‘A Study of IFRS in India – Its Challenges’

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Abstract:

Financial reporting should be done by adopting accounting standards with transparency and trust. Globalization has laid down a way for all the countries to adopt a single set of accounting standards. IFRS are the globally accepted accounting standards and interpretations adopted by the IASB. India has decided to adopt the IFRS by April 2011. Therefore the knowledge of IFRS and their impact on financial sector should be assessed very carefully along with its problems and challenges. For successfully implementation of IFRS Indian context would be the level of regulatory sponsorship, the appropriate level of investment in systems and process and consistency in market practices for areas where judgment in critical. The financial impact of convergence with IFRS will be significant for financial sector in India. An attempt has been made in this paper some significant challenges in adoption of IFRS in finance sectors. IFRS is to create comparable, reliable and transparent financial statements that will facilitate greater cross-border capital raising, trade and better corporate governance practices. The paper examines the need of IFRS. The purpose of the study is to discuss the problems and challenges to be faced by the stakeholders. The final aim of the study is to see the impact on Indian financial sector.

Keywords: *ICAI, IFRS, NACAS, Financial Statements, Globalization.*

Introduction:

The objective of financial statements is to provide information about the financial position, performance and cash flows of the firms that is useful to a wide range of users in making economic decisions. A financial reporting system supported by strong governance, high quality standards, and firm regulatory framework is the key to economic development. It is in this context that an independent, global standard-setting body such as the International Accounting Standards Board (IASB) has to play the important role. Globalization has laid down a way for all the countries to adopt a single set of accounting standards. More than 100 countries (including India) have recognized the importance of convergence with the IFRS. IFRS are the globally accepted accounting standards and interpretations adopted by the IASB. India has decided to adopt the IFRS by April 2011. Therefore the knowledge of IFRS and their impact on financial sector specially in banking sector should be assessed very carefully. For successfully implementation of IFRS Indian context would be the level of regulatory sponsorship, the appropriate level of investment in systems and process and consistency in market practices for areas where judgment in critical.

Objectives: The objectives of the study are given below:

1. To know and understand the concept of IFRS.
2. To observe the financial impact of convergence with IFRS for financial sector in India.
3. To see the role of ICAI.
4. To find out the utility of convergence with IFRS in India.
5. To study the problems and challenges faced by Indian Companies.

Research Methodology: This research paper is purely based on secondary data. On the basis of published data in magazines, books, annual reports, information available through websites this paper is presented to you.

Data Analysis:
IFRS: Concept and Meaning: The International Financial Reporting Standards are prepared and developed by the International Accounting Standard Board. The Institute of Chartered Accountants of India (ICAI) set up the Accounting Standards Board in 1977 to prepare accounting standards. In 1982, ICAI set up the Auditing and Assurance Standards Board (initially known as the Auditing Practice Committee) to prepare auditing standards. ICAI became one of the associate members of the International Accounting Standards Committee (IASC) in June 1973. ICAI also became a member of the International Federation of Accountants (IFAC) at its inception in October 1977. While formulating accounting standards in India, the ASB considers IFRS and tries to integrate them, to the extent possible, in the light of the prevailing laws, customs, practices and business environment in India. International Financial Accounting Standards (IFRS), previously called as International Accounting Standards (IAS) are the Standards, Interpretations and Framework for the preparation and presentation of financial statements adopted by the International Accounting Standard Board (IASB) IAS was issued in 1973 and 2001 by the board of the Internal Accounting Standard Committee (IASC). On 1st April 2001 the new IASB took over the responsibility of setting International Accounting Standards from IASC. It is a set of international accounting and reporting standards that will help to harmonize company financial information, improve the transparency of accounting and ensure that investors receive more accurate and consistent reports. The entire world has recognized the need for convergence of accounting standards and is moving towards its implementation. The target date for convergence to IRFS in India is given under:

- Companies with net worth of Rs. 1000 crores and those which are part of BSE sensex, NIFTY and companies listed in overseas exchange: April 2011.
- All companies with a net worth between Rs. 500 – 1000 crores and Banks and Non Finance Companies : April 2013
- All listed companies with a net worth of Rs. 500 crores or less: April 2014.

India is on the verge of converging with IFRS with a view to bring about uniformity in reporting systems globally, enabling businesses, finances, and funds to access more opportunities. The Ministry of Corporate Affairs (MCA) in its press release dated 25th February 2011 had notified 35 Indian Accounting Standards converged with IFRS (known as **Indian AS**). The MCA will implement the Indian AS in a phased manner after various issues (for example tax related issues) are resolved with the concerned departments/authorities. Though, there has been considerable delay in the implementation of these standards, efforts are on the run. The newly revised Schedule VI which is based on IAS 1 is a clear evidence of being optimistic on convergence with IFRS.

Need for IFRS in India: Due to LPG, many multi-national companies are establishing their businesses and branches in various countries. The organizations in the current scenario are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are becoming integrated globally. More and more Indian companies are now being listed on overseas stock exchanges. The aim has always been to follow the IFRS, to the extent possible, while formulating the Accounting Standards. However, there is a difference between AS and IFRS due to various reasons. Some of the reasons are as follows:

- There is a conceptual differences between AS and IFRS.
- Indian firms and companies are not mentally prepared to accept and adapt IFRS.
- Indian economic environment is different than other global countries.

- To maintain consistency with the Legal and Regulatory Requirements

Need for Convergence to IFRS: In the present scenario of LPG financial reporting standards requires a constant review to maintain the pace with the fast changing global economic environment. In India financial reporting is in the stage of transition. In our country many changes are being introduced for convergence of international accounting standards. The Institute of Chartered Accountants of India has issued a paper on convergence with International Financial Reporting Standards (IFRS) to promote International Accounting Standard Board's (IASB). IFRS are globally accepted accounting standards and interpretations adopted by IASB. The Standards, which are a part of IFRS and issued by the board of International Accounting Standards Committee (IASC) before 2001, are known as International Accounting Standard (IAS). In April 2001 the IASB adopted all IAS and developed them by renaming as IFRS. These IFRS refer to the new series of the pronouncements that the IASB is issuing, as distinct from the IAS series issued by its predecessor. IFRS comprise:

- IFRS issued after 2001.
- IAS issued before 2001.

Role of ICAI: The IFRS are classified into five categories. Hence ICAI adopted two approaches to meet convergence with IFRS.

(A) Stage wise approach: In the first stage, category I of IFRS, the convergence will come immediately. Category II and III will come in convergence after fulfillment of technical knowledge during the second stage. In the third stage the convergence will come after the change in law or regulation i. e. category IV and in the last stage convergence is applicable to category V with full adoption.

(B) All at once approach: The ICAI is of the opinion that it would be difficult to follow the stage wise approach. Hence ICAI finally decided to adopt IFRS from 1st April 2011 by constituting a committee of core group for smooth implementation of convergence process of IFRS.

Utility of convergence with IFRS: The adoption of IFRS will greatly affect on financial sector of India. Implementation of IFRS will definitely boost Indian economic environment.

1. The convergence with IFRS will definitely reduced the cost of preparing financial statements. There is no need to prepare separate set for each country. One set of financial statement is now applicable to all countries in the world.

2. The pressure and load of preparation of financial statements will be minimized due to global acceptance of IFRS.

3. The convergence with IFRS will boost the confidence level of Indian investors. Due precaution has been taken in IFRS about the rights of the investors.

4. Accounting information will be more reliable and comparable due to IFRS. This information will help investors to explore investment opportunities easily and quickly due to global acceptance of IFRS.

5. Due to the convergence with IFRS the growth of Indian business will increase. Simultaneously there will be increase in the growth of business globally.

6. It will be easy for firms and companies to borrow the funds from the domestic market. Funds will be raised from foreign markets at a lower cost.

7. Foreign currency will be available from overseas market with increased inflow. At the same time the investment will also be increased due to IFRS.

Problems and Challenges faced by Indian Companies: The accounting system in India is regulated and affected by various laws and regulations. Changes are required to be made in various regulatory requirements under the Companies Act, 1956, Income Tax Act, 1961, SEBI, RBI, etc. After the change or amendments in these laws and regulations then and then only IFRS financial statements are accepted globally. It is said that the USA will probably adopt IFRS in 2014 and Japan in 2015. The corporate are not ready to accept a convergence immediately. Political pressure and disturbances are also the reasons for the pending cases in various amendments in laws and regulations.

Challenges for banks and non-banking financial companies: In respect of banks and NBFCs, the convergence process would be from period beginning April 1, 2013. This gives the banking system some time to adapt to the standards as per IFRS. Some of the major changes pertain to certain critical areas such as classification and measurement of financial assets, classification and valuation of liabilities, impairment provisions and fair value measurement. One area of concern has been the drawback of the incurred loss model of IAS 39 and the need to introduce more forward looking provisioning. Banks would need to upgrade their infrastructure, including IT and human resources, to face the complexities and challenges of IFRS. Some major technical issues arising for Indian banks during the convergence process would be differences between the IFRS and current regulatory guidelines on classification and measurement of financial assets.

Challenges for non-accounting issues:

- Data integrity and data validity would be of critical importance especially due to data intensive requirements of IFRS converged standards.
- Maintaining ethical standards and values is a key part of financial reporting. Without a strong code of ethics and adherence to those ethics, financial reporting would fail to inspire and ensure public and investor confidence in entities. Professional bodies have codes of ethics for their members and disciplinary procedures for those who infringe upon these rules.
- Adaptability and compatibility of existing IT solutions used by banks to the new requirements imposed by IFRS convergence is also a major challenge.

Major Challenges:

- ✓ It is very difficult in India to bring the awareness among the people about IFRS and its impact and a challenging task. There are no similarities between IFRS and GAAP.
- ✓ The reconciliation of GAAP is also difficult. Reconciliation of ongoing unaudited financial statements involves huge amount and it is costlier matter to Indian firms and companies.
- ✓ It is essential to provide training and education to the people for the smooth implementation of IFRS. Currently, there is lack of training and education programs about IFRS.
- ✓ In India, various regulatory bodies, laws and authorities are taking care of financial reporting requirements. There is no coordination among these authorities. In such case it is very complicated to implement IFRS that requires change in laws, rules and regulations.
- ✓ In the current scenario, there is no coordination between Indian Tax Laws and Accounting Standards. To implement IFRS, it becomes mandatory to make the changes in Indian Tax Laws.
- ✓ The corporate sector has to ensure to make modifications to suit the reporting requirements of IFRS. The IT system should be redesigned as per the new requirements.
- ✓ IFRS focuses on fair value or true value to measure the transactions of financial statements. Truly speaking it is very challengeable job to calculate the fair value and it is a hard task to the professionals.
- ✓ As per the requirement of IFRS, it is necessary to re-negotiate the contracts of Indian firms.

Conclusion: In the era of LPG accounting professionals and economic decision makers are realizing the fact that day-by-day reporting requirements, the information are changing very quickly. Globalization has laid down a way for all the countries to adopt a single set of accounting standards. More than 100 countries (including India) have recognized the policy of convergence with the IFRS. India has decided to adopt the

IFRS by April 2001.Therefore the knowledge of IFRS and their impact on financial sector specially in banking sector should be assessed very carefully. Training, education and skill development is one of the cornerstones of a successful IFRS implementation. All the stakeholders would need to develop and understanding of IFRS provisions to varying degrees and what they need to do.

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