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STUDY ON IMPACT OF CONVERGENCE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ON INDIAN CORPORATE SECTOR

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ABSTRACT

In the present era of globalization, more than 3600 multinational companies are establishing their businesses in the different sectors in India. These Indian business firms are presenting financial statements as per IFRSs, Indian GAAPs, USGAAPs, Japan GAAP, etc., With a view to avoid this kind of inconvenience, the accounting bodies across the world are working towards a standard set of accounting policies, valuation norms and disclosure requirements. In this scenario there is a requirement of transition from Indian GAAP to IFRS for India in all the sectors. An upcoming economy on world economic map, India, too, decided to converge with IFRS by developing a standard called Ind AS. The purpose of the present paper is to know the awareness of stakeholders towards the implementation of IFRS in India and to know the impact of IFRS Convergence on Different Sectors. The researcher found that the different ways of understanding about IFRS and the results shows that there is a high requirement of knowledge as well as training towards IFRS and also results shows that a Lot of positive response from the different sectors towards the implementation process.

KEYWORDS: *IFRS, Uniform Accounting Standards, Financial.*

Introduction

The above quotation clearly presents the importance of uniformity all over the world. For this reason, the global set of accounting standards is emerging today. The International Accounts Standards Committee (IASC) (earlier body of IASB) was established in London in June 1973 to show uniformity in the reporting of financial statements. The IASC has released the accounting standards called International Accounts Standard between 1973 and 2000. Some standards are still being used to prepare for financial statements.

Why do we need single set of high quality global standards?

- Maintain uniformity in reporting financial statements.
- To prevent the manipulation of contents or errors in financial statements.
- Ensure reliability and high quality financial reporting.
- To ensure systematic review and evaluation of performance of a multinational company with subsidiaries and collaborators in various countries.
- The performance of a company against its domestic and international counterparts may be easier and more meaningful.

IFRS in India

Convergence with IFRS

IFRSs issued by the IASB are not country specific. They are meant to be applied across the globe. However, each country has its own peculiarities and hence, convergence of IFRSs as they are, with certain modification, may be practicable and departures may have to be made primarily on account of the legal, regulatory and economic environment prevailing in the country.

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In 2007 the Concept Paper was released which proposed Convergence of Accounting Standards in India with IFRS from April 2011. After going through various legal procedures and consultation, the Ministry of Corporate Affairs which regulates companies in India has issued a Roadmap for Convergence with IFRS in India in January 2010 and has notified 35 accounting standards called as IND AS in February 2011 for the convergence process.

Review of Literature

The adoption of a common body of international standards is helps in lower cost of financial information processing and auditing to capital market participants.

The study of P. A. Isenmila (2013) reveals IFRS introduction will facilitate better investment decision making in the capital Market. (ii) The new standards will lead to an enhanced or favorable financial measure, such as profitability, growth, leverage, liquidity, and size, Good Corporate Practices, quality and timeliness of management information and transparency. Dr. Kwok Shu Hung (2014) will provide some insight to the professional accounting bodies in these two jurisdictions to put extra effort on educating the students and the public to have a positive image of the profession. Surveys of preparers" experiences with the IFRS implementation process are rare.

Objectives

- To know the impact of IFRS Convergence on various sectors.
- To study the awareness level of stakeholders towards the implementation of IFRS

Methodology of the Study

For 1st purpose, primary data has been used. For this, the questionnaire was sent to 480 respondents out of which 456 respondents had responded. The respondents include CAs, shareholder, educationist and finance officers. Primary data was collected from Bangalore from Bangalore. Analysis of stored data has been analysed using the "Systat version 13" tool. After the study, an item response theory (IRT) is to check the reliability of the data collected. For the second goal, secondary data has been used, studies are limited to 5 sectors, namely, airlines, agriculture, automotive, banking and fast-moving consumer goods sectors. The additional necessary secondary data was collected from the authorised annual reports and official website of ICAI and IFRS, various journals and research papers, clinical study reports and newspaper articles, and a survey of the paper has been surveyed in the making of this study.

Table 1: Awareness Level of IFRS Adoption to Stakeholders

Item	Label	Item P	Difficulty	S.E.	Discrimination	S.E.
V36	IFRS is not issued by IASB	0.7	-0.4	0.1	3	1
V37	India is converging with IFRS	0.8	-0.7	0.1	2	0.5
V38	ICAI made mandatory convergence of Indian Accounting Standards with IFRS.	0.8	-1.4	0.4	0.5	0.1
V39	There are only 15 IFRS are at present	0.5	-0.2	0.1	1.9	0.7
V40	Accounting Standards and IFRS are one and the same	0.6	-0.4	0.1	3	1.1
V41	Preparation of Financial statements are similar under Indian GAAP and IFRS	0.6	-0.3	0.1	3	1.1
V42	Concept of Fair value is not included in the IFRS reporting	0.5	-0.2	0.2	0.8	0.5
V43	Listing Status of the company affects the adoption of IFRS in India	0.7	-0.5	0.1	3	1
V44	All companies can use IFRS without any restrictions	0.4	0.8	3	0.1	0.1
V45	Indian companies are following IFRS in their reports preparation	0.5	-0.2	0.4	-0.4	0.3
V46	IFRS are most useful for MNCs	0.9	-1.9	0.4	0.6	0.1
V47	Implementation of IFRS is a smooth process	0.5	-0.3	0.1	1.6	0.7
V48	IFRS will not provide adequate coverage of information to prepare financial statements.	0.5	-0.1	0.3	-0.6	0.3
V49	IFRS will not affect the Indian GAAP	0.6	-0.7	0.5	0.3	0.2
	Average Reliability	**0.61**				

The IRF gives the probability that a person with a given ability level will answer correctly. Persons with lower ability have less of a chance, while persons with high ability are very likely to answer correctly. Since IFRS measured in dichotomous scale like true or false (1 or 0). In order to assess the reliability of this instrument, regular Cronbach alpha would not be applied. The IRT score is often called an ability, trait, or proficiency. The IRT scoring takes into account the item difficulty and discrimination. Items that are more discriminating, or more reliable, are weighted more heavily, so IRT scores can be more reliable than number correct score. b= Difficulty index, is on the same metric as the proficiencies or traits. a = Discrimination index, this index is called the slope, because it indicates how steeply the probability of correct response changes as the proficiency or trait increases, higher indicates higher discrimination. In this model, researcher used 2 PL (2 parameter logistic) For 2 PL model, the lower asymptote, c value is fixed to zero. In difficulty, item v44 has higher score which indicate the higher level of difficulty among the participants. Items such as v36, v40, v41 and v43 has higher score which indicate the higher level of discrimination. The average reliability of the instrument is .61, which is higher than norms of .6. The above table clearly indicates the reliability of the instrument is more than the normal standard.

The Impact of IFRS Standards on Specific Industries

There are certain standards within the present set of IFRS Standards that would impact all industries only because the standards either deal with a new concept or are to be followed when an entity moves over to IFRS for the first time. Being principle based IFRS, there are lot of changes is happening in different sectors in India.

- **Airlines**

The aircrafts are normally acquired by long-term lease arrangements. The revenue does not come with the same velocity due to differential pricing adopted by airlines to manage competition.

IFRS Standards that could Impact the Industry

IAS 16 – property, plant and equipment: air craft acquisition cost are covered under IAS 16 these costs normally include purchase cost, duties and taxes, foreign exchange gains and losses and borrowing costs. The cost associated with major inspection activities that results in future economic benefits should be recognized as a separate component. The aircraft are initially recorded as costs and other spare part inventories may be capitalized as property plant and equipment. These equipments can be measured either by using historical cost method and carry the assets at cost less accumulated depreciation and impairment charges or the revaluation method to value the assets at fair value.

IAS 36 – Impairment of assets: the airline industry requires significant capital investment and is expose to economic cycles and market volatility, which affects the fair values of flight equipments. The impairment is measured on individual assets unless an individual assets does not generate cash inflows, in such cases impairment is measured at the cash generating unit level. IAS 18/IFRS 15 – Revenue Recognition: Airline entities would identify contract with the customer, identify the separate performance obligations, determine the transaction price and allocate the transactions price to separate performance obligations and recognize the revenue of the performance. Cancellation of air tickets, changes in the air tickets, defer their travel or change their route causes the separate charges for each contract. This determination could alter the revenue.

- **Agriculture**

IASB issued a separate standard on Agriculture IAS 41, IAS 41 is of the opinion that a biological transformation of the living animals or plants would constitute an agricultural activity to come within the scope of the standard. It is obvious that IAS 41 would be the go-to standard for the agricultural industry. Since the concept of an accounting standard for agricultural activities is relatively new in a few geographic, there could be issues in interpreting and applying the standard.

Measurement and Disclosures

Under IAS 41 all biological assets are measured at fair value less costs to sell, expect in limited circumstances.

Impairment of Assets

Most of the agricultural activities depends on the weather, rain, temperature and other such natural factors for their growth and developments. Therefore impairment test would need to be much quicker for biological assets in the IFRS regime.

- **Banking**

Banking is a highly regulated sector with a regulator in each country overseeing the functioning of banks. Banks thrive on financial instruments. Banking financial statements reflect the impact of transactions in financial instruments. The IFRS standards on financial instruments would have a significant impact on the banking industry.

- IAS 32, 39, IFRS 7 & IFRS 9 – financial instruments: recognition, measurement, derecognition and disclosures and hedge accounting: financial instruments are initially measured at fair value but not always, is the transaction price. After initial recognition they are measured at fair value, amortized costs or cost. Debt instruments held to maturity can be amortized cost and those not coated in the active market. Derivatives are generally accounted for at fair value with gains and losses generally recognized in profit and loss, Equity instrument are generally accounted for at fair value.
- IAS 36 – impairment of assets: Impairment of financial assets is currently measured on an incurred loss basis. No impairment allowance can be established at initial recognition of a financial assets. Impairments recognized only when the objective evidence indicated that an asset impaired due to events occurring after the initial recognition. The impairment loss is measured
- IFRS 10 – Consolidated financial statements: CFS should include all subsidiary of parent company and it should focuses on the concept of control.
- IAS 17 – leases: Assets leased to customers under agreements. Finance lease recognized so as to give constant rate of return on the net cash investment, without taking account of tax payments and receipts.
- **Fast Moving Consumer Goods**

The word fast moving summarizes what the industry is all about: they manufacture, trade and deal in goods with short shelf lives. Revenue realizations are quick but so are inventory pile-ups and losses.

IFRS Standards that could Impact the Industry

- **Revenue:** Recognizing revenue under IAS 18 or the five step approach under IFRS 15 would involve a lot of careful consideration and Judgement. Like product returns, new product launches, rebates and discounts, sales incentive, and taxes levied.
- **Intangible Assets:** Trademarks are an extension of branches and are more significant in the FMCG sector. This involves a significant judgments such as determining whether these assets would be recognized or not, whether they have finite or indefinite useful lives, how long they should be amortized for and weather they show any signs of impairments.
- **Inventory:** FMCG companies are slow and non-moving inventory which would necessitate their testing for impairment. Therefore inventory is valued at cost or net realizable value whichever is lower as per IAS2 in ascertaining the NRV for a product that has not moved for months is tricky.

Property, plant and equipment: FMCG companies invests heavily in PPE to produce goods at a speed and accuracy that market demands. In this situation the impairment testing requires significant Judgement and relies heavily on discounted cash flow projections as well as on the appropriate determination of cash generating units.

- **Provisions:** IAS 37 defines a provision to be current liabilities to a past events which would lead to an outflow of economic resources at some point of time in the future, in the recent years FMCG sectors have been receiving a lot of legal notices from irate customers who have filed claims for composition. Therefore the requirements of IAS37 need to be carefully thought out.
- **Financial Instruments:** FMCG companies are subject to a greater variety of risks like credit risk, foreign currency risk, interest rate risk, commodity price risk and liquidity risk. To manage these types of risks, derivatives are frequently used. Various factors influence a FMCG companies hedging strategy including the company's risk management objective, the nature of risks being hedged, the company's risks appetite, the nature of its selling arrangements, general economic outlook and the company's funding structure. The impact of these factors could be significant.

Limitations

The data collected for the secondary data is restricted to only to the specific sectors like Airlines, Agriculture, Fast Moving Consumer Goods, banking and automotive sectors. Therefore, overall impact position cannot be decided from the analysis. More number of sectors would be appropriate to test the impact of IFRS adoption. The data collected for the primary data is from the less number of stakeholders from Bangalore only. The ultimate result cannot be determined in the awareness level and the impact of IFRS on Financial Statements is due to less selected sample. More sample can be the good indicator in analyzing the efficiency of IFRS adoption.

Summary and Conclusion

The results of this study indicate that the adoption of IFRS more beneficial to attract the world capital market and also indicate that the adoption of rules regarding truthful worth accounting, lease accounting and tax accounting, as well as rules regarding the accounting of economic instruments, explain the changes within the key accounting ratios.

IFRS should be accepted as a blessing and not as an unknown, as it can prove very beneficial for India. More than 130 countries have already in line with IFRS. IFRS is more transparency and impacts accounting. Accountability of minute events also makes more impact on a company‟s finance under IFRS. IFRS also has stringent income recognition rules. Several Indian companies having businesses abroad are preparing their financial statements using IFRS. This helps to seek to have one comparable reporting standard around the world.

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