IFRS— Implementation and Challenges in India

Nupur Goyal

Assistant Professor, Department Of Commerce & Management, D.A.V. College, Bathinda(151001)

Abstract: International Financial Reporting Standards (IFRS) adopted by International Accounting Standards Board (IASB) is a standardized format of financial reporting that is gaining momentum world wide and is a single consistent accounting framework and is likely to become predominant GAAP in times to come. International Financial Reporting Standards (IFRS) convergence, in recent years, has gained momentum all over the world. As the capital markets become increasingly global in nature, more and more investors see the need for a common set of accounting standards. Furthermore, convergence to IFRS, by various group entities, will enable management to bring all components of the group into a single financial reporting platform. This will eliminate the need for multiple reports and significant adjustment for preparing consolidated financial statements or filing financial statements in different stock exchanges. In this world of globalization in which Indian economy has also flourished, adopting IFRS would not only make Indian companies at par with other global companies but shall also increase India's marketability globally in terms of foreign investments. 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 and filing process. It will lower the cost of raising funds, reduce accountants’ fees and enable faster access to all major capital markets. Furthermore, it will facilitate companies to set targets and milestones based on a global business environment rather than an inward perspective.

Keywords: IFRS, Capital Markets, Convergence, IASB

I. INTRODUCTION

Accounting fraternity of 10 countries formed International Accounting Standards Committee (IASC) in 1973 and it issued International Accounting Standards. In 2001, the responsibility got transferred to IASB whereby standards were restructured and are now known as IFRS. International Accounting Reporting Standards is a provider of information aiding n economic decisions, giving importance to preference and changes in the financial position of an entity. Accounting Standards, when in conflict with court’s decision are respected. India needs major improvements in Accounting Standards. More than 100 countries now require changing and many are in the way of replacing and accepting it. It is mainly based on two concepts and are principle based on-

- Accrual
- Going concern.

Its framework is qualitative and characteristics are

- Understandability
- Relevance
- Reliability
- Comparability.

II. IFRS - IN GLOBAL

In the present scenario of globalization and liberalization, the world has become a small village. The globalization of business firms and entities, attendant structures and the regulations, which support it and with development of the concept of e-commerce made a single globally accepted financial reporting system. By today the number of business entities and multinational companies are establishing their business with various countries. The corporate entities in emerging economies are enhancing access to the global markets in order to fulfill their capital fund needs by getting their securities listed on the stock exchanges with other countries. Thus the capital markets are becoming consistent with this global trend. The use of various different accounting practices in different countries, require inconsistent treatment and presentation of the same underlying economic transitions, and create problems for the users of financial statement reporting. Such problems and confusions led to inefficiency in capital markets across the globe. So, increasing rigidity of business transactions and globalization of capital markets set up a single set of high quality accounting standards. High standards of financial reporting underpin the trust among investors. A single set of globally accepted accounting standards has prompted many countries to pursue convergence of National accounting standards with IFRS.

III. IFRS - IN INDIA

The drastic shift in the economic environment in India during last decade has led to increased attention towards accounting standards as a means to ensuring potential and transparent financial reporting by the corporate entities. ICAI, as a premier accounting authority in our country, playing a leadership role by establishing ASB, more than
two and a half decades back, to fall in line with the national and global expectations. In the present scenario the accounting standards issued by the ICAI have come a long way. The ICAI as the accounting standard - formulating body in the country has always made efforts to setup high quality Accounting Standards and the institute is quite successful in doing so. Indian Accounting Standards established by the institute have withstood the test of time. With the continuous globalization, has given rise to the discussion on convergence of national accounting standards of ICAI with International Financial Reporting Standards. Today, the ASB of ICAI formulates the Accounting Standards based on International Financial Reporting Standards. However, these accounting standards have remained sensitive to local conditions, including both the legal and economic environments. Likewise, Accounting Standards issued by the institute (ICAI) depart from corresponding International Financial Reporting Standards with a view to ensure consistency with legal and economic environment of India.

IV. 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 systems, 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 as and when it is required. At the initial stage of implementation of IFRS requires lot of training and various technical difficulties may be experienced. Thesmooth implementation of the transition from Indian Accounting Standards to IFRS, regular training to personals and identify the problems while carrying out the implementation.

V. BENEFITS OF IFRS

Conversion to IFRS offers companies a number of important benefits.

1. For Raising Capital from Overseas. Most of the companies are raising capital from overseas which requires all information in International standard understandable to them. Uniform accounting standard is very essential for this.

2. It also expects an increase in mergers and acquisitions opportunities since the major challenge of conversion of financial statements to a uniform standard (US GAAP) would be removed because of IFRS.

3. Comparison and benchmarking of financial data with international competitors would be possible through IFRS implementation.

4. Another major benefit of IFRS is that the management of a company can view all the companies in a group on a common platform. This will reduce the time and efforts involved to adjust the accounts in order to comply with the requirements of the national GAAP (Generally Accepted Accounting Principle)

5. The firms will have less complexity in accounting

6. IFRS will increase transparency in accounting

7. It will facilitate cross border investment leading to accelerated economic growth

8. IFRS adoption will improve the quality of financial information.

VI. PROBLEMS AND CHALLENGES OF IFRS

IFRS are formulated by International Accounting Standard Board. However, the responsibility of convergence with IFRS vests with local government and accounting and regulatory bodies, such as the ICAI in India. Thus ICAI need to invest in infrastructure to ensure compliance with IFRS. India has several constraints and practical challenges to adoption and compliance with IFRS. So there is a need to change some laws and regulations governing financial accounting and reporting in India. There are some legal requirements which determine the manner in which financial information are presented in financial statements. For example... The Companies Act provides the format for preparation of financial statement but this may be different from the requirement under IFRS. One more exam is
related to Business Combination under Indian GAAP, acquisitions are accounted at book values of identifiable assets and liabilities of the acquire, with the excess of consideration over the net book value recognized as goodwill. Under IFRS, accounting is done for all assets including hidden intangibles at fair value. As the assets are recognized at fair value, amortization of these assets will reduce future year profits under IFRS. Other problem is there is lack of adequate professionals with practical experience of IFRS conversion; therefore Indian Companies have to rely upon external advisors and auditors which are costly. Another issue is Indian GAAP should have been formulated on the basis of the principles of IFRS which may show differences between Indian GAAP and IFRS. At the end some principles need to be amended, implements or remove in the Indian GAAP. For example, use of pooling of interests method in accounting for business combination is not available in the principles of IFRS. Thus it should be eliminated from Indian GAAP. Therefore there are several challenges that will be faced on the way of IFRS convergence. These are:

1. 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 rooted. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.
2. 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.
3. 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.
4. 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.
5. Taxation: IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.
6. 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.
7. 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.
8. 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.

VII. SUGGESTIONS

Following are some of the suggestions to manage the problems of IFRS implementation in India

1. Proper education and training to accounting professionals and employees about IFRS
2. Educate the investors and shareholders about the IFRS
3. Different regulators in India (RBI, SEBI, IRDA etc.) have to constitute committees to study the proper implementation of IFRS
4. Develop user friendly software with minimum cost.
5. Government has to reform the taxation system to match with IFRS.

VIII. CONCLUSION

From the above debate 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 for the renovation. Moreover, corporate need to gear themselves for constant updating 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 formulation 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.

IX. REFERENCES

X. OTHER REFERENCES