the application and interpretation of apparently straightforward accounting standards.

Shamnani Gopichand B (2012) in their article GAAP & IFRS and it would be appreciates to understand some of the qualitative as well as Procedural differences between the two. An analysis of differences Between Indian GAAP and IFRS.

One of the major recommendation given by **B. Kapoor and jyoti ruhela (2013)** under her paper titled IFRS implementation – issues and challenges for India that Proper education and training of employees about IFRS and formation of separate committee for IFRS leads to overcome the challenges faced by India.

Needs for IFRS:

Level of Confidence: The key benefit will a common accounting system that is perceived as stable, transparent, and fair to investors across the world, whether local or foreign.

Risk Evaluation: IFRS will eliminate barriers to cross-broader listings and will be beneficial for investors who generally ascribe a risk premium if the underlying financial information is not prepared in accordance with international standards.

Merger and Takeover Activity: Cross-border mergers and acquisitions will get a boost by making it easier for the parties involved in as far as redrawing the financial statements is concerned.

Investments: Foreign investors will be attracted to economies where IFRS-complaint financial statements are the norm.

Objective of IFRS:

To develop, public interest, a single a set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information regarding financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions.

To promote the use and rigorous application of those standards;

In fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and

To bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

METHODOLOGY

For the purpose of the present study, mainly literature survey and secondary data has been used. The required secondary data was collected from the authorized Annual Reports and Official Website of ICAI and IFRS, various Journals and Research Papers, diagnostic study reports and newspaper articles have been surveyed in making this study.

Applicability of IFRS in India

Accounting standards in India are issued by Accounting Standard Board (ASB) of Institute of Chartered Accountant of India. With development of Indian economy and its integration with international economy it has become unavoidable to move a step towards IFRS. In this regard the ASB of ICAI has decided to constitute IFRS task force in 2006. On the bases of the recommendation given by the task force ICAI has decided to fully converge with IFRS with accounting period commencing on or after 1st April 2011.

The ICAI has decided to make it applicable in three phases.

Phase – I: Under Phase I, the following companies will convert their opening balance sheet as on 1st April 2011 in compliances with the notified accounting standard which are convergent with IFRS. These companies are :

Companies which are part of NSE- Nifty 50.

Companies which are part of BSE – Sensex 30.

Companies whose shares or other securities are listed on stock exchange outside India.

All companies whether listed or not which have net worth that excepts 1000 crores.

Phase – II : All companies whether listed or not, having net worth exceeding Rs.500 crore but not exceeding Rs.1000 crore will convert their opening balance sheet as on 1st April 2013 in compliance with the notified accounting standard which are convergent with IFRS.

Phase –III: Listed companies which have Net worth of Rs.500 crores or less will convert their opening balance sheet as on 1st April 2014 in compliances with the notified accounting standard which are convergent with IFRS.

Benefits of Convergence (IFRS)

Benefits for the Industry: Currently companies need to prepare additional financial statements based on multiple reporting formats to arise capital in global market. Convergence with IFRS will eliminate the requirement for dual set of financials statements and thereby reduces the cost of raising funds by the companies.

Benefits for Investors: Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards.

Benefits to the accounting Professional: Convergence of IFRS will increase the opportunities for Indian professionals in abroad as they will be able to sell their services as experts in different parts of the world.

Corporate world: Convergence with IFRS would raise the reputation and relationship of the Indian corporate world with the international financial community. Moreover, the corporate houses back in India would be benefited because of ,one, achievement of higher level of consistency between the internal and external reporting, two, because of better access to international market, three, convergence with IFRS improves the risk rating and makes the corporate world more competitive globally as their comparability with the international competitors increases.

IFRS balance sheet will be closer to economic value: Historical cost will be substituted by fair values for several balance sheet items, which will enable a corporate to know its true worth.

Single Reporting: Convergence with IFRS eliminates multiple reporting such as Indian GAAP, IFRS, US GAAP.

Challenges of Convergence:

Impact on financial performance: Due to significant differences between Indian GAAP and IFRS, adoption of IFRS is likely to have a significant impact on the financial position and financial performance of most Indian companies.

Lack of Preparedness: Adoption of IFRS by approximately 5000 listed companies by 2011 would result in a significant demand for IFRS resoruces. Corporate India and accounting professionals need to be trained for effective migration to IFRS. Additionally auditors would need to train their staff to audit under IFRS environment.

Communication of Impact of IFRS to investors: Companies also need to communicate the impact of IFRS convergence to their investors to ensure they understand the shift from Indian GAAP to IFRS.

Conceptual difference: For example : the Indian standard on intangibles is based on the concept that all intangible assets have a definite life, which cannot generally exceed 10 years; while IFRS acknowledge that certain intangible assets may have indefinite lives and useful lives in excess of 10 years are not unusual.

Significant Cost : Significant one-time cost of converting to IFRS(including costs of internal personnel time, adopting IT systems, implementing revised reporting policies and processes, training personnel and educating investors, analysts and members of the board.)

Complexity in the financial reporting process: Under IFRS, companies would need to increasingly use fair value measures in the preparation of financial statements. Companies, auditors, users and regulators would need to get familiar with fair value measurement techniques.

Conclusion

The companies will find comfort in using accounting standards converged with IFRS if their accountants, auditors, shareholders and other stake holders along with the rating agencies and investment analysts are conversant with such new standards. 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 prepares to effectively communicate with investors through financial reports. This effective communication can be strengthened through convergence to IFRS.

With a view to make sure adoption of IFRS in India in time, skilled and trained professional accountants and auditors in IFRS are required in large numbers. India lacking the required number of IFRS trained accountants and auditors. The ICAI has taken initiatives to arrange the training programmes for its members and other parties for IFRS. Yet India need to build a bridge in the gap between available trained professionals and required such professionals.

To ensure that all the corporate houses are complying with adoption procedure, Indian regulators and Accounting Body (ICAI) should have Financial Reporting Compliance Monitoring Board.

ABBREVIATION

IFRS -- International Financial Reporting Standards

IAS – International Accounting Standards

IASB- International Accounting Std. Board

GAAP- Generally Accepted Accounting Principles

ICAI - Institute of Chartered Accountants of India.

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