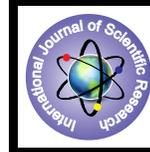


Adoption of IFRS as a Tool to Prevent Economic Crisis



Commerce

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Smt. Tulasi B V

Assistant Professor, Department of Commerce, Commerce and Management College for women, Mysore

ABSTRACT

International Financial Reporting Standards is a set of International Accounting Standards stating how particular types of transactions and other events should be reported in Financial Statements. IFRS are generally principles-based standards and seek to avoid a rule book mentality. IFRS are issued by the international accounting standards board. IFRS are well accepted standards for assessment of the financial position and performance of a business across the globe. As we know that the world becoming a global village, organizations and investors who operate business in several countries need to know each nation's accounting principles. Although, basic accounting principles are widely accepted but the application of certain accounting principles in different economic and cultural environment has lead to significant differences as how accountant reports similar transactions. IFRS is important whether it is small, medium, or large scale business organization. Today Indian businesses engage in cross border, report to non-Indian stakeholders and manage overseas operations. Investors feel that, the need to recognise and understand IFRS is inevitable since Indian investors keep looking for overseas investment opportunities. India has been joining IFRS club from the financial year 2012 and included all listed companies, all banking companies, all financial institutions, all scheduled commercial banks, all insurance companies, and all NBFC. Today, India's IFRS approach to convergence rather than adoption is a debate among companies, preparers, government and stakeholders. There is a subtle difference between convergence and adoption of IFRS in India. Convergence means to achieve harmony with IFRS, it can be considered to design and maintain National Accounting Standards in a way the financial statements prepared in accordance with national Accounting Standards. Adoption is a process of adopting IFRS word by word. Adoption enables a common language as far as financial reporting is considered. It helps for the improvement of capital flows across borders with a relative ease. Increased capital flow will reduce the cost of capital and reduced cost of capital can enable more employment creation.

Introduction

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

IFRS began as an attempt to harmonize accounting across the European union, but the value of harmonization quickly made the concept attractive around the world. Standards that were issued by IASC and are still within use today go by the name International Accounting Standards (IAS), while standards issued by IASB are called IFRS.

IAS were issued between 1973 & 2001 by the Board of the IASC (International Accounting Standards committee). On 1st April 2001, the new IASB (International Accounting Standards Board) took over from the IASC the responsibility for setting International Accounting Standards. The IASB has continued to develop standards calling the new standards "International Financial Reporting Standards".

Meaning

International Financial Reporting Standards (IFRS) convergence, in recent years, has gained momentum all over the world. As the capital market become increasingly global in nature, more & more investors see the need for a common set of a accounting Standards.

India being one of the key global players migration to IFRS will enable Indian entities to have access to international capital markets without having to go through the cumbersome conversion & filing process. It will lower the cost of raising funds, reduce accountants fees & enable faster access to all major capital markets. Further more, it will facilitate companies to set targets & milestones based on a global business environment

rather than an inward perspective.

Govt has recently issued new Indian Accounting Standards (Ind-As) which are converged with IFRS. The companies which are registered in India will be required to present their annual accounts according to new norms with effects from April 2016.

Importance of IFRS:-

While adopting IFRS, following standards have important & positive implications for organizations & individuals that adopt them:-

For companies:- Entities can raise capital from foreign markets at lower cost only if they can create trust & confidence in the minds of the foreign Investors through 'True & fair' presentation of their financial statements by adopting globally acceptable standards.

For Investors:- Better information for decision making, leading to broader investment opportunities. The investor will be benefited in as the way accounting information made available to them will be more reliable, relevant, timely & most importantly the information will be comparable across different legal frame work. It will develop better understanding & confidence among the investors.

For national regulatory bodies:- Better information for market participants in a disclose – based system.

For the professional:- The professional both in practice & in employment will get benefits as they will be able to provide their services in various part of the world, as few years after everybody will follow the same reporting standards.

IFRS would increase the comparability between financial statement. It gives better understanding of financial globally as compare to IND-AS and GAAP. Adoption of IFRS in Indian, helps to people would get an opportunity to work as global clients & increase their work mobility in & all around the world.

Adoption of IFRS will result in high quality, transparent and comparable financial Statements that are based on modern accounting principles & concepts that are being applied in global markets.

The adoption of IFRS will improve cross border investment by enhancing comparability of financial statements prepared anywhere in the world. IASB will be alert to the best IFRS to guide them in the establishment of highly improved reporting practices in Indian.

India & IFRS:

In India, IFRS will be implanted in phases on public & private companies in two phases:-

Phase 1: From April 2016 companies of net worth above INR 5 billion (USD 83 million approx)

Phase 2: All listed companies & non-listed with net worth above INR 2.5 billion (USD 42 million approx)

IFRS adoption procedure in India:-

To rationalize accounting practices in the country, the Indian government in 1949, established Institute of Chartered Accountants of India by passing ICAI Act,1949. Accounting Standard Board was constituted by ICAI in 1977 in order to create harmony among the diversified accounting policies and practices in India. Three steps process was laid down by the accounting professionals in India which are summarized as follows:

Step 1:- IFRS Impact Assessment This is the first step. In this step the firm will assess the impact of IFRS adoption on Accounting and Reporting issues, on procedures and on core business of the entities. Then the firm will find the key conversion dates according to IFRS training plan has laid down. As and when the training plan is in place, the firm will have to identify the important Financial Reporting Standards which will apply to the firm and also the variations among the present financial reporting standards being followed by the firm and IFRS both.

Step 2:- Preparations for IFRS Implementation this is the second step of the process, which will carry out such activities required for IFRS implementation process. Then the firm will reform the internal reporting systems and processes. IFRS first deals with the adoption and implementation of first time adoption process.

Step 3:- Implementation this is the final step of the process which deals with the actual Implementation of IFRS. The initial phase of this step is to prepare an opening Balance Sheet at the date of transition to IFRS. To understand the actual impact of the transition from the Indian Accounting Standards to IFRS is to be developed. This will follow the full application of IFRS a sand when it is required. At the initial stage of implementation of IFRS requires lot of training and various technical difficulties may be experienced. The smooth implementation of the transition from Indian Accounting Standards to IFRS, regular training to personal and identify the problems while carrying out the implementation.

Objectives of the Study:-

- To discuss the IFRS adoption procedure in India.
- To discuss the utility for India in adopting IFRS.
- To analyze the challenges in adopting IFRS.
- To discuss the problems faced by the stake holders in the process of adoption of IFRS in India.
- To discuss the ways through which, these problems

can be addressed.

Methodology:-

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

Challenges in Adopting IFRS.

There are number of challenges that India is likely to face while dealing with convergence with IFRS. Following are some of the challenges:-

Scarcity of Human Resource:- Implementation & maintenance of IFRS would require expert professionals in large numbers. Availability of such work force in a short period of time is a big challenge in the convergence with IFRS.

Information system:- As financial accounting & reporting systems are modified & strengthened to deliver the information in accordance with IFRS, entities need to enhance their Information system security in order to minimize the risk of business interpretations particularly to address potential frauds, cyber terrorism & data corruption.

Tax planning:- IFRS will have significant impact on financial statements & consequently tax liability. There could be ambiguity on tax treatment of various issues arising out of the convergence with IFRS.

Performance Appraisal:- since IFRS is based on fair value, the actual reported earnings may significantly deviate from the expected earnings by the stakeholders & other interested parties. Various conventional performance indicators may not be of much relevance. In such a situation it will be difficult to assess the performance of the entity.

Different in GAPP & IFRS:- Adoption of IFRS means that the entire set of financial statements will be required to undergo a dramatic changes. It would be a challenge to bring about awareness of IFRS & its impact among the users of financial statements.

Training & Education:- Lack of training facilities & academic courses on IFRS will also pose challenge in India. There is a need to impart education & training on IFRS & its application.

Legal & Regulatory considerations:- Currently the reporting requirements are governed by various regulators in India & their, provisions over ride other laws. IFRS does not recognize such overriding laws. The regulatory & legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.

Fair value measurement:- IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of instability & prejudice to the financial statements. It also involves a lot of hard work in arriving at the fair value & valuation experts have to be used.

Compatibility with other Laws & Acts:- Compatibility of IFRS with other Laws & Acts in the country like Companies Act, 1956 is a big challenge. Further revisions in IFRS will also make the convergence process more complex as with every revision in IFRS, revision may be required in the existing Law/ Act.

Issue 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 on-going unaudited reconciliation of the financial statements from IFRS to U.S. "GAAP" which is clearly more costly approach for companies & for investors.

Challenges of IFRS for implementation in India:-

Till 2005, countries were having their own Financial Reporting System. Firms, Investors, Bankers who were interested in cross border investment were facing lot of trouble in taking Investment Decision on the basis of these multiple Financial Reporting System. In 2005, member countries of European union adopted IFRS. In the subsequent years, other countries either adopted IFRS or converged to IFRS. India is no exception. This study tries to analyze the information available on IFRS adoption process in India. It also discusses the IFRS adoption procedure in India & the utility for India in adopting IFRS. The paper discuss the problems faced by the stake holders, in the process of adoption of IFRS in India.

In 2007, India announced that it would fully adopt IFRS, & by doll which is to be done in phases. First phase, will include the companies which are part of Nifty 50 Index iii, Sensex 30 iv, the companies which have shares or other securities listed on stock exchange outside India & the companies, which have a net worth in excess of Rs.10 Billion. The company covered in this phase will prepare an opening balance sheet accordance with IFRS converged standards as of 1st April 2011 & will follow the IFRS converged standards from this date.

The Second phase will cover the firms with a net worth in excess of Rs. 25 Billion but less than Rs.10 Billion. These firms will prepare an opening Balance Sheet in accordance with IFRS converged standards as of 1st April 2013 & will follow IFRS converged standards from this date.

Researchers have given various opinions on the utility of adoption of IFRS across the world as a single set of Reporting Standards. Adoption of IFRS as single set of reporting standards improves the quality of financial information & also ensures timely loss recognition. Adopting single set of Financial Reporting Standards during many benefits to reporting entities, Investors, Bankers & other interested parties as in this period of international boundaries getting eliminated, they will not have to refer to reporting statements prepared on the basis of different reporting standards.

The study is primarily qualitative in nature & do not use any quantitative tool to analyze the date. It has been conducted mainly on the basis of Secondary information. Various Journals, newspapers & magazines, articles have been referred to in writing this paper.

BENEFICIARIES OF CONVERGENCE WITH IFRS

The researchers have pointed out several beneficiaries to the convergence of Indian Generally Accepted Accounting Principles (GAAP) with IFRS. Some of them are discussed here below:

The Investors:- Convergence of Indian Accounting Standards with IFRS makes accounting information more reliable, relevant, timely and comparable across different legal and economic frame works and requirements since it would then be prepared by using a common set of accounting standards which will facilitate the investors who willing to invest in the countries apart from India. It will also

develop better understanding of financial statements world wide which increase a confidence among the people as investors.

The Industry:- The other important set of beneficiary the researchers came across is the industry which in the event of convergence with IFRS will be benefited because of some basic reasons. Firstly it will enhance confidence in the minds of the foreign investors, secondly, it decreases the burden of financial reporting, thirdly, it would make the process of preparing the individual and group financial statements easier and simplest, and the last and important one is that this will reduce cost of preparing the financial statements using different sets of accounting standards.

Accounting Professionals:- However, there would be initially many problems but convergence with IFRS would surely benefit the accounting professionals and it will be helpful them to sell their talent and expertise across the globe.

The corporate world:- Convergence with IFRS would build the reputation and long lasting relationship of the Indian corporate world with the international financial entities. Moreover, the corporate entities back in Indian would be benefited because of several reasons. The higher level of consistency will be maintained between external and internal reporting, two, because of better access to global financial markets, three, it will improve the risk rating and makes the corporate world more and more competitive globally as their comparability with the global competitors will increase.

The Economy:- All the discussions made above explains how convergence with IFRS would help industry grow and is beneficial to the corporate entities in the country as this would make the internal and external highly consisted, and it will report improvement in the risk rating among the foreign investors. Moreover, the international comparability is also benefiting the industrial and capital markets in the country which lead to better economy across the country.

MEASURES TAKEN TO ADDRESS THE CHALLENGES.

For changes required in rules and regulations of various regulatory bodies, draft recommendations have been placed Accounting Standard Board.

The ICAI issued 30 interpretations of accounting standards, with a view to resolve various intricate interpretational issues arising in the implementation 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 material 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.

Moreover to face the challenges we need to take more effective steps like we should build adequate IFRS skills professionals by investing in training processes for Indian accounting professionals to manage the conversion projects for Indian corporate. This can be done by research on effort of IFRS conversion in different countries and brief knowledge of IFRS should be added into the studies for professional courses with worldwide latest examples.

Utility for India in Adopting IFRS:-

Economies across the globe have benefitted by adopting IFRS for financial reporting purposes. Previous Studies have suggested various benefits of adopting IFRS, notably, Better financial information for shareholders, Better financial information for regulators, Enhanced comparability, Improved transparency of results, Increased ability to secure cross-border listing, Better Management of global operations and Decreased cost of capital.

This study will try to connect some of these and few other benefits with respect to the firms in India and also India as a country:-

Better Access to Global Capital Markets:- During the last decade, India has emerged as a strong economy on the global economy map. Indian Firms are expanding. These firms are not only setting plants in other countries but also acquiring other firms across the globe. For this they need funds at cheaper cost which is available in American, European and Japanese Capital Markets. To meet the regulatory requirements of these markets, Indian Companies should report their financials as per IFRS. Thus adoption of IFRS not only helps Indian Firms in accessing global Capital Markets for funds but also availability of funds at cheaper cost.

Easier Global Comparability:- Across the global, Firms are using IFRS to report their financial results. With the adoption of IFRS by Indian firms, the comparison of two becomes easier. Investors, Bankers and Lenders also find it easy to compare the two financial statements following same reporting procedure. Indian companies in the process of raising funds from overseas capital markets have to provide financial results to interested parties. Since majority of Indian Firms are accessing European capital markets, preparation and presentation of financial statements on the basis of IFRS helps firms in getting easy accessibility to these capital markets.

Easy Cross Border Listing:- As mentioned earlier, Indian firms require funds for their expansion plans which are not limited to the economic and political boundaries of India. Indian Firms are acquiring firms outside India also. They are also getting listed in European and American Capital Markets through raising funds from these markets. One of the major pre-requisites of getting listed on European Markets is preparation of Accounts as per IFRS requirements. A few Indian Companies which have raised funds through the European Capital Markets have started preparing their Financial Statements as per IFRS.

Better Quality of Financial Reporting:- Adoption of IFRS is expected to result in better quality of financial reporting due to consistent application of Accounting Principles and improvement in reliability of financial statements. Among various latest trends-based concepts, IFRS follows a concept of fair value which can help Indian firms to reflect their true worth of Assets held in the financial statements. Since a single body (IASB, London) is preparing IFRS, these are very consistent, reliable and easy to adopt ensuring better quality of financial reporting.

Elimination of Multiple Reporting:- Large Business Houses in India like TATA, BIRLA, and AMBANI have firms registered in India and also firms registered outside India in European and American capital markets. Firms registered in India prepare their Accounts as per Indian Accounting Standards whereas firms registered in other countries prepare their financial statements as per the Reporting

standards of the respective country. Adoption of IFRS ensures the elimination of multiple financial reporting standards by these firms as they are following single set Financial Reporting.

The above benefits are perceived benefits of adoption of IFRS. Researches are yet to be carried out to understand actual benefits of adoption of IFRS. Such researches are negligible for Indian financial data, as India is yet to step in the era of IFRS. This calls for a future scope of study on impact of adoption of IFRS by Indian Companies on Indian Economy and Firms.

CONCLUSION:

From the above it is very much clear that conversion from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended because the measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS are creditable and give the positive idea that the country is ready for convergence. Keeping in mind the fact that IFRS is more a principle based approach with limited implementation and application guidance all accountants whether practicing or non-practicing have to participate and contribute effectively to the convergence process so the need is to have a systematic approach to make the organization and the investors ready for the change and the standards ready for renovation. Moreover, corporate need to gear themselves for constant updation and not only for the first time adoption. This would lead to subsequent revisions from time to time arising from its global implementation and would help in formation of future international accounting standards. A continuous research is in fact needed to harmonize and converge with the international standards and this in fact can be achieved only through mutual international understanding both of corporate objectives and rankings attached to it. However, senior management at many companies views IFRS as a Finance priority because of the required changes in accounting practices but Indian Corporate World which has been preparing its Financial Statements on Historical Cost Basis will have tough time while shifting to Fair Value Accounting.

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