Research Paper Commerce

Implementing IFRS in India- A Cost / Benefit Analysis

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ABSTRACT

The International Financial Reporting Standards is an accounting framework that establishes recognition, measurement, presentation and disclosure requirements relating to transactions and events that are reflected in the financial statements. Reserve Bank of India has stated that financial statements of banks need to be IFRS-compliant for periods beginning on or after 1 April 2011.Single set of accounting standards would enable internationally to standardize and assure better quality on a global screen, it would also permit international capital to flow more freely, enabling companies to develop consistent global practices on accounting problems. A cost/benefit analysis should be undertaken by the standard setter in the development of each accounting standard. Due to significant divergences between Indian GAAP and IFRS, the adoption of IFRS may have material impact on the financial performance of Indian organizations. The cost and management accountant play an important role in making the IFRS compatible with Indian accounting standards.

KEYWORDS Conservation, Environment, Tourist, Sustainable Development

Introduction

International Financial Reporting Standards (IFRS) is a set of accounting standards, developed by the International Accounting Standards Board (IASB), is becoming a universal standard for the preparation of public company financial statements. Over 100 countries worldwide have moved or in a process of synchronizing their national accounting standards with IFRS. The rationale behind migrating to IFRS is to provide a single set of high quality, understandable and uniform accounting standards, to improve comparability, transparency in reporting to build up investors' confidence and to seek better access to international capital market at lower cost of capital. In line with the global trend, the Institute of Chartered Accountants of India (ICAI) has declared convergence with IFRS in India with effect from April 1, 2011. Globalization of Indian GAAP will offer blend of rewards as well as challenges. Thus, the analysis obits feasibility in order to reap maximum benefits with a minimum cost and to devise strategies to face the future challenges effectively.

International Financial Reporting Standards (IFRS) are standards and interpretations adopted by the International Accounting Standards Board (IASB).

They comprise :

(a) International Financial Reporting Standard
(b) International Accounting Standards
(c) Interpretation developed by the International Financial Reporting Interpretation Committee (IFRIC) or the former Standing Interpretation Committee (SIC).

Reserve Bank of India has stated that financial statements of banks need to be IFRS-compliant for periods beginning on or after 1 April 2011.The ICAI has also stated that IFRS will be applied to companies above Rs.1000 crore from April 2011. Phase wise applicability details for different companies in India:

Phase 1: Opening balance sheet as at 1 April 2011*
i. Companies which are part of NSE Index – Nifty 50
ii. Companies which are part of BSE Sensex – BSE 30

a. Companies whose shares or other securities are listed on a stock exchange outside India
b. Companies, whether listed or not, having net worth of more than INR1,000 crore

Phase 2: Opening balance sheet as at 1 April 2012*Companies not covered in phase 1 and having net worth exceeding INR 500 crore

Phase 3: Opening balance sheet as at 1 April 2014*Listed companies not covered in the earlier phases

- If the financial year of a company commences at a date other than 1 April, then it shall prepare its opening balance sheet at the commencement of immediately following financial year.

On January 22, 2010 the Ministry of Corporate Affairs issued the road map for transition to IFRS. It is clear that India has deferred transition to IFRS by a year. In the first phase, companies included in Nifty 50 or BSE Sensex, and companies whose securities are listed on stock exchanges outside India and all other companies having net worth of Rs 1,000 crore will prepare and present financial statements using Indian Accounting Standards converged with IFRS. According to the press note issued by the government, those companies will convert their first balance sheet as at April 1, 2011, applying accounting standards convergent with IFRS if the accounting year ends on March 31. This implies that the transition date will be April 1, 2011. According to the earlier plan, the transition date was fixed at April 1, 2010.

Need for IFRS

Accounting bodies all over the world and the various accounting standard setting bodies are looking to eliminate the differences persisting in various countries as to the treatment in the accounts in respect of assets, liabilities, Income & expenses etc. The main purpose is to create a condition in which the financial statements of any entity can be easily read and understood by the various users of the statement residing in different parts of the world. IFRSs are the solutions to this problem.

Single set of accounting standards would enable internationally to standardize and assure better quality on a global screen, it would also permit international capital to flow more freely, enabling companies to develop consistent global practices on accounting problems. It would be beneficial to regulators too, as a complexity associated with needing to understand various reporting regimes would be reduced. For investors, it gives a better understanding to the financial statements and assess the investment opportunities other than Home Country. It also benefits the accounting professionals in a way that they will be able to sell their services in different parts of world

Role of Accountants in Modern Business Organization:
Accounting is an age-old profession. In old days of accounting, the main function of an accountant was to maintain the records of the business. However over the years, the role of an accountant has undergone a sea change. With the inception of joint stock company form of an organization, the profession of accountancy has come to be recognized as one of the lucrative professions. Accountants can be broadly divided into two categories namely, Accountants in public practice and Accountants in employment The accountant renders valuable service to the society in the following manner:

1. Writing up Accounts for Preparing Financial Statements:
Professional accountants offer services for writing up accounts and preparing financial statements. By maintaining proper books of accounts and records he assists management to a great extent in the field of planning, decision-making and controlling. A systematic record also enables the business to compare one year's results with those of other years.

2. Audit of Accounts:
Conducting of audit is one of the most important functions of a professional accountant where his specialized training, skills and judgement are most often called into play. Audit satisfies the users of financial statements that the accounting information contained in these statements is true and reliable and that accounts have been prepared in accordance with the accounting standards. It, thus, adds credibility to financial statements prepared by the business. He also points out the shortcoming and suggests ways to overcome them.

3. Role as Management Accountant:
A management accountant helps the management in planning and control of organizational activities and their performance evaluation.

4. Help to government, Revenue Department and Tax Payer:
Chartered accountant plays an important role in ensuring that the Government gets its proper share of taxes and at the same time the tax payer is not exploited. Chartered accountant is instrumental in preparing the financial statements of the enterprise. He also prepares the returns for tax purposes. He also appears before the tax authorities on behalf of the taxpayer. He also does the work of certification of documents in many cases.

5. Role as Cost Accountant:
As a cost accountant, he maintains the costing records and ascertains the cost of product or service. He provides costing information introduces cost control and cost reduction methods and assists the management in fixing appropriate selling prices.

ROLE OF cOST AND MANAGEMENT Accountant In ACCOUNTING STANDARDS
The cost and management accountant should first consider the benefits and costs adopted for the development of IFRS.A cost benefit approach in the development of IFRS by cost and management accountant is given below:-

Benefits of adopting IFRS
1. The Economy —
The use of different accounting frameworks in different countries creates confusion among the users of financial statements. This confusion leads to inefficiency in capital markets across the world. Thus, globalization of capital markets recognized the need for a single set of high quality, universally acceptable accounting standards. This provoked many countries to pursue convergence of national accounting standards with IFRS. The convergence benefits the economy by boosting its international trade. It facilitates maintenance of orderly and efficient capital markets, accelerates capital formation and thereby contributes towards economic growth. It also encourages cross-border investment and leads to increased flow of capital into the economy.

2. Corporate world—
Adoption of IFRS significantly improves the quality as well as comparability of financial information of Indian entities with global peers and industry standards. It will result in more transparent financial reporting and builds up trust and reliance among the stakeholders both in India and overseas. This would augment the reputation and relationship of the Indian corporate with the international financial community. The Indian entities will be able to raise funds from the global capital market at lower cost of capital. As IFRS removes barriers to cross-border listing of securities, the companies will be able to attract more foreign investment. Besides, it simplifies the process of preparing the individual and group financial statements by eliminating multiple reporting and reduces the costs and complexities of preparing the financial statements.

3. Investors—
Under IFRS environment, financial statements will be prepared by using a common set of consistent accounting standards, hence accounting information will reflect high degree of reliability, relevance and comparability across national borders. This facilitates better understanding of financial statements globally and also develops increased faith among the investors. The investors can also save the cost, time and the effort of converting the different sets of national financial statements and be able to compare the investment opportunities confidently.

4. Accounting professionals—
Migrating to IFRS will offer ample opportunities to the accounting professionals of India across the globe as the same accounting practices will prevail throughout the world. Thus, they will be able to sell their expertise in India as well as any part of the world and can realize attractive returns.

5. Banks / financial institutions—
Banks, as lender of funds, can perform accurate risk evaluation of borrowers. As a result, they can offer their loan products at competitive prices to their clients and can improve the relationship with them in the long run.

6. Regulators—
Adoption of universal accounting standards would be beneficial to the regulators too, as this reduces the complexity associated with understanding the various reporting regimes.

Costs of IFRS
In addition to the above benefits, there are several obstacles and practical challenges to adopt and to achieve full compliance with IFRS in India.

1. Need for Regulatory amendments—
The success of convergence with IFRS depends on the extent to which the national GAAP, legal and regulatory issues are amended to meet the requirements of IFRS; otherwise, the conversion process may not yield fruitful results. For instance, the Companies Act (Schedule VI) prescribes the format for presentation of financial statements for Indian companies, whereas the presentation requirements are significantly different under IFRS thus the companies act need to be modified in line with IFRS.

2. Lack of Readiness—
IFRS conversion will involve a fundamental change to an entity's financial reporting systems, processes and effects on business performance. Hence, conversion process requires the dissemination of IFRS knowledge throughout the organization to ensure its application on an ongoing basis. But many Indian corporations are unprepared to fully adapt to IFRS because they just consider this process as an accounting issue which can be left to the finance function and auditors.

3. Scarcity of resource pool—
The number of accounting professionals with adequate practical experience on convergence process is lacking. As a result, the companies will have to rely on external advisors and auditors. Besides, the accounting professionals, auditors as well

as their staff need to be well-trained to function under IFRS environment. It is also important to modify the syllabus of universities, colleges, and professional accounting bodies such as ICWA, ICAI etc. to broaden the pool of trained resources.

4. Costly exercise—
Migrating to IFRS involves significant costs in terms of money, time and effort. There will be one-time cost of converting to IFRS including costs of internal personnel time, implementing IT systems, costs to dismantling the standard setting infrastructure and application of revised reporting policies, processes etc. In addition, educating all the stakeholders such as accountants, auditors, investors, regulators, employees, lenders, university faculty etc., would be a greater challenge within the prescribed time limit.

5. Burden for small and medium enterprises (SMEs)—
Though the adoption of IFRS was made mandatory for public interest entities in the first phase, if any SME wants to implement IFRS it may find it too voluminous. They may also face the barriers such as huge cost; shortage of resources, expertise, etc. Keeping in view the difficulties faced by the SMEs, the IASB is developing an IFRS for SMEs.

CONCLUSION
IFRS are emerging as the primary accounting language of the world. India is joining a league of 100 plus countries by announcing the convergence of Indian GAAP with IFRS with effect from April 2011. The use of IFRS in India would have significant impact on key stakeholders by presenting both benefits as well as costs. The cost of implementing IFRS should be taken as challenges or opportunities in order to encounter them in the right spirit to ensure smooth convergence with IFRS.