Research Paper Commerce

# Entry of IFRS in India : A Study

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ABSTRACT

*The accounting profession has developed accounting standards to provide rules relating to the accounting treatment as well as reporting of important accounting items which have bearing, interalia, on income determination assets valuation and presentation of financial statements.*

*Globalization has laid down a way for all the countries to adopt a single set of accounting standards. More than 100 countries (including India) have converged or recognized the police of convergence with the IFRS. IFRS are the globally accepted accounting standards and interpretations adopted by the IASB. India has decided to adopt the IFRS by April 2011. Therefore the knowledge of IFRS and their impact on financial sector specially in banking sector should be assessed very carefully convergence of IFRS likely to pose significant challenges for banks, as shown by through the process of international GAAP such as US GAAP in the past, have recognized the challenge of convergence and have already started planning their detailed road-map to smooth convergence.*

*For successfully implementation of IFRS Indian context would be the level of regulatory sponsorship, the appropriate level of investment in systems and process and consistency in market practices for areas where judgement in critical.*

Keywords :

**INTRODUCTION :**

The International Accounting Standard Board, a Private sector body develops International Financial Reporting standards. In the year 2001 IASB replaced International Accounting Standards committee which was created in 1973 to develop International Accounting Standard (IAS). IAS were issued between 1973 and 2001 by the international accounting standards committee. The IASB adopted all IAS and continued their development, calling the new standards IFRS.

The forces of globalization prompt more and more countries to open their doors to foreign investment and as business expand across boarders arises the requirement of commonly accepted and understood financial reporting standards Foreign Financial institutions and listing in international stock exchanges are playing a major role in speeding the pace of raising Indian standards to international level.

To have uniformly in a presentation of financial results and position of business entity almost whole world is agreed to adopt one single common accounting language i.e. IFRS. In precise term "Convergence can be considered to design and maintain national accounting standards in way that financial statements prepared in accordance with National Accounting standards drawn unreserved statement to compliance with IFRS"

The International Financial Reporting standards are rapidly emerging as a globally accepted standards in more than 100 countries. Following the global trend, the Institute of Chartered Accountants of India (ICAI) has decided that IFRS should be adopted for the public interest entities from the accounting period commencing on or after 1st April 2001. The convergence with IFRS is perceived to be a milestone decision leading to significant benefits to Indian corporate in terms of easier access to international capital markets, lower cost of capital, improved comparability, elimination of complexities of multiple reporting and many others.

**Classification of IERS:**

**Category I :-** IFRS which do not involve any legal/regularity issues nor have any issues with regard to suitability in existing economics environment. Category sub divided into

Adopted immediately

IAS 11 : construction contracts
IAS 23 : Borrowing costs Adopted near future
IAS 2 : Inventories
IAS 7 : Cash flow statements
IAS 20 : Accounting for govt. grants
IAS 33 : Earning per share
IAS 36 : Impairment of Assets
IAS 38 : Intangible of Assets

**Category II :** IFRSs which need sometime to reach that technical level as corresponding Indian Accounting Standards under revision.

IAS 18 : Revenue
IAS 21 : effect of change in foreign exchange rate
IAS 26 : Accounting & Reporting by retirement benefit plan
IAS 40 : Investment property
IFRS 2 : Share based payment
IFRS 5 : Non current assets held for sale & discontinued operations.

**Category III :** IFRSs which have conceptual difference with corresponding Indian Accounting Standards, category sub divided into

**Taken up with IASB**

IAS 17 : Leases
IAS 19 : Employee Benefits
IAS 27 : Consolidated separate financial statement
IAS 28 : Investments in Associates
IAS 31 : Interests in joint venture
IAS 37 : Provision, contingent liabilities & contingent Assets

Need to be examined
IAS 12 : Income Taxes
IAS 24 : Related Party
IAS 41 : Agriculture
IAS 3 : Business combination
IAS 8 : Operating Segments

Category IV : IFRSs, the adoption of which require change in law/regulation

IAS 1 : Presentation of financial statements
IAS 8 : Accounting policies, changes in accounting esti mates & errors
IAS 10 : Events after balance sheet date
IAS 16 : Property, plant & equiptment
IAS 32 : Financial Instrument : Presentation
IAS 34 : Interim Financial reporting
IAS 39 : Financial Instruments : recognition & measurement
IFRS 4 : Insurance contract

Category V : IFRS to which no Indian Accounting standards required time being

IAS 29 : Financial reporting in Hyper-inflationary economics

**ROLE OF ICAI**

ICAI issued a concept paper on a convergence with IFRS. ICAI adopted two approach to meet convergence with IFRS.

1) Stage wise approach
2) All at once approach

**Stage wise Approach**

In the First stage category I; which do not involve any legal requirement, convergence will come immediately. In the second stage category II & III will be in convergence after achieving level to technical knowledge. In the third stage, convergence will be after changes in relevant laws. In the final stage, convergence with IFrS will be made of category 5 by way of full adoption.

**All at once Approach**

The ICAI decided to adopt IFRS for public entities from 1st April, 2011. The ICAI is of view that it would be complicate to follow first approach so it would be easier to go for all at once approach.

The ICAI has constituted a core group for implementing smooth convergence process and co-ordinate with the industries association and for getting the industry ready for convergence in time.

The council of ICAI launched a certificate course on IFRS for its members. The course initially conducted by ICAI chapters at Mumbai, Hyderabad, Delhi, Chennai and Kolkata with an aim to improve full and practical knowledge to all chartered accountants.

**Role of Indian Government :**

The central government of India prescribes accounting standards in consultation with the National Advisory Committee on Accounting Standards (NACAS) established under the Company Act 1956. NACAS is a separate body of expert including representative of various regulatory bodies and government agencies, has been engaged in the exercise of examining Accounting standards prepared by ICAI. In this exercise it has adapted the International norms established by the IFRS issued by International Accounting Standards Board. The central government notified 28 accounting standards (as 1 to 7 and as 9 to 29) in Dec. 2006, after receiving recommendation of NACAS. In notifying the Accounting Standards, the government has adopted a policy of enabling disclosure of company accounts in transparent manner at per with widely accepted international practices, though a process of convergence with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The initiative for harmonization of harmonization of the Indian Accounting Standards with IFRS, taken up by NACAS in 2001 and implemented through notification of accounting standard by the central government in 2006. The process would be continued by the government with the intention harmonization with IFRS by 2011.

Indian Ministry of corporate Affairs has also set up a high powered group comprising various stakeholder under the chairmanship of shri Anurag Goel, Secretary of Ministry of Affairs, to discuss and resolve implementation challenges with regards to convergence of Indian Accounting Standards with IFRS by April, 2011.

**CONCLUSION :**

Adopting of IFRS by Indian corporate is going to be very challenging but at the same time could also be rewarding. Indian Corporates are likely to reap significant benefits from adopting IFRS. Since the cost of compliance with IFRS would be very high for medium size industry. There are some challenges in implementing IFRS like non-compatible legal and regulatory environment, concern over SMEs, economic environment, level of preparedness, alternative treatments, education needs of auditors, frequent change to the IFRS and translation issues. However, several important matters needs to be addressed urgently if India hopes to achieve the planned convergence.

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