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THE PHENOMENAL ASPECTS OF IFRS

Dharmpal Yadav*

ABSTRACT

Last decade has seen different changes to do business in the world. There has been a lot of change in the process of financial reporting of business activities. It started in 2005 when the EU compulsive in relevant consumption of financial reports in the conclusion of the International Financial Reporting Standards (IFRS) starting from January 01, 2005 for public business. Earlier, from the latter of the 1990s, there were companies of European and Asian countries, international accounting standards (IAS) are allowed to be used as the option of their respective domestic accounting standards. But IFRS was firstly adopted by the European Union in 2005. Other countries with developed capital markets have adopted IFRS for reporting purposes or in the process of adopting. The International Financial Accounting Standard (IFRS), which was known as the first international accounting standard (IAS), there are standard, interpretation and outline for the preparation and presentation of financial statements adopted by the International Accounting Board (IASB). IAS was released by the Board of Internal Accounting Standards Committee (IASC) in 1973 and 2001. On April 1, 2001, the new IASB took responsibility for establishing international accounting standard from IASC. Since then, it has been continued to develop standards which are called new standard IFRS. One of the most important requirements to successfully operate a business is to be of a good financial reporting system. Keeping this in mind, during the last decade, accounting professionals and accounting bodies around the world had tried to establish a financial reporting system, which is harmonious, strong and wide applicability. IASB (formerly IASC) came with IFRS, which was formally adopted by the European Union members in 2005. In the later years, many other countries adopted the IFRS or changed to the IFRS. An upcoming economy on the World Economic map, India also decided to converge to IFRS. This study tries to analyze the information available on the process of adopting IFRS in India. It also discusses the process of adopting IRRS in India and adopts the IFRS in the utility of India. Paper discusses problems in front of stakeholders (regulators, accountants, firms etc.) in the process of adopting IFRS in India. In the conclusion part, the paper brings the methods through which these problems can be resolved through.

Keywords: *Reporting, Standards, Harmonized, Professional, Information, Adoption, Stakeholders.*

Introduction

Many countries are changing their national standards from IFRS while some other countries have adopted this approach to adopt their suitability with their economic, political and social situations, and then adopt these IFRS with slavery or minor changes. India announced in 2007 that he will completely implement the IFRS by 2011, which is to be done in the stages. In the first phase, they will join companies that Nifty is part of 50 indexes, Sensex 30, companies or other securities are listed in the stock exchange outside India and whether companies are not listed (whether listed or not) whose net worth exceeds Rs. 10 billion.

Companies involved in this phase shall prepare an opening balance sheet as per IFRS convergence standards on April 01, 2011 and shall comply with IFRS convergence standards from that date. In the second phase, firms (listed or not) with net assets of more than Rs 5 billion but less than Rs

* Assistant Professor, Department of ABST, University of Rajasthan, Jaipur, Rajasthan, India.

10 billion will be covered. These firms will prepare an initial balance sheet according to IFRS convergence standards on April 01, 2013 and will follow the IFRS convergence standards from this date. The remaining firms will follow the process from 01 April 2014, when they will be that date. Researchers have prepared their initial balance sheets as an opinion on the utility of adopting the IFRS worldwide as a single set of reporting standards. Existing Literature supports this approach to researchers that adopt the quality of financial information by adopting the assets of the reporting standards to IFRS, and the identity of the damage is also ensured. In short, adopting the single set of financial reporting standards, the reporting institutions meet many benefits. In this period of ends of international borders as investors, bankers and other interested parties, they will not have to mention the reporting statement prepared on the basis of different reporting standards.

Objective of Study

The objectives of this study can be listed below:

- To discuss the process of IFRS adoption in India;
- To discuss the utility of India in adopting IFRS;
- To discuss the problems being faced by the stakeholders in the process of adoption of IFRS in India;
- To discuss the ways through which these problems can be solved.

Review of Literature

Since the European Union was the first country to adopt the IFRS worldwide, most of the research has been made on IFRS analyzing the data from European Union member states. A comparatively small number of studies have been conducted on data from other countries. This letter tries to bridge this difference and adopts IFRS, the utility of adopting IFRS for India, in the process of adopting IFRs in India, the obstacles in front of the stakeholders and the methods of removing these barriers. it takes to study Indian data.

Zhou et al (2009) concluded in such a study of the figures of Chinese firms that after the period of adopting the IFRS of the IFRS adopts the loss of income, the possibility of decrease in income is low. His findings also pointed towards the need for the strict enforcement mechanism of financial reporting standards in emerging markets.

Working on data from European firms, **Armstrong et al (2010)** found positive. In response to the investors who expect the net convergence benefits to adopt the IFRS for advertisement with the information about the first quality adoption of the IFRS.

During the period of 1995-2006, 1084 EU firms in his study, **Siqi Li (2010)** concluded that the average, the IFRS mandate reduces the cost of equity for the essentially adoption. He also suggested in his research that this reduction exists only in countries with strong legal enforcement and that increased disclosure and increased information comparison are two mechanisms behind the cost of equity reduction.

Barth et al (2008) in their study of financial data of firms from 21 countries examined whether the application of IAS/IFRS is associated with higher accounting quality. The findings of the study confirmed that the companies IAS/ IFRS implement the low-income management, more difficulty, and the proof of more relevance of accounting numbers. In the study it was also found that the IAS / IFRS firms implement the accounting quality between the period after adoption and adoption.

While mentioning a study made by Audit Integrity, **Stephee (2009)** concluded in his article that there are considerable differences in different approvals of Western European countries and companies to implement IFRS. He noted that in the Luxembourg, Austria and Switzerland, the corporation demonstrates the most transparent accounting practices and the best corporate administration, while the European Bank with large capitalization displays very aggressive accounting and bad governance standards.

In 2005, after studying the IFRS, and after the adoption of the financial data in the 15 member states of the European Union (EU), **Chen et al (2010)** found that most accounting quality indicators have improved after adopting the IFRS in the EU. They found that the management of income per target is low, the magnitude of full discretionary income is low and the above quality is more. Studies have also found out that better accounting quality is due to IFRS, not to change the institutional characteristics of the market and the general business environment.

Globalization and Financial Reporting in India

In recent times, India has seen a major change in its own methods of financial reporting. The process of change started with the beginning of the process of economic reforms and globalization in India at the end of the 1980s. Since independence in 1947 to mid- 1980s, the Indian industry was in full control of the state. Price and volume restrictions were applied and any entrepreneur (or, expanding its current capacity interested in starting a new business enterprise) had to take several permissions from various government departments, the factor of the force and the use of additional capacity was done. The Indian industry foreign investment was negligible and the money was mainly coming in the form of a loan from the public sector commercial banks and financial institutions (such as IDBI). After the liberalization program started in 1991, India had to face serious payment balance crisis and to recover from the crisis, he had to hold his Gold Stores Bank of England. The then Congress government took some revolutionary steps in connection with the Indian economy to open foreign competition and invite foreign investment in various industrial areas. Industrial and financial areas were made on the control and the current account capital market was made convertible and the capital market for Indian companies was made more accessible. Corporate houses were allowed to exploit foreign financial markets for the need for its fund. Many others including insurance, banking, telecommunications, retail, and software, foreign investments were opened for. These developments have encouraged foreign companies to invest in India. This increasing trend of investment in India from abroad is a demand for a corporate financial reporting system that is being used worldwide. The demand is further supported by Indian companies, which were either buying foreign companies or entering the joint venture with foreign companies. Goldman Sachs (2003) also supported this incident through a study on BRIC (Brazil, Russia, India and China) in which it was suggested that these countries will become one of the four most prominent economies till 2050. Currently, Indian companies are reporting their financial statements based on Indian Accounts Standards prepared by the Indian Chartered Accountants of India (ICAI). These standards are largely similar to IFRS.

IFRS Adoption Procedure in India

In 1949, the Government of India established the Chartered Accountants Institute of India by passing on the ICAI Act, 1949 to streamline accounting practices in the country. For the reconciliation of diverse accounting policies and practices in India, the Accounting Standard Board was formed in ICAI in 1977. Other objectives of the board are:

- Imagine and view new areas, in which accounting standards are required,
- Building accounting standards,
- Examine how far the IAS and IFRS have been covered while framing accounting standards.
- Review the existing accounting standards and whenever necessary, modify them regularly. In 2006, a Task Force was formed by ICAI.

The purpose of Task Force was to prepare a road map for the convergence of IFRS in India. Based on the recommendation made by Task Force and discussing the process of adopting the IRRS and the process of publication, a 3-phase process was set by accounting professionals in India. This three-step IFRS adoption process can be summarized as follows:

Step 1: IFRS Effect Assessment: In this phase, firm will start with accounting and reporting issues, on the system and processes and on the business of adopting IFRS on the business of Firm. The firm will then identify the major conversion dates and accordingly, an IFRS training plan will be determined. Once the training plan is implemented, the firm will have to identify those major financial reporting standards that will apply to the firm, as well as the difference between the current financial reporting standards being adopted by the firm and IFRS. The firm will also identify the imperfections in existing systems and processes.

Step 2: Preparation of IFRS implementation: This step will meet the necessary activities for the IFRS implementation process. It will start with the documentation of IERS Accounting Manuals. The firm will improve internal reporting systems and processes. IFRS 1 which is related to adopting the IFRS for the first time will be followed to guide you through the process of adopting the IFRS for the first time. To make the convergence process smooth, some discounts are available under IFRS 1. These exemptions are identified and applied to them. To ensure that the IFRS is correctly applied and constantly, the control system is designed and installed.

Step 3: Implementation: This phase includes the actual implementation of IFRS. The first activity in this phase is to prepare an initial balance sheet on the date of infection in IFRS. A proper understanding of influence of infrastructure in IFRS from Indian Accounting Standards is to be developed. It will follow the full application of IFRS when and when necessary. For the first time IFRS implementation requires a lot of training and some difficulties may also experience. To ensure a smooth change from the Indian Accounting Standards in IFRS, employees are also necessary to remove all difficulties during continuous training and implementation.

Some Key Challenges to Implementation

- **Amendment in Law:** IFRS will have the impact on the legal provisions as well as the Indian Income Tax Act, the Company Act, etc. After the Act of the Companies Act, 2013, the Ministry of Corporate Affairs, wants to implement international financial reporting standards (IFRS) starting with companies that have a net worth of over Rs 1,000 crore from April 1, 2015. In the second phase, both listed and non-listed companies, whose total assets are more than Rs. 500 crores, but less than Rs 1,000 crore from the financial year beginning April 1, 2016 to converge with international accounting standards, At present, reporting requirements are controlled by various regulators in India and their provisions override other laws IFRS does not recognize such overriding laws. Regulatory and legal requirements in India will present the challenge until it is resolved by the related regulators.
- **Effects on Financial Results:** There will be a lot of changes in financial reports. For example, the treatment of depreciation is different. Therefore, along with the value of the property, the profitability of the organization can be swing, which can affect the net worth, in return.
- **User Awareness, Training and Education:** Many people are not yet aware of IFRS including its complications and effects. For changes in reporting format, both professional and user will need awareness about these new criteria and systems, training and education. IFRS and its application require education to provide education and training. The government has put the IFRS to the IFRS on issues of corporate and unresolved taxation issues. Industry bodies demanded the suspicion that the industry should be time and preparation for the preparation.
- **Difference in GAAP and IFRS:** IGRS adopts that there will be huge changes in the entire set of financial statements. Differences are broad and very deep routes. Between users of financial statements, IRRS and bringing awareness about its effect will be a challenge.
- **Issuance of GAAP solution:** Securities Exchange Commission (SEC) has set two options in their proposal, for the first time for a traditional IFRS, it is calling for the reconciliation for the first time, the second requires that step and as well as. A continuous unaudited reconciliation of the financial statements is required, IFRS to US GAAP which is clearly the more costly outlook for companies and investors.
- **Taxation:** IFRS convergence will affect most items in financial statements and consequently change in taxes liabilities. In this way taxation laws should address the treatment of tax liabilities arising out of the US GAAP from the USA in the IRRS.
- **Reasonable Price Measurement:** IFRS use the reasonable price measurement base for evaluating most of the items of financial statements. Use of reasonable price accounting can bring too much instability and bias in financial statements. It also works very difficult to reach the fair price and use evaluation experts.
- **Re-negotiation of the Contract:** Contract will have to be renegotiated which is a big challenge. This is because the financial results under IFRS are likely to be very different from the financial results under Indian GAAP.
- **Reporting System:** Companies have to be ensured that the existing business reporting model has been revised to the reporting requirements of IFRS. The information system should be designed to catch new requirements related to fixed properties, section disclosure, related party transactions, etc.

Conclusion

Ensuring a high quality corporate financial reporting environment depends on effective control and enforcement mechanism, not only adopting international financial reporting standards. Each interested party, namely top management and directors of firms, independent auditors and accountants and regulators and law makers must come together and have to work as a team for adopting a smooth

IFRS. The top management should ensure that the financial details are prepared in compliance with IFRS. Auditors and accountants should prepare and admit financial details in compliance with IFRS. Regulators and law makers should implement the efficient monitoring system of the regulatory compliance of IFRS. Along with this, regulators should ensure that the proper change in the existing laws is to be made for the process of adopting the IFRS. As a conclusion, adopting IFRS in India is indispensable. Government of India and accounting bodies are taking every possible step for a facility of a transaction process. In this regard, self-regulation is the answer that will ensure the process of adopting a complete and smoothly. Awareness and proper training should be contributed to that process. Only the enforcement mechanism will not help in the process, but also a consultant will also be required. With all these systems, adopting IFRS in India will be very intuitive and accurate.

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