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IFRS:- in An Indian Context

KEYWORDS
IFRS

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ABSTRACT *Accounting is shaped by economic and political forces it follows that increased worldwide integrators of both markets and politics , But most market and political forces will remain local for the foreseeable future, so it is unclear how much convergence in actual financial reporting practice will(or should) occur. This paper addresses the adoption and applicability of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), issued by the International Accounting Standard Board (IASB) to India specifically; the paper highlights some major areas where the country lacked harmonization with IAS. However, continued growth and the attraction of foreign capital to domestic ventures will depend on the transparency of the financial dealings. The Institute of the Chartered Accountant of India (ICAI), India's standard setting body, is increasingly attempting to provide this transparency by revisions and additions to accounting standards and by exposure drafts which aim to bring India more in line with International Financial Reporting Standards. The pros and cons of IFRS are therefore somewhat conjectural, unbridled enthusiasm of allegedly altruistic proponents notwithstanding. On the "pro" side of the ledger, we conclude that extraordinary success has been achieved in developing a comprehensive set of high quality IFRS standards.*

Harmonization of accounting standards has become a highly demanded issue of discussion and debate among accounting professionals around the globe. International Financial Reporting Standards (IFRS) is set of accounting standards, developed by the International Accounting Standards Board that is becoming the global standard for the preparation of public company financial statements. Convergence with IAS/IFRS, issue by the International Accounting Standards Board has recently gained momentum all over the world. Due to complex nature of IFRS, The Institute of Chartered Accountants of India (ICAI) in its 2006 concept paper expressed the view that IFRS should be adopted from the year 2011. IFRS are considered a "principle based" set of standards in that they establish broad rules as well as dictating specific treatments.

Here's how it all started :-
The history of International GAAP goes back to 1967. As businesses became transnational, companies and investors started realizing the importance of having one set of global accounting standards. In 2001, IASC was rechristened the International Accounting Standards Board (IASB), which laid down a framework for bridging the gap between IAS and GAAP. The first IFRS was published in June 2003, titled "IFRS 1-First-time Adoption of International Financial Reporting Standards". With IFRS gaining prominence in European markets, it became relatively easier for most countries across Latin America, Africa and Asia to tag alone. It was relatively easier and a next logical step for these emerging economies to embrace IFRS rather than GAP. Being a new initiative, IFRS was more contemporary and able to adequately reflect the changing needs for business and investors. Also, being principle- based, it offered a more comprehensive solution vis-a-vis what enabled IFRS to come into existence was the long-felt need for unification of business systems and financial reporting platforms greater comparability of financial results and free movement of financial and human capital. India will move to IFRS starting 2011. Navin Agrawal is a director of Ernst and Young India Pvt. Ltd. This is The First of a series that will analyse and impact of IFRS on industries and regulatory issues pertaining to its convergence with Indian GAAP, which is largely rule-based, too voluminous and cumbersome.

Objectives:-
1. To know about IFRS

2. To know why IFRS is necessary.

3. To know about GAAP and IFRS.

Research Methodology:-
To achieve research objectives, the descriptive research design is used in the study. The study is based on the secondary data collected mainly from the various journals and websites.

Why IFRS ? :-
As capital markets become increasingly global and India emerges as an economic superpower, it is becoming increasingly important for Indian corporation to adopt International reporting standards. As with any regulatory change, IFRS conversion presents an opportunity to increase your credibility, not to reduce it. The attitude adopted towards the conversion, would eventually decide whether the organization is able to seize the opportunity arising from transformation.

Why is the world looking at IFRS ?
Convergence of accounting standards will have the effect of attracting investment through greater transparency and a lower cost of capital for potential investor. Differences in accounting practice make it difficult for investors, whether individual or institutional, to compare the financial result of different companies and make investment decisions. IFRS remove some subjectivity from financial reporting and provide a consistent basis for recognition, measurement, presentation and disclosure of transaction and event in financial statements. In recent past, there have been cases where companies reporting under IFRS in Europe record a lost but when these same companies re-state their ac-

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counts according to US GAAP they record a profit!

Financial statements are prepared based on number of accounting principles and assumptions. Accountants use their judgment to apply these principles and produce financial statements for use by management, shareholders, analysts, finance providers, governmental agencies, the general public and other stakeholders.

Particulars	Indian GAAP	IFRS
1.Revenue recognition	Revenues are recognized when all significant risks and rewards of ownership are transferred or on a percentage of completion basis.	Revenues are recognized when all significant risks and rewards of ownership are transferred.
2. Balance sheet	Conforms to statute and captions are in the following order : Equity and reserves Debt Fixed assets Investments Net current assets deferred expenditure and Accumulated losses Require only for the current Year with the prior year comparatives	Balance sheet caption are presented in the inverse order of liquidity i.e.illliquied items appear earlier. Required disclosure of either change of equity or changes equity other than those arising from capital transaction with owners and distributions of owners.
3. Correction of fundamental errors	Include effect in current year income statement.	Include cumulative effect in current year income statement.
4. Derivative and other financial instrument – Measurement of hedges of foreign entity investments.	No definitive standard yet. New standard of financial Instruments : Recognition and measurement is Presently under formulation.	Similar to US GAAP Except, ineffectiveness of Non – derivatives Recognized in equity.

IFRS annual financial statements:-
The first annual IFRS financial statements (e.g. Those at December 31, 2011) will include at least three statements of financial position (i.e. balance sheets) and two income statements. For example, for an entity with a calendar year fiscal year, it will show, at a minimum, an opening balance sheet at January 1, 2010, one at December 31, 2010 and one at December 31, 2011, all prepared under IFRS. It will also show IFRS income statements for the fiscal years ending December 31, 2010 and December 31, 2011. The cumulative effect of the retrospective application should be adjusted in general reserve (or any appropriate reserve account), assets and liabilities. The portion that would have been recognized had IAS 19 applied all those year would be recognized on entity's balance sheet at the date of transition through an adjustment to retained earnings.

Which companies must adopt IFRS ?
Adoption of IFRS is mandatory for the following entities:

Public and private companies, listed as well as those which are in process of getting listed.

Private companies who have issued debt instruments in public market; and Private companies which hold assets in a fiduciary capacity (e.g., banks, insurance companies)

3 ways in which IFRS is a change for better There are 3 key aspects that run through each principle laid down in IFRS:

Substance Over Form
IFRSs lay down treatments based on the economics substance of various events and transaction rather than their legal form.

The application of this approach may result into event and transaction being presented in a manner different from thei legal form.

To illustrate, as per IAS 32, preference shares that provide for mandatory redemption by the issuer are presented as a liability.

Use of fair values
IFRS mandates the use of fair value in measurement of financial instruments, employee compensation, share-based payments, and assets and liabilities acquired in a business combination.

It will allow use of fair value, as opposed to cost, in relation to property, plant and equipment, intangible assets and investment properties.

Recognizing time value or time cost of money
IFRS recognized that value of money changes with time.

It requires receivables and payables, that is, financial assets and liabilities or monetary items to be reflected at current value. Thus, the value of Rs 100 payable in three months will be different from Rs100 payable after 36 months.

Who gets affected by the change ?
A country's intention to adopt IFRS or converge with IFRS is highly admirable and to be applauded. However the accounting standard setters and other constituents must continue. To work together to eliminate differences between national and international standards. The principal action needed to support convergence are outlined below.

The Account Profession needs to assist governments and standard setters in formulating and enacting convergence plans, provide IFRS training and education and support the preparation of national language translation of IFRS.

Governments must establish format convergence plans that include target dates for implementation and address impediments to convergence, for example the link between financial accounting and lax legislation.

Regulators should set up efficient and effective enforcement mechanisms to increase the consistency and quality of application of IFRS as well as support the International Financial Reporting Interpretations Committee (IFRS) and the IASB as the sole clearing house for interpretation of IFRS.

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National Standard Setters must decide on a strategy and timetable for achieving convergence and develop an active standard setting agenda aimed at eliminating exiting differences with IFRS.

Universities need to include IFRS in the core accounting curriculum.

Analysts and investors are required to promote convergence of national accounting standards with IFRS. They should also actively participate in the IASB's Standard setting process, in particular to identify users' needs, and educate their staff regarding the IFRS reporting model.

Conclusion :-

A sound, unbiased, and transparent financial accounting and reporting there of it is a critical underpinning of our highly participative and complex capital markets, our economic well-being, and our way of life. Prevailing laws of the land significantly contribute to the variances between accounting standards of India with the other countries. Convergence initiatives are now working much more effectively than over before. Difference are still their but they are narrowing. It is expected that the pace of progress in the sphere of convergence will accelerate further in the coming year. In Indian perspective, it will continue to adopt IAS/IFRS in the near future with few modifications to care to the requirements of local climate. The transition from GAAP to IFRS is not only inevitable, but a positive development that would help make capital markets more competitive. Accountants say that the challenge for India, as it scrambles to meet the accounting shift deadline, will lie in getting its listed companies to establish the appropriate financial reporting systems and in training enough qualified accountants very soon. Transitioning to IFRS would allow Indian companies to compete for capital in other countries, while reducing cost and complexity for companies operating internationally; we also thing that embracing a single set of global accounting standard would contribute to a higher degree of investors understandings and confidence. Because of IFRS there will be greater comparability and greater confidence in the transparency of financial reporting.

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