International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 3, Issue 1, pp: (149-153), Month: April 2015 - September 2015, Available at: www.researchpublish.com

IFRS in Indian Context

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Abstract: **IFRS means International Financial Reporting Standards and International Accounting Standard Board – (IASB) provided the framework for its working. IFRS adopted by IASB has gained worldwide acceptance amongst many countries and some listed companies in European nations have embraced it. IFRS employs a uniform, single consistent accounting framework that is gravitating towards General Accepted Accounting Practice (GAPP) in the future. IFRS since its introduction in 2001 had provided uniform accounting in financial reporting which would enable investors to interpret financial statements with minimum effort. The paradigm shift in the economic environment in India during last few years has led to increasing attention being devoted to accounting standards as a means towards ensuring potent and transparent financial reporting by any corporate. Indian Accounting Standards have withstood the test of time. As the world continues to globalize, discussion on convergence of national accounting standards with International Financial Reporting Standards (IFRS) has increased significantly. At present, the ASB of ICAI formulates the AS based on IFRS. However, these standards remain sensitive to local conditions, including the legal and economic environment. As the world continues to globalize, discussion on convergence of Indian GAAP with IFRS has increased significantly.**

Keywords: **Accounting standards, IFRS, IASB, Stakeholders.**

I. INTRODUCTION

The present era of globalization and liberalization has shrunk the geographical barriers of commerce. The whole world has literally become flat. One can see the cross-border economic activities happening in a swift way. The entities are listed on major stock exchanges of the world. Capital markets have also spread their wings across the globe, leading to free flow of domestic and foreign direct investments to different parts of the world. Given these scenarios, a common and uniformly accepted Financial Reporting System, supported by strong governance practices and a firm regulatory framework, strengthens the economic development of any country. As investors have also become global, financial statements of entities of different countries should be comparable on prescribed common parameters. A common set of financial statements help investors better understand investment opportunities world wide as against financial statements of different standards unique to each country. This has raised the requirement of harmonization of accounting policies, accounting standards and disclosure requirements. Also there is a need to discourage the accounting policies which are not in conformity with the Generally Accepted Accounting Principles (GAAP). Foreign investors will be more comfortable in investing globally provided they are in a position to understand the financial statements and reports and further if they are able to compare them with their peer ones.

It is in this context that the role of an independent, global standard-setting body such as the International Accounting Standards Board (IASB) is of critical importance. The principal objectives of the IASB are:

a. to develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs) through its standard setting body, the IASB;

b. to promote the use and rigorous application of those standards;

c. to take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs); and

d. to bring about convergence of national accounting standards and IFRSs to high quality solutions.

Converging to global accounting standards i.e. IFRS facilitates comparability between enterprises operating in different jurisdictions. Thus, global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets. Convergence with IFRS is also in the interest of the industry since compliance with them would be able to create greater confidence in the mind of investors and reduce the cost of raising foreign capital. It is also burdensome and costly for enterprises operating across several countries to comply with a multitude of national accounting standards and convert them to a single standard for group reporting purposes. Convergence would thus help reduce both the cost of capital and cost of compliance for industry.

In pursuit of its objectives, the IASB works in close cooperation with stakeholders around the world, including investors, national standard-setters, regulators, auditors, academics, and others who have an interest in the development of high-quality global standards. Progress toward this goal has been steady. All major economies have established time lines to converge with or adopt IFRSs in the near future and more than hundred countries require or permit the use of IFRSs. In 2007 the ICAI decided that India should converge towards IFRS in a definite time frame in the wake of developments taking place in other major jurisdictions which had set up time schedules for migrating towards IFRS.

II. OBJECTIVES

- To study the importance of IFRS
- To analyse the challenges in adopting IFRS
- To discuss IFRS adoption procedure and implementation in india

III. RESEARCH METHODOLOGY

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

IV. IMPORTANCE OF IFRS

While converting to IFRS is a complex process, these standards have important and positive implications for organizations and individuals that adopt them.

1. For companies: Entities can raise capital from foreign markets at lower cost only if they can create trust and confidence in the minds of the foreign investors through "True and Fair" presentation of their financial statements by adopting globally acceptable standards

2. 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 and most importantly the information will be comparable across different legal framework. It will develop better understanding and confidence among the investors.

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

4. For the Professional: The professional, both in practice and 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.

5. The Corporate world: The Indian corporate reputation and relationship with international finance community will elevate because of achievement of higher level of consistency between reporting structure and requirements; better access to international markets; improving confidence among the international investors. The international comparability will also get improve strengthening the industrial and capital markets in the country.

IFRS would increase the comparability between financial statement viz., Balance Sheet and Profit and Loss Account of various companies across the nation. It gives better understanding of financial globally as compare to IND AS and GAAP. Indian industry would be able to raise capital from foreign markets at reasonable cost when they create confidence to the foreign investors that their financial statement comply with globally accepted accounting Standard. Adoption of IFRS in Indian helps to people would get an opportunity to work as global clients and increase their work mobility in the all around world. Adoption of IFRS will result in high quality, transparent and comparable financial statements that are based on modern accounting principles and concepts that are being applied in global markets. If a company uses IFRS, the company could enjoy the benefit of raising capital from abroad. Comparison is made easier with a foreign competitor if a company presents its financial statement according to IFRS. The adoption of IFRS will improve cross border investment by enhancing comparability of financial statements prepared anywhere in the world. Indian Accounting standard Board will be alert to the best international accounting practice (IFRS) to guide them in the establishment of highly improved reporting practices in India. It also brings about better ability to attract and monitor listings by foreign companies.

V. CHALLENGES IN ADOPTING IFRS

Looking at the various benefits, the policy makers in India have now realized the need to follow IFRS and it is expected that a large number of Indian companies would be required to follow IFRS from 2011. There are a number of challenges that India is likely to face while dealing with convergence with IFRS. In fact convergence with IFRS is not just a technical exercise but also involves an overall change in not only the perspective but also the very objective of accounting in the country. The researcher points out certain key areas that require close attention while dealing with conversion from Indian GAAP to IFRS. It has to be realized that this conversion is not just the any technical exercise. Even after the later gets introduced, the preparers, users and auditors will continue to encounter practical implementation challenges. This is because the consequences of the same would have far wider financial reporting issues and extend to various significant business and regulatory matters like, structuring of ESOP schemes, training of employees, tax planning, modification of IT system, compliance with debt covenants and so on. The following are some challenges in brief.

1. Scarcity of Human resource: implementation and maintenance of IFRS would require expert professionals in large numbers. Availability of such workforce in a short period of time is a big challenge in the convergence with IFRS.

2. IT Security: as financial accounting and reporting systems are modified and strengthened to deliver the information in accordance with IFRS, entities need to enhance their Information System (IT) Security in order to minimize the risk of business interpretations particularly to address potential frauds, cyber terrorism and data corruption.

3. Tax Planning: IFRS will have significant impact on financial statements and consequently tax liability. There could be ambiguity on tax treatment of various issues arising out of the convergence with IFRS. Entities may also need to modify their existing tax planning strategies.

4. Performance Appraisal: since IFRS is based on fair value, the actual reported earnings may significantly deviate from the expected earnings by the stakeholders and 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.

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

6. Difference in GAAP and IFRS: Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

7. 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 and for investors.

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

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

10. 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 and prejudice to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.

11. Re-negotiation of Contract: The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP.

12. Reporting systems: Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc.

VI. IFRS ADOPTION PROCEDURE AND IMPLEMENTATION IN INDIA

In 1949, Indian Government to streamline accounting practice in the country established Institute of Chartered Accountants of India by passing ICAI Act1949. Accounting Standard Board was constituted by ICAI In 1977 with a view to harmonize the diverse accounting policies and practices in India. The other objectives of the Board are (i) conceive of and suggest new areas in which Accounting Standards are needed,(ii) Formulation of Accounting Standards. (iii) Examine how far IAS and IFRS can be adapted while formulating the accounting standards and to adapt the same and (iv) Revise them regularly as and when necessary among others. In 2006 a task force was set up ICAI. The objective of the task force was to lay down a road map for convergence of IFRS in India. Based on the recommendation made by the task force and on the basis of outcome of discussions and public opinions on IFRS adoption procedure, a 3 step process was laid down by the Accounting Professional in India. This three steps IFRS adoption Procedure can be summarized as follow:

Step-1- IFRS Impact Assessment:

In this step the firm will begin with the assessment of the impact of IFRS adoption on Accounting and reporting issues, on systems and processes and on business of the firm. The firm will then identify the key conversion dates and accordingly a IFRS training plan will be laid down. Once the training plan is in place they will have to identify the key Financial Reporting Standard that will apply to the firm and also the differences among current financial reporting standards being followed by the firm and IFRS. The firm will also identify the loopholes in the existing systems and processes.

Step-2- Preparations for IFRS Implementation:

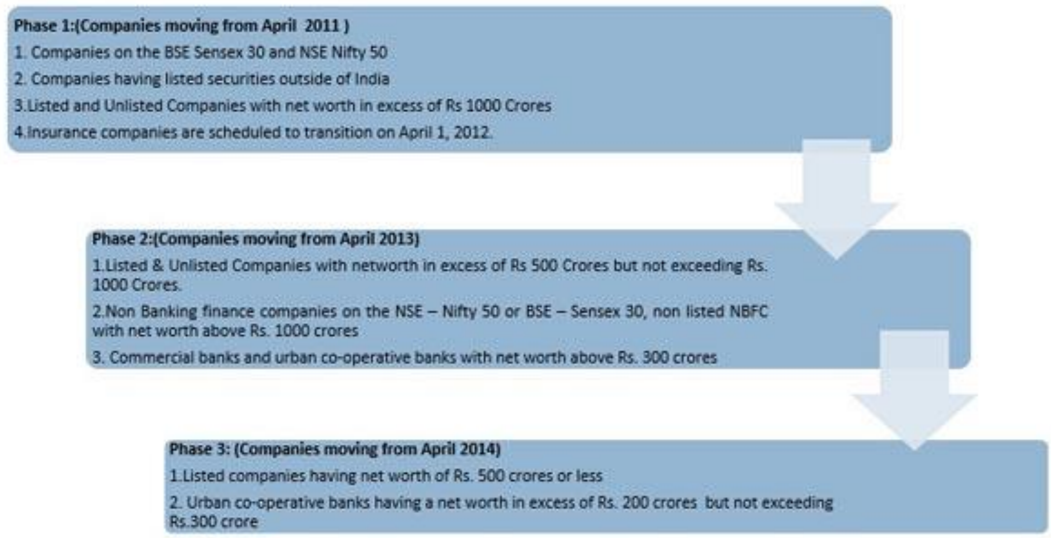
This step will carry out the activities required for IFRS implementation process. It will begin with documentation of IFRS Accounting Manual. The firm will then revamp the internal reporting system and processes. IFRS 1 which deals with first time adoption of IFRS will be followed to Guide through the first time IFRS adopting procedure. To make the convergence process smooth, some exemptions are available under IFRS 1. These exemptions are identified and applied to ensure that the IFRS is applied correctly and consistently, control systems are designed and put in place.

Step-3 Implementation:

This step involves actual implementation of IFRS. The first activity carried out in this phase is to prepare an opening Balance sheet at the date of transition to IFRS. A proper understanding of the impact of the transition from Indian Accounting Standards to IFRS is to be developed. This will follow the complete application of IFRS as and when required.

International Financial Reporting Standards (IFRS) has increased significantly. At its 269 meeting theCouncil of ICAI ha decided that public interest entities such as listed companies, banks, insurance companies and large-size organizations to converge with IFRS for accounting period commencing on or after 1 April, 2011. At present, the Accounting Standard Board (ASB) of the Institute of Chartered Accountants of India (ICAI) formulates the Accounting Standards based on IFRS. This will be done by modifying the existing Indian accounting standards to make them compatible with IFRS.
In India, Ministry of Corporate Affairs (MCA) also carried out the process of convergence of Indian Accounting Standards with IFRS after various broad discussions with all the stakeholders and in pursuance of G-20 commitment and as result shows thirty five accounting standards (AS-35) converged with International Financial Reporting Standards. In starting 1st April, 2011, The Ministry of Corporate Affairs (MCA) has designed a roadmap for companies to start following IFRS converged IAS (Indian Accounting Standards) in a phased manner.

Roadmap for Companies for the transition towards IFRS



VII. CONCLUSION

IFRS is the new accounting concept of financial reporting and communicating to the existing and prospective investors. But it is not fully familiar the Indian corporate entities. It is clear that convergence of IND AS (Indian Accounting Standards) with IFRS has entire changes in accounting transition as well as reporting system. India has already announced the convergence of Indian Accounting Standards with IFRS in a phased manner it is mentioned already. The applicability of IFRS in India in particular needs be made keeping such difficulties in sight.

A common accounting language, such as IFRS, will help Indian companies benchmark their performance with global counterparts. Early adoption of IFRS gives companies the opportunity to anticipate challenges, manage outcomes and implement the best solutions. Without careful study, the full impact of converting to IFRS will not be clear. Companies need to conduct a diagnostic study before proceeding for a full IFRS conversion. After completing the preliminary assessment, the management should prepare a detailed IFRS conversion programs. Given the enormity of the exercise, companies should consider a dedicated team that will work on the conversion exercise. For successful implementation of IFRS in India, the regulator should immediately announce its intention to convert to IFRS and make appropriate regulatory amendments

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