Research Paper Commerce

Convergence of Accounting Standards in India with IFRS

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ABSTRACT

Idea of global harmonization of accounting standards stems from lack of comparability of financial statements across the country. The main fascination with adoption or convergence of IFRS is sound business sense. Increasing cross border investing has posed a challenge to companies as they face multiple standards. Convergence with IFRS can greatly contribute to the efforts to build global financial reporting infrastructure. Though, there are many issues and challenges in the way of harmonization of accounting standards but finally India has announced its convergence with IFRS by 2015. Adoption of IFRS requires enlightened leadership and commitment from the accountancy profession, including academicians, audit firm partners and company accountants as well as from company finance directors and national regulators to overcome these challenges and promote international convergence of accounting standards.

KEYWORDS accounting standards, harmonization, convergence, IFRS

INTRODUCTION

Financial reporting is presentation of financial data of a company's position, operating performance, and funds flow for an accounting period. In other words, it is recording and presentation of financial statements. The basic objective of financial statements is to provide information useful for making economic decisions. The study group on the objectives of Financial Statements known as Trueblood Committee was formed by American Institute of Certified Public Accountants (AICPA) in 1972. It developed the objectives of financial statements and issued its report in October, 1973. It was named for its chairman Robert M. Trueblood. It stated the following qualities of ideal financial reports:

1. Reliability
2. Comparability
3. Consistency
4. Understandability
5. Timeliness

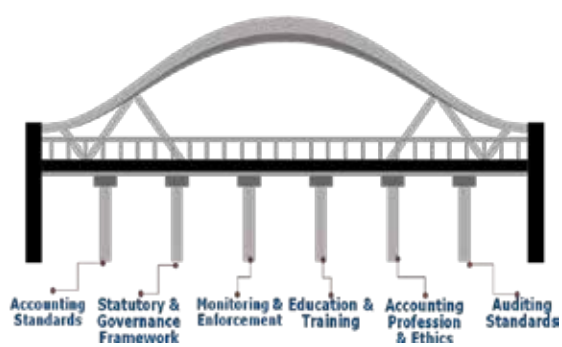
In India, financial statements of companies are prepared as per the accounting standards issued by the Institute of Chartered Accountants of India (ICAI). Accounting standards constitute the basis for the preparation of financial statements and provide essential information to carry out the audit. These are concerned with system of measurement and disclosure rules for the preparation of financial statements. The rationale of the accounting standards is to improve the quality of financial reporting.

High quality financial accounting and auditing practices facilitates development of capital markets and financial sector. For capital markets to function efficiently and effectively, participants must have confidence in financial reporting process. Financial statement fraud is a serious threat to this confidence. Good financial reporting also provides access to credit and leads to financial stability. It is also conducive to private sector development leading to job creation, which in turn spurs economic growth.

Importance of high quality financial reporting



For maintaining high quality financial reporting, there is a need to develop an appropriate infrastructure to support their adoption and implementation. High quality financial reporting not only depends on accounting and auditing standards but also on some other supporting pillars- statutory and governance framework, monitoring and enforcement, education and training, accounting profession and ethics. All these supporting pillars need to be strengthened for ensuring good financial reporting.



Financial reporting infrastructure

FINANCIAL REPORTING STANDARDS IN INDIA – NEXT DECADE

In India, Accounting Standards are formulated by the Council of the ICAI through its Accounting Standards Board. Thereafter, those Accounting Standards are considered by the National Advisory Committee on Accounting Standards (NACAS) of the Ministry of Corporate Affairs constituted under the Indian

Companies Act, 1956, which recommends the Standards to the Central Government for notifying under the Act. The Government, on accepting the recommendation of the Committee, notifies the Standards under the Act by publishing them in the Official Gazette.

In a move towards convergence with International Financial Reporting Standards (IFRSs), in 2007 the ICAI commenced the process of developing a complete set of Accounting Standards that are 'converged with' IFRSs – to be known as Indian Accounting Standards or Ind ASs. India has decided to converge its accounting standards with IFRSs instead of adopting them. IFRSs are developed by International Accounting Standards Board (IASB). IASB is an independent, privately-funded accounting standard-setter based in London, England. It was founded on April 1, 2001 as the successor to the International Accounting Standards Committee (IASC). It is responsible for developing, promoting the use and application of IFRS. The convergence of accounting standards towards IFRS is gaining momentum across the globe. They are being recognized as global standards and more than 100 countries now require or allow their use, and many other countries are replacing their national standards with IFRSs.

The ICAI and the Government had initially decided to implement the converged Ind ASs from 1 April 2011. However, that date has been deferred pending resolution of certain issues including tax issues. Now, ICAI has decided to converge Indian Accounting Standards with International Financial Reporting Standards from April 2015 for companies with a net worth of more than Rs 1,000 crore. The second phase will begin from April 1, 2016 and involve both listed and unlisted companies with a net worth of over Rs 500 crore but less than Rs 1,000 crore. In the third and fourth phase, beginning April 1, 2017, smaller companies would need to prepare their accounts as per the international standards. The above phases do not cover banks and insurance companies. It is for the respective sectoral regulators i.e. Reserve Bank of India and Insurance Regulatory and Development Authority, to decide the date of IFRS enforcement. However, all Indian companies listed overseas or doing business on foreign land currently prepare their financial statements as per the international standards.

BENEFITS OF ADOPTION/ CONVERGENCE WITH IFRS

IFRS are increasingly becoming the set of globally accepted accounting standards that meet the needs of the world's increasingly integrated global capital markets. The forces of globalization prompt more and more countries to open their doors to foreign investment and as businesses expand across borders, the need arises to recognize the benefits of having commonly accepted and understood financial reporting standards. There are many potential advantages associated with adoption/convergence with IFRS.

1. Accounting information can be interpreted by experts to reduce the risk of investment. One of the main tools used in financial analysis is the comparability of financial information for similar businesses in competition. Convergence with IFRS would increase this ability to compare similar industries and make investment decisions less risky through greater intelligence.
2. IFRS eliminates barriers to cross border trading in securities, by ensuring that financial statements are more transparent.
3. Another potential benefit would be the reduced costs associated with multi- national corporations who must reconcile their accounting information for multiple accounting standards.
4. Countries with scare resources could also take advantage by adopting IFRS, as they would not have to invest resources creating and regulating national accounting standard-setting agencies.
5. Stock exchanges around the world could profit from harmonization of accounting standards, as more companies begin to adopt the international standards, they will become eligible for listing. As the amount of listings grow on the stock exchanges so will the volume of securities transactions.
6. IFRS reporting makes easier to implement cross-border acquisitions, initiate partnerships & cooperation agreements with foreign entities, simplify the sale of the reporting entity and lower the costs of integration in post acquisition periods.
7. IFRS financial statements that are universally understood and comparable can both improve and initiate new relationships with customers and suppliers across national borders

ISSUES AND CHALLENGES IN ADOPTION/ CONVERGENCE WITH IFRS

The IASB created the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) to synchronize accounting amongst all countries across the globe. Their objective is to ensure that financial reporting around the globe is prepared using the same accounting standards or accounting rules. But, achieving global convergence in accounting standards is not an easy task. There are a number of issues to overcome.

First, accounting standards have been developed in different countries under different economic, social and cultural environments. For this reason there exists such diversity in accounting standards among the countries through the globe. If convergence is to be achieved, it is first necessary to arrive at an agreement as to the central objective of financial reporting. The IASB standards are oriented to serve the needs of investors and capital markets. Countries that have a different financial reporting philosophy would find it extremely difficult to harmonize their domestic standards with IFRSs.

Second, the difficulty also springs from the fact that many countries view their accounting standards as superior to accounting standards to other countries. Therefore, they find it difficult to accept standards designed and developed by other countries or by a group of people from very few countries who may not share the same values as they do.

Third, the accounting profession and economic development in each jurisdiction are not at the same stage and level. Some countries accounting professions are more mature than others and some countries are more prosperous and advanced economically than others. Convergence or adoption would mean coming up with common accounting standards that are applicable and relevant to all countries. Accounting is more mature in developed countries like UK and USA than in developing countries such as Fiji and Zambia. Some of the economic events covered by certain accounting standards such as IAS 39 or IAS 32 apply mainly to countries with mature financial services industries.

Fourth, accounting is developed in response to the legal systems in each jurisdiction. For example, the legal and regulatory accounting requirements in India differ from the IFRS. In India, Companies Act of 1956, Banking Regulation Act of 1949, IRDA regulations and SEBI guidelines prescribe detailed formats for financial statements to be followed by respective enterprises in their financial reporting. In such cases, strict adherence to IFRS in India would result in various legal problems

Fifth, some IFRS are complex. There is lack of adequate skills amongst the preparers and users of Financial Statements to apply IFRS. Proper implementation of such IFRS requires extensive education of preparers.

CONCLUSION

With the rapid liberalization process experienced in India, there is now a huge presence of multinational enterprises in the country. Furthermore, Indian companies are also investing in foreign markets. This has generated an interest in Indian GAAP by all concerned. In this context, the roles of Indian accounting standards, which are becoming closer to IFRS, have assumed a great significance from the point of view of global financial reporting. Though there are many issues and chal-

lenges in the way of harmonization of accounting standards but finally India has announced its convergence with IFRS by 2015. Adoption of IFRS requires enlightened leadership and commitment from the accountancy profession, including academicians, audit firm partners and company accountants as well as from company finance directors and national regulators to overcome these challenges and promote international convergence of accounting standards.

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