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# CONVERGENCE WITH IFRS: ADVANTAGES AND PROBLEMS FACED BY INDIA IN CORPORATE REPORTING

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## ABSTRACT

During last few decades, the companies all over the world have become international. The corporate reporting process of the companies has also undergone huge changes. Firms were trying for a standard, harmonizing and globally accepted corporate reporting system. India has declared to the convergence with IFRS. It holds both advantages and problems to the country. This article discusses about the advantages and problems faced by India due to convergence with IFRS and analysis the information available on IFRS adoption process in India.

**Keywords-** IFRS, Corporate reporting, Convergence, Advantages, Problems.

## INTRODUCTION

Globalization has changed the closed economy into wide economy. FDI (foreign Direct Investment), Mergers and Acquisitions are some of the examples of international transaction in global market. Therefore, in 1973 the accounting fraternity of 16 countries formed IASC (International Accounting Standards Committee) and it issued International Accounting Standards. Then in 2001, the responsibility got transferred to IASB whereby standards were restructured and are known as IFRS.

The use of common set of accounting standards throughout the world provides acommon way of transparency and comparability of financial information. Use of these accounting standards provide higher and better quality information which enables the investors to make a better decision, funds will be allocated in a more effective manner in the market and the company can reduce its overall cost of capital.

## REVIEW OF LITERATURE

The study conducted by:

**The Administrative Reforms Commission (1966),** examined that, from theperspective of accuracy of revenue estimates in the budget, 1st January is the most suitable date for commencement of the financial year, while 1st April was the least suitable date. The commission also suggested that

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from the point of view of convenience of legislators and administrators 1st January was considered suitable from the angle of presenting and passing the budget while 1st October was considered suitable from the angle of touring the constituencies.

**Lakshmi KhantJha(1984),**Suggested to change the existing financial year andadvised adopting 1st January as the preferred date for commencement of financial year mainly with reference to the impact of south west monsoon on the economy. They also mentioned in their report that if for any reason a changeover to calendar year is not acceptable despite its many advantages, and then on balance, it might be best to live with the existing financial year and avoid the problem of transition.

**Associated Chambers of Commerce and Industry** issued a statement accordingto which any move to change India's financial year from April-March to any other permutation and combination would serve no purpose but cause a huge avoidable disruption at a big cost for country's trade and industry.

**Vinayagamoorthy (2014),**Examines many aspects relating to IFRS convergencewhich would need to be clarified, such as challenges and opportunities in IFRS adoption, compliance of comparative previous period figures with IFRS, current situation of implanting IFRS in India, etc.

**Gupta, (2014),**Discusses about the overview of IFRS, other European countries whohave adopted IFRS, the various steps involved in its adoption, the benefits and need of implementation of IFRS in India. He says that mere adoption of it will not be enough; professionals have to keep on updating themselves about IFRS/ IND AS.

**OBJECTIVES OF THE STUDY**

- To analysis the IFRS procedure and its implementation in India;
- To discuss the need for IFRS in India
- To discuss the problems faced in the process of adoption and advantages ofIFRS in India;

**Discussions**

- **Need for IFRS**

Every country has its own set of accounting standards for corporate reporting, so, when an organization decides to raise funds from the foreign market, this in turn will require the organization to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country.

India, feels the need for convergence with IFRS, Indian companies which are already listed on overseas stock exchanges and companies who will be listed in the future will need the requirement to comply with IFRS. Internationally acceptable accounting standards are becoming the language of communication for Indian companies, However, at present, the Accounting Standard Board in consultation with the group, constituted by the Ministry of Corporate Affairs (MCA) for convergence of Indian Accounting Standards (IFRS), has decided that there will be two sets of Accounting Standards, they are:

- Indian Accounting Standards converged with the IFRS (also known as IND AS) - The MCA has hosted 41 converged Indian Accounting Standards (IND AS) announcing the applicability date.
- Existing Accounting Standards - The firms not falling within the threshold limits prescribed for IFRS compliance in the respective phases shall continue to use these standards in the preparation and presentation of financial statements.

- **Adoption procedure of IFRS in India**

To rationalize accounting practices in the country, the Indian government used the ICAI Act of 1949 to establish the Institute of Chartered Accountants of India. ICAI set up the Accounting Standard Board in 1977 in order to create harmony among the diversified accounting policies and practices in India. A three-step process was laid down by the accounting professionals in India which are summarized as follows:

**Step 1** – IFRS Impact Assessment. The firm analyzes the impact of IFRS Adoption on accounting and reporting issues, on procedures and systems, and on the core business of the entities. Then the firm will find the key conversion dates according to schedules the IFRS training plan has laid down. Once training is in place, the company will identify the important reporting standards which apply and the variations among differentthe financial reporting standards in use both by the firm and IFRS.

**Step 2** – Preparations for IFRS Implementation. This step will carry out such activities required for IFRS implementation. The firm will change the reporting systems. Adoption and implementation are the next steps in IFRS.

**Step 3** – Implementation. In the actual implementation of IFRS, the first step will be to prepare a Balance Sheet in force on the date of transition to IFRS.Indian Accounting Standards will transition to IFRS, a process requiring understanding. The transition will follow the implementation of IFRS if and when it is required. At the initial stage of implementation, IFRS requires training, and experience shows that technical difficulties may be expected. Regular training during implementation is required to effect a smooth transition to avoid problems.

**3. Implementation of IFRS in India**

**Background**

The MCA through notification dated 16 February 2015 has issued the Companies (Indian Accounting Standards) Rules, 2015, which lay down a roadmap for companies, insurance companies, banking companies and non-banking finance companies (NBFC) for implementation of IND AS converged with IFRS. The IND AS shall be applicable to companies as follows:

**Table 1**

| | **Voluntary adoption** | **Phase-1** | **Phase-2** |
|---|---|---|---|
| Year of adoption | FY 2015-16 or thereafter | FY 2016-17 | FY 2017-18 |
| Comparative year | FY 2014-15 or thereafter | FY 2015-16 | FY 2016-17 |
| Covered Companies | | | |
| (a) Listed Companies | | All companies with net worth is more or equal to INR 500 crores | All companies listed or in the process of being Listed |
| (b) Unlisted Companies | Any company could voluntarily adopt IND AS (a, b, c) | All companies with net worth is more or equal to INR 500 Crores | Companies having a net worth more or equal to INR 250 Crores |

| | | | |
|---|---|---|---|
| (c) Group Companies | | Applicable to holding, subsidiaries, joint venture, or associates of companies covered in (a) and (b) above. This may also impact fellow subsidiary companies while preparing CFS of the holding company. (phase1 &2) | |

Source:https://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/IFRS-Notes/Documents/KPMG-IFRS-Notes-IndAS.pdf

- Applies to Holding, subsidiaries, joint ventures and associate companies of above companies
- Applicable to both standalone and consolidated financial statement
- Financial statementto be presented with an opening B/S and comparative period

**Problems Faced By India**

The International Accounting Standards Board formulates IFRS. However, the responsibility for convergence with IFRS vests with local government and accounting and regulatory bodies, such as the ICAI in India. Thus ICAI needs to invest in infrastructure to ensure compliance with IFRS. India has several constraints and practical challenges to adoption and compliance with IFRS. Some laws governing accounting and reporting in India will need to change, as will the presentation of financial statements. For example, the present Companies Act specifies the format for preparation of financial statements, but the IFRS may require a different format. Another example is related to Business Combination: under Indian GAAP, the book value of identifiable assets and liabilities is the basis for evaluating an acquired property. The excess of value over the net book value is counted as goodwill. IFRS includes all hidden intangibles as part of the goodwill value. As the assets are recognized at fair value, amortization of these assets will reduce future yearly profits under IFRS. The problem of personnel lacking practical IFRS experience will increase costs to Indian companies, which will have to rely on outside experts initially. Yet another issue is that Indian GAAP may be completely inconsistent with IFRS principles. In the end, some principles need to be amended, implemented or removed in the Indian GAAP. As an example, the ‘pooling of interests’ method in accounting for business combinations is omitted from IFRS. Indian GAAP should abandon this.

Therefore there are several challenges that IFRS will pose.

- The difference between GAAP and IFRS: IFRS statements will create a sea change in public accounting. The differences are wide andprofound. The consumers of financial statements will need to be educated about the changes.
- The issue of GAAP Reconciliation: The Securities and Exchange Commission (SEC) laid out two options in its proposal – one called an initial reconciliation between the two systems; the other suggested a straightforward reconcilication, alongwith an ongoing unaudited

reconciliation between the two systems. This is clearly a more onerous approach for all interested parties.

- Training and Education: Training facilities and academic courses are absent. The application of IFRS will need to be taught.
- Legal and Regulatory Considerations: The current situation in India is that regulatory requirements take precedence over other laws. IFRS does not recognize such overriding laws. So regulators will need to come to terms with this.
- Taxation: Ther will be a profound effect on tax liabilities because many items in the financial statements will change.Tax law will have to accommodate the new accounting realities.
- Fair value Measurement: Fair value will be the new standard for measuring value. This is a volatile, inherently unstable measurement, and can be prejudiced by whoever assigns the value. Indian companies will have to rely on independent valuation experts.
- Re-negotiation of Contract:Contract revisions and renegotiations are certainly going to be necessary because financial results will change under IFRS.
- Reporting systems: Business reporting will change under IFRS. New information systems will be required to reflect the new reporting model. They will have to capture the changes in related-party transactions, fixed assets, and so forth.

**Advantages in India**

There are identifiable beneficiaries to the convergence of Indian Generally Accepted Accounting Principles (GAAP) with IFRS:

- The Investors: With convergence, accounting information is more reliable and useful, regardless of different legal frameworks. A common set of accounting standards will empower investors willing to invest outside of India. It will also develop a better understanding of financial statements worldwide which will increase the confidence among investors.
- The Industry: Industries will benefit from increased confidence of foreign investors. The burden of financial reporting is lowered. Preparation of statements will be simplified, and their cost will be reduced by avoiding by not creating reports according to multiple standards.
- Accounting Professionals: Accounting professionals will benefit by acquiring skills valued throughout the world economy.
- The corporate world: Convergence with IFRS would build the reputation and long lasting relationships with the Indian corporate world with international financial entities. Moreover, the corporate entities in India would be benefited for several reasons. For one, the higher level of consistency will be maintained between external and internal reporting; two, India will have better access to global financial markets; three, it will improve the risk rating of Indian companies and make the domestic corporate world more competitive globally as their comparability with the international competitors will increase.
- The Economy: All the discussions made above explain how convergence with IFRS would help industry grow and be beneficial to the corporate entities in the country as this would make the internal and external highly consistent, and it will report improvement in the risk rating among foreign investors. Moreover, international comparability also benefits the industrial and capital markets in the country which leads to a better economy within the country.

## Conclusion

From the debate above it is very clear that conversion to IFRS from Indian GAAP will cause difficulties but at the same time, considering the advantages that this adoption will confer, the migration to IFRS is strongly recommended because the measures taken by ICAI and others to converge to IFRS are creditable and create the notion that the country is can deal with convergence. Keeping in mind 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. A systematic approach is necessary to make all participants ready for the change and the standards ready for renovation.

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