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IFRS IN TELECOM: FINANCIAL IMPACTS

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Abstract

According to the Budget -2014, Ind AS (i.e. Indian standards converged with International Financial Reporting Standards (IFRS) were to be mandatorily adopted by companies in India from 1 April, 2016 and 1 April, 2017 depending on Company's equity, net worth and status. This will necessitate global merger of standards for reporting financial information to various stakeholders and will revolutionize the reporting system in India which will affect the financial statements and management decision to great extent. Besides affecting profitability and financial position, the implementation of IFRS will also affect decision making and overall financial prudence and performance. As this will impact the reporting system, it is certain that various financial management issues like working capital management, cash flow, Funds flow statements, capital budgeting and cost and profitability aspects will have an impact. As our focus area is Telecom sector, there are some specific issues which need to be discussed and which needs our attention. This article will discuss the effect of IFRS adoption on Telecom sector with reference to certain financial aspects of business with special focus on depreciation and Revenue.

Keywords: *IFRS, Financial Impact, Profitability, Telecom Sector, Substance Over Form, Fair Valuation.*

Introduction

There are many Business organizations with almost the same objective and that is Wealth maximization. To achieve this aims, Management needs to take various decisions keeping in mind that these decisions are not detrimental to the interest of owners (shareholders) and that these safeguards the interest of creditors , lenders , Government and other stakeholders. If we talk about International Financial Reporting Standards (IFRS Standards), then IFRS is a single set of accounting standards, developed and maintained by the International Accounting Standards Board with the intention of those standards being capable of being applied on a globally consistent basis—by developed, emerging and developing economies—thus providing investors and other users of financial statements with the ability to compare the financial performance of publicly listed companies on a like-for-like basis with their international peers.

As IFRS is now mandatorily applicable in certain companies therefore it is necessary to analyze the impact of IFRS on financial statements and consequently, financial decision making. Indian companies will adopt IFRS-converged financials (Ind-AS) in a phased manner. Ind-AS is based on 'substance over form' hence follows principle based approach. Because of this, management will enjoy discretion and flexibility in applying accounting policies. Besides this, Ind AS will be based on 'fair valuation' instead of historical cost approach. Fair value accounting is specifically applicable to assets and liabilities. It would be beneficial for Telecom sector if they follow this approach as this sector is capital intensive sector. Theses conceptual transformation will bring material changes to the operating metrics and return ratios of companies besides providing detailed disclosures. While some of the changes on revenue recognition, fixed assets and business combination will have sector-wide impact, the impact of changes in financial instruments, employee

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