ABSTRACT

International Financial Reporting Standard (IFRS) are now adopted by almost 100 countries and 12000 companies worldwide. India, Japan and USA are an exception. Mandating the implementation aims at uniform Financial reporting so as to have less complexities during cross border transactions. Many countries have recognized the need for convergence and they are moving towards the implementation stage. Accounting bodies such as the International Accounting Standard Board (IASB) and the US Financial Accounting Standard Board (FASB) have already initiated the groundwork on converging International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP). All the Boards across the world have set their own timetable for convergence into IFRS. The Institute of Chartered Accountants of India (ICAI) has also announced the mandatory adoption of the IFRS. This will be done by revising the existing Accounting Standards to make them compatible with IFRS.

Introduction:

India has become an International economic force. Indian companies are diversified in various sectors which includes Software and IT, pharmaceutical, automobiles, engineering tools and equipments. In order to stay in the global market and increase the stakeholders in the Company there must be uniform Accounting practices followed in order to make it more understandable. In India out of NIFTY 50 companies only 6 companies have adopted IFRS implementation which comes to 12% only. However this has to become a necessity then just being the best practice.

In the forthcoming years and with the advent of Liberalization, Privatization and Globalization uniform set of high-quality Accounting standards will be mandatory.

There are two terms which are used interchangeably are Adoption and Convergence; the adoption involves the endorsement of IFRS through a Regulatory body and latter is for maintaining the harmony between the National Accounting Standards and IFRS.

Convergence of IFRS will benefit the following:

a) Investors: To get reliable, relevant and timely information to make investments decisions.

b) Professionals: They will have larger scope with regards to providing the services.

c) Corporate World: Indian Corporate world will have higher level of consistency and it will help them to get the funds from the International market.

IFRS was originally scheduled to adopted by Indian Companies by 2011 and it has been repeatedly postpones by Ministry of Corporate Affairs but it is expected to be adopted by 2015.

When it does move, India will not actually transition to IFRS, as understood by global investors. It will move to "Indian AS" – India's version of IFRS – in a process called "IFRS convergence". In fact, Indian AS is simply a rejection of the unpalatable aspects of IFRS that Indian companies have long lobbied the Minister for Corporate Affairs. No date has been set for Indian AS to come into force, but many of the standards have been drafted.

Review of Literature:
Almost 84% the Nifty 50 stocks that still report solely under Indian GAAP currently have no plans to switch to IFRS at all. Most Indian companies believe that no announcement on IFRS adoption is likely to occur for several years and certainly not before the next general election due by 31 May 2014. According to some of the Big Four Indian accountancy firms, the earliest possible date for IFRS adoption is likely to be 1 April 2015, but that too is by no means a certainty.

Under Indian law, all Indian companies must report financial statements using Indian GAAP until new legislation is passed in parliament allowing them to report under IFRS. But that legislation has been repeatedly deferred as vested interests seek to gain advantage in the drafting of new accounting standards.

IFRS adoption procedure was established in India by Indian Government. The act was passed in parliament named The Institute of Chartered Accountants of India in 1949. It streamlined the accounting practices. ASB (Accounting Standard Board) was established by ICAI in the year 1977 to harmonize and systematically disclose the critical aspects of accounting. Following were the impact of adoption of IFRS:

1) Better access to global Capital markets.
2) Easier Global Comparability.
3) Easy cross border Listing
4) Better Quality of Financial reporting.
5) Elimination of multiple reporting.
6) Amended taxation policy.
7) Effective usage of fair value as the measurement base.

IFRS 1 specifically deals with how to apply IFRS for the first time. An entity shall explain transition from previous GAAP to IFRS affected reported financial position, financial performance and cash flows.

IFRS comprises of:
1) IFRS (International Financial Reporting Standards) after 2011
2) IAS (International Accounting Standards) before 2001
3) IFRIC (International Financial Reporting Interpretation Committee) after 2001
4) SIC (Standing Interpretation Committee) before 2001

IFRS Currently issued:
IFRS 1 First time adoption of IFRS
IFRS 2 Share Based Payments
IFRS 3 Business Combinations
IFRS 4 Insurance Contracts
IFRS 5 Non Current assets held for discontinued operations
IFRS 6 Exploration for an evaluation of mineral resources
IFRS 7 Financial Instruments : Disclosure
IFRS 8 Operating Segments
IFRS 9 Financial Instruments

Findings would be useful for the following persons:
- Investors across legal framework
- Professionals
- Investment Bankers
- Corporate for strengthening the Capital markets.

Objective of the Study:
1) To state the difference between the IFRS and the Indian GAAP
2) To understand the bottlenecks in adopting IFRS
3) To assess the impact on Profit and loss, Balance Sheet, Disclosure norms after adoption of IFRS

Impact on Implementation of IFRS

Source: KPMG India, Deloitte India, PwC India, CM Research

Note: A more detailed analysis of the main differences between IFRS and Indian GAAP is provided in Appendix 1

Following are the major differences which have major impact on the Financial Statement of the Companies:

INVENTORIES
In IFRS When inventory is acquired on deferred settlement terms, a difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of the financing. In Indian GAAP, there is no guidance for the treatment of inventories acquired on deferred settlement terms.

CASH FLOW STATEMENTS
Under IFRS Bank borrowings are normally part of financing activities. Bank overdrafts that are repayable on demand are included in cash equivalents. Interest paid or received is disclosed as operating in case of financing entity. The interest paid can be disclosed as operating or financing cash flow and interest received is usually disclosed as investing cash flow. Dividend paid can be disclosed as operating or financing. Dividend received is disclosed as operating in case of financing entity. There is no stipulation in AS 3 for classification of bank overdrafts in Indian Accounting Standards.

PRIOR PERIOD ITEMS
In IFRS, the definition of prior period items is much broader under IAS 8 as compared to AS 5. Prior period errors cover all the items in the financial statements including assets and liabilities. In Indian GAAP, the definition of prior period items is restricted to income and expenses in current period resulting in errors.

DEPRECIATION
Under IFRS, an entity is required to depreciate separately the significant parts of PPE if they have different useful life (Component Approach). Change in the method of depreciation is treated as change in accounting estimates, reflected in the depreciation charge for the current and prospective years. Depreciation on revalued portion cannot be recouped out of revaluation reserve. Under Indian GAAP, Generally component approach is not required or followed. Change in method of treated as change in accounting policies and impact is determined by retrospectively computing depreciation under new method and the impact is recorded in the period of change. Depreciation on revalued portion can be recouped out of revaluation reserve.

REVENUE RECOGNITION
In IFRS Revenue should be measured at the fair value of the consideration received or receivable. Where the inflow of the cash or cash equivalent is deferred, discounting to a present value is required to be done. In Indian GAAP, Revenue is measured by the charges made to the customers or clients for goods supplied or services rendered to them and by the charges and rewards arising from the use of resources by them. In case of installment sales, discounting would be required. When the consideration is receivable in installments, revenue attributable to the sales price exclusive of interest should be recognized at the date of sale. The interest element should be recognized as rev-
ene, proportionately to the unpaid balance due to the seller there is no specific guidelines of credit points awarded.

FINANCIAL ASSETS
In IFRS, Financial assets are classified as four categories: financial asset at fair value through profit or loss, held to maturity, loans and receivables, and available for sale. IFRS 9 on Financial Instruments which is made a part of December 1, 2013, classifies measurement category of financial assets in following categories: Amortized cost and Fair value In Indian GAAP, AS 30, 31, 32 which are re commended up to 31 March, 2011 provide for classification of financial assets which are similar to IFRS.

BORROWING COST
Under IFRS, An entity is not required to apply IAS 23 to borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, measured at fair value In Indian GAAP. As per AS 16,there is no such exclusion under.

LEASE
In IFRS, IAS 17 prescribes initial direct cost incurred by lessor to be included in lease receivable amount in case of finance lease and in the carrying amount of the asset in case of operating lease recognized as an expense over the lease term on the same basis as the lease income. As per IAS 17, leases of land are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term commencing on or after 1 January, 2013, classifies measurement category of financial assets in following categories: Amortized cost and Fair value In Indian GAAP, AS 30, 31, 32 which are re commendatory up to 31 March, 2011 provide for classification of financial assets which are similar to IFRS.

INVESTMENT IN ASSOCIATES
In IFRS, Goodwill recognized with the cost investment need not be disclosed separately. Under Indian GAAP, Goodwill or capital reserves within the cost of the investments are required to be separately identified.

INTANGIBLE ASSET
In IFRS, In accordance with IFRS 3 Business Combinations, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The intangible assets is recorded by the acquirer irrespective of whether the asset had been recognized by the acquirer before the business combination the depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.

In Indian GAAP, if an intangible asset is acquired in an amalgamation in the nature of purchase; the same should be accounted at cost or fair value if the cost/fair value can be reliably measured. If the same is not reliably measurable it is included as a part of goodwill. Intangible asset acquired in an amalgamation in the nature of merger, or acquisition of a subsidiary is recorded at book value Intangible asset acquired in an amalgamation in the nature of purchase is recorded even if that intangible asset had not been recognized in the financial statements of the transferor however, in case of amalgamation in the nature of merger if the intangible asset was not recognized by the acquiree, the acquirer would not be able to record the same. Amortization is based on allocation of depreciable amount on a systematic basis done over best estimate of useful life but should not exceed 10 years, unless there is persuasive evidence for amortizing over a longer period.

PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES
As per IFRS. The amount recognized as provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date, detailed guidance is available on measurement. A contingent asset is disclosed in financial statements where an inflow of economic benefits is probable. In Indian GAAP, Provisions are based on the best estimate. No detailed guidance is available. A contingent asset is not disclosed in financial statements.

DIVIDEND
In IFRS, Presented as a deduction in the statement of changes in shareholders equity in the period when authorized by shareholders. Dividends are accounted in the year when paid. Under Indian GAAP, Presented as an appropriation to the income statement. Dividends are accounted in the year for which it is pro-
Source: KPMG India, Deloitte India, PwC India, CM Research

Conclusion:
From the above discussion it is very much clear that transition from Indian GAAP to IFRS will face many difficulties but at the same time the convergence with IFRS is strongly recommended as it will have compatibility with regards to the cross border transactions and the strong foot in global market. Immediate adoption of IFRS in the corporate will have certain problems in implementation phase but later on this will bring uniformity in the preparation and presentation of the Financial Statements. All accountants whether practicing or non-practicing have to participate and contribute effectively to the convergence process. This would lead to subsequent revisions from time to time arising from its global implementation and would help in formulation of future international accounting standards. A continuous research is in fact needed to harmonize and converge with the international standards. Although multiple problems like training employees, incurring extra costs and expenditure, critical third-party contracts, debt covenants, and key leadership metrics will change with the change in accounting policies. However, the impact of IFRS is truly cross-functional. Indian Corporate World which has been preparing its Financial Statements on Historical Cost Basis will face difficulties in preparing Financial Statement at Fair Value Measurement Basis. There is huge scope of the further research in terms of initial difficulties and hesitance faced by the Indian Companies in convergence process.

REFERENCE

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