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A STUDY OF IFRS IMPLEMENTATION IN INDIAN ACCOUNTING: ENCUMBRANCES AND PROSPECTS

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ABSTRACT

IFRS are International Financial Reporting Standards, which are issued by the International Accounting Standards Board (IASB), a committee compromising of 14 members, from nine different countries, which work together to develop global accounting standards. Presently, there are two sets of accounting standards that are accepted for international use namely, the U.S., Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS) issued by the London-based International Accounting Standards Board (IASB). Generally, accepted accounting principles (GAAP) are diverse in nature but based on a few basic principles as advocated by all GAAP rules. The attempt to achieve congruence with IAS appears to be more a by-product of the country's rapid economic growth rather than its catalyst. This research attempt to study the challenges faced and status adoption of IFRS, and finally paper concludes with recommendations and suggestions.

KEYWORDS: *IFRS, Convergence, IASB, IAS, Globalization, ICAI, ASB*

JEL Classification: M41

Introduction

India is one of the emerging economics in the world. Company in one country is borrowing in the capital market of another country. Therefore, financial statements produced in one country are used in other country more and more frequently; this has raised the issue of harmonization of accounting policies, presentation, disclosure, etc. To achieve complete harmonization, may not be possible because of difference in the economic, political, legal and cultural environment in countries. Accounting Standards also helps the regulatory agencies in benchmarking the accounting accuracy. Accounting standards are being established both at national and international levels.

Literature Review

Kaushik Datta (**2009)** study entitled of "similarities and differences a comparison of IFRS, US GAAP and India GAAP". The main objective of this study recognizes that there are indeed many advantages arising from convergences to various stakeholders

Santanu Kumar Das (2014) "Indian Accounting Standards and IFRS" in the year of 2014. The main aim of this study is to thus; global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets 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.

Dr. Mahender k. Sharma, (2013) "IFRS and India–Its problems and challenges in. The main objective of this study is to analyze the information available on IFRS adoption process in India. It also focuses on the IFRS adoption procedure in India and the utility for India in adopting IFRS.

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Rong-Ruey Duh, (2009) "Adopting IFRS: Implications for Accounting Educators",.The main outcome of this study is to Approach to a Single Set of Financial Reporting Standards in the World.

Bhattacharjee,(2009)"Problems of Adoption and Application of International Financial Reporting Standards (IFRS) in Bangladesh. The main objective of this study to prospects of IFRS adoption and their impact on thefinancial reporting environment of Bangladesh considering the underlying institutional and economic factors.

Kamath and Desai (2014) in their study The Impact of IFRS Adoption on the Financial Activities of Companies in India An Empirical Study, categorized the financial activities into financial risk, investment activities, operating activities and debt covenant. Basically IFRS adoption is viewed as a commitment to better disclosure, which may have various impacts on Indian companies, which is required to be researched and thus check the impact on economic activities after adoption of IFRS by Indian companies.

Objectives of the Study

- To study the impact of IFRS in Indian Corporate..
- To study the impediments of International Financial Reporting Standards will affect the Indian corporate
- To study the prospect of International Financial Reporting Standards will affect the Indian corporate.

Research Methodology

The present work is blends of descriptive and exploratory research work where the reasons and challenges will be find out to follow the IFRS procedures. The research work will also provide an insight on the future prospects by following the convergence process. The data will be purely secondary and will be collected through various websites and journals, as well as published books.

Need for Convergence towards Global Standards

The last decade has witnessed a sea change in the global economic scenario. The emergence of transnational corporations in search of money, not only for fuelling growth, but to sustain ongoing activities has necessitated raising of capital from all parts of the world, cutting across frontiers. Each country has its own set of rules and regulations for accounting and financial reporting, Therefore, when an enterprise decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply and this in turn will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country of origin. International analysts and investors would like to compare financial statements based on similar accounting standards, and this has led to the growing support for an internationally accepted set of accounting standards for cross border filings. The harmonization of financial reporting around the world will help to raise confidence of investors generally in the information they are using to make their decision and assess their risks.

International Accounting Standards Board

With the view of making the financial statements more reliable and transparent , the London based group namely the International Accounting Standards Committee(IASC), responsible for developing International Accounting Standards , was established in June,1973. Between1973-2001, the International Accounting Standards Committee (IASC) released International Accounting Standards. Between 1997 and 1999, the IASC restructured their organization, which resulted in formation of International Accounting Standards Board (IASB). These changes came into effect from 1st, April, 2001. IASB publishes its standards in a series of pronouncements called International Financial Reporting Standards.

International Financial Reporting Standards as Global Standards

The term IFRS comprises IFRS issued by IASB; IAS issued by International Accounting Standard Committee (IASC); and Interpretations issued by the standard Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. International Financial Reporting Standards (IFRSs) are considered a "principles-based" set of standards. In fact, they establish broad rules rather than dictating specific treatments. Every major nation is moving toward adopting them to some extent .Large number of authorities require public companies to use IFRS for stock exchange listing companies to use IFRS for stock-exchange listing purposes, and in addition, banks, insurance companies and stock exchanges may use them for their statutory required reports. So over the next few years, thousands of companies will adopt the international standards.

Comparison between IFRS and GAAP Principles

Table 1: Comparison of IFRS and GAAP

S. No	Particulars	International Financial Reporting Standards	Indian Generally Accepted Accounting Principles
1.	Financial statements	Two years consolidated financial statements with exceptions in limited circumstances for entities which may present single entity parent company financial statements with CFS.	Single entity parent company-stand alone to present 2 years CFS and publish listed companies to prepare CFS with standalone financial statements.
2.	Position statements	No particular format unless liquidity presentation provides reliable information.	No particular format according to AS but prescribed by companies act and other industry regulations.
3.	Income statements	Expenditure is presented in one of the two formats- functions or nature otherwise no formats.	Disclosed in accordance with companies act and accounting standards. Industry specific formats are also available.
4.	Cash flow statement and format and methods	To use direct and indirect method with standard heading with limited guidance on items.	Same as International Financial Reporting Standards. Listed companies require indirect method And insurance companies require direct method.
5.	Cash and cash equivalents definition	Cash and equivalents with maturity of 3 months or less and includes bank overdraft	Same as IFRS but excludes bank overdraft
6.	Acquired intangible assets	If recognized-capitalist and to be amortized over useful life. If useful life is not certain to be reviewed for impairment for rare items revaluations are granted.	Same as IFRS but useful life not to exceed 10 years no revaluation to be done. More than 10-year test of impairment is necessary.
7.	Internal tangible assets	Research expenses are incurred cost. Capitalized & moralized. Development cost when specific areas is met.	Same
8.	Financial Assets	Held for maturity –carried at amortized cost.	Long term investments= cost less impairment, any reduction credited to income statements. Industries specified-banking, insurance.
9.	Liabilities-provision and general	Recorded if outflow can be correctly estimated and provable. Provision discounted to present value when time value is effected.	Same but discounting is not permitted.
10.	EPS(earning per share)	Share options and warrants attract treasury share method and for diluted earning per share weighted average potential dilutive shares are denominators.	Same. Only where advance shares application money if received is dilutive potential equity shares.
11.	Revenue recognition	Several criteria are applied with special reference to cases where risk and rewards have been transferred.	Conceptually difference arises.

Source: (Meenu Sambaru, November, 2014)

Recent Trends of IFRS in India

After the enactment of the Companies Act, 2013, the ministry of corporate affairs has now shifted its focus on rolling out international reporting standards for Indian companies which were to be implemented beginning April 1, 2011.According to the draft plan, the ministry wants to implement the international financial reporting standards (IFRS) beginning with companies that have a net worth of over Rs 1,000 crores from April 1, 2015, an official told The Indian Express. In the second phase, both listed and unlisted companies with a net worth of over Rs 500 crores but less than Rs 1,000 crores will have to converge with the international accounting standards from the financial year beginning April 1, 2016.IFRS had been put on the back burner by the government given issues raised by corporate, and unresolved taxation issues. Industry bodies had sought postponement arguing the industry needed more time to prepare. The IFRS-converged accounting standards deal with mark-to-market projections and valuation of financial assets among other things. The implementation is expected to cause some upheaval in companies' finances in the initial stage as the standards call for projecting assets' real value. Various sectors, including banking and real estate would be hit, experts have argued.

IFRS: The Impact on Indian Corporate

The use of international financial reporting standards (IFRS) as a universal financial reporting language is gaining momentum across the globe. Over a 100 countries in the European Union, Africa, West Asia and Asia-Pacific regions either require or permit the use of IFRS. The Institute of Chartered Accountants of India (ICAI) has recently released a concept paper on Convergence with IFRS in India, detailing the strategy for adoption of IFRS in India with effect from April 1, 2011. This has been strengthened by a recent announcement from the ministry of corporate affairs (MCA) confirming the agenda for convergence with IFRS in India by 2011. Even in the US there is an ongoing debate regarding the adoption of IFRS replacing US GAAP. Adopting IFRS by Indian corporate is going to be very challenging but at the same time could also be rewarding. Indian corporate is likely to reap significant benefits from adopting IFRS. The European Union's experience highlights many perceived benefits as result of adopting IFRS. Overall, most investors, financial statement preparers and auditors were in agreement that IFRS improved the quality of financial statements and that IFRS implementation was a positive development for EU financial reporting (2007 ICAEW Report on 'EU Implementation of IFRS and the Fair Value Directive'. There are likely to be several benefits to corporate in the Indian context as well. These are:

- Improvement in comparability of financial information and financial performance with global peers and industry standards. This will result in more transparent financial reporting of a company's activities which will benefit investors, customers and other key stakeholders in India and overseas;
- The adoption of IFRS is expected to result in better quality of financial reporting due to consistent application of accounting principles and improvement in reliability of financial statements. This, in turn, will lead to increased trust and reliance placed by investors, analysts and other stakeholders in a company's financial statements; and
- Better access to and reduction in the cost of capital raised from global capital markets since IFRS are now accepted as a financial reporting framework for companies seeking to raise funds from most capital markets across the globe.

However, the perceived benefits from IFRS adoption are based on the experience of IFRS compliant countries in a period of mild economic conditions. The current decline in market confidence in India and overseas coupled with tougher economic conditions may present significant challenges to Indian companies. IFRS requires application of fair value principles in certain situations and this would result in significant differences from financial information currently presented, especially relating to financial instruments and business combinations. Given the current economic scenario, this could result in significant volatility in reported earnings and key performance measures like EPS and P/E ratios. Indian companies will have to build awareness amongst investors and analysts to explain the reasons for this volatility in order to improve understanding, and increase transparency and reliability of their financial statements.

Impediments and Practical Challenges in Implementation of IFRS in India

The need for a change in several laws and regulations governing financial accounting and reporting in India. In addition to accounting standards, there are legal and regulatory requirements that determine the manner in which financial information is reported or presented in financial statements. For example, the Companies Act, 1956 determines the classification and accounting treatment for redeemable preference shares as equity instruments of a company, whereas these may be considered to be a financial liability under IFRS. The Companies Act (Schedule VI) also prescribes the format for presentation of financial statements for Indian companies, whereas the presentation requirements are significantly different under IFRS. Similarly, the Reserve Bank of India regulates the financial reporting for banks and other financial institutions, including the presentation format and accounting treatment for certain types of transactions.

- The recent announcement by the MCA is encouraging as it indicates government support for the timetable for convergence with IFRS in India. However, the announcement stops short of endorsing the roadmap for convergence and the full adoption of IFRS that is discussed in ICAI's concept paper. In the absence of adequate clarity and assurance that Indian laws and regulations will be amended to conform to IFRS, the conversion process may not gain momentum

- **GAAP-**Another potential pitfall is viewing IFRS accounting rules as "similar" to Generally Accepted Accounting Principles in India (Indian GAAP), since Indian accounting standards have been formulated on the basis of principles in IFRS. However, this view disregards significant differences between Indian GAAP and IFRS as well as differences in practical implementation and interpretation of similar standards. Further, certain Indian standards offer accounting policy choices which are not available under IFRS, for example, use of pooling of interests method in accounting for business combinations.
- **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. A complete renovation in Tax Laws is the major challenge faced by the Indian Law Makers.
- **Training -** One of the biggest hurdles in implementing IFRS is that lack of training facilities and academic courses on IFRS in India. IFRS foundation already offering Online IFRS program, diploma and certificate courses and also The Institute of Chartered Accountants of India (ICAI) has started IFRS Training programs for its members, Chartered Accountants and other interested parties. Still, there exists a large gap between Trained Professionals required and trained professionals available.

There is an urgent need to address these challenges and work towards full adoption of IFRS in India. The most significant need is to build adequate IFRS skills and an expansive knowledge base amongst Indian accounting professionals to manage the conversion projects for Indian corporate. This can be done by leveraging the knowledge and experience gained from IFRS conversion in other countries and incorporating IFRS into the curriculum for professional accounting courses. Ultimately, it is imperative for Indian corporate to improve their preparedness for IFRS adoption and get the conversion process right. Given the current market conditions, any restatement of results due to errors in the conversion process would be detrimental to the company involved and would severely damage investor confidence in the financial system.

Prospects for IFRS in India and Globe as a Whole

- Implementation of IFRS-converged Indian Accounting Standards would help in bringing excellence in financial reporting, as these standards are based on the premise that the financial statements should be transparent and should faithfully represent the actual financial position and performance of the entity.
- IFRS Standards would enable comparability of financial information, which will boost investor confidence, thereby enabling companies to raise capital at lower costs. It will provide better access to global capital markets and reduction in the cost of capital leading to overall economic growth.
- Fair value approach, historical costs will be replaced by fair values in several balance sheet items, which will enable the entities to know its true worth. By providing transparent and comparable financial information, reporting as per these Standards will provide an impetus to cross-border acquisitions, will enable partnerships and alliances with foreign entities, and lower the cost of integration in post-acquisition periods.
- Indian Accounting Standards, which would bring financial reporting in India at par with the international financial reporting. While India is moving towards convergence at present, in future the Indian accountancy profession is expected to play a significant role not only in Indian financial reporting system, but also in international financial reporting by playing an influential role in the formulation of IFRSs before their finalization.
- SEC has allowed foreign firms to report under IFRS only, without requiring any U.S. GAAP adjustments, a move estimated to have saved affected firms as much as 2.5 billion Euros over time.

Conclusion

Accounting Standards (AS) at par with IFRS so that the Indian corporate and the accounting professional reap the benefits of global accounting standard Irrespective of various challenges, adoption of converged IFRS in India will significantly change the contents of corporate financial statements as a result of more refined measurements of performance and state of affairs, and enhanced disclosures leading to greater transparency and comparability. Overall, the results are consistent with the view that mandatory IFRS adoption improves information comparability across countries. Although it is facing implementation issues and challenges, the benefits is going to outweigh the challenge. With adoption, Indian companies will produce more credible financial statements that will not only be uniform but also provide a basis for better interpretation.

Recommendations and Suggestions

The recommendations and suggestions to ensure a successful adoption and implementation of IFRS in India are as below:

- Government and the regulators should ensure that there is availability of training facilities and materials for professional accountants on the concept of IFRS and issues relating to its implementation and conversion.
- Compliance with IFRS timetable should be mandatory and failure should be marched with appropriate sanctions.
- Professional accounting bodies in India should make IFRS training a part of MCPE at a reduce cost.
- While monitoring the IFRS implementation timetable, the government, the Reserve Bank of India and other regulatory bodies should ensure that ethical environment and corporate transparency are observed.

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