Opportunities and Challenges in the convergence of IFRS in India

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Abstract
As the trade in India is continuously increasing and reaching to outside India, the compliance and reporting necessities move too. It is hard to present the financial Reports of an organisation in accordance with the requirement of that country where the company exist. International Financial Reporting Standards (IFRS) set universal rules to ensure integrity, consistency and standardization of financial results throughout the world. The International Accounting Standards Board (IASB) has developed and implemented IFRS. These indicates that businesses must keep and report their Financial transactions and other Monetary events with financial impact. In 2005 EU Formally adopted IFRS. Later on many countries adopted or converged with IFRS. India too started converging with IFRS. This paper will pinpoint the problems faced by Indian Companies while converging to IFRS.

Introduction
IFRS usually called International Financial Reporting Standards and were approved by IASB (Standard Committee for International Accounting) to provide a common Accounting language to every business organisation throughout the world to ensure Consistency and reliability in reporting. The Board of International Accounting Standards was formed in the year 2001 and is the freelance standard-setting body of the IFRS a non-public sector, not-for-profit organisation who was operating for the interest of public.

The International Accounting Standards Committee (IASC) was set up by accounting bodies representing ten distinct nations in June 1973. It created a strategy and released International Accounting Standards, interpretations and a conceptual framework. In 2001 the International Accounting standard board IASB Substituted the IASC by converging accounting norms to worldwide accepted accounting norms which can be used by every nation. The new Board embraced current norms of the IAS and Standing Interpretation Committee (SICs) during its first session. The International standards for financial reporting have continued to be developed by the Committee on International Accounting Standards.
In 2002, the European Union (EU) agreed that The International Standards for Financial Reporting would apply from 1 January 2005 for the consolidated accounts of the listed EU companies, resulting in the introduction of IFRS to many large entities. Other nations have followed the EU's lead since then.

In the year 2007 India announced its full adoption of IFRS in stages by twenty eleven. First stage will include entities that are members of Nifty 50 Index, Sensex 30, firms that have shares or other securities listed on securities exchanges Across India and businesses (It may not have been listed) with a net value of more than Rs 10 billion.

As of April 01,2011, the businesses involved in these stages will made an opening Statement of Financial Position in accordance with the converged IFRS norms and from that date it will follow the converged IFRS norms.

The second stage will cover companies (that might not have been listed) with a net present value exceeding Rs 5 billion which is less than Rs 10 billion. Such companies shall prepare an opening Statement of Financial Position in alignment with converged IFRS norms and shall comply with converged IFRS regulations from that date.

Scholars have expressed different views on the usefulness of adopting IFRSs worldwide as A unified set of standards for reporting. This opinion of scientists is supported by existing literature that adopting IFRS as a consistent set of rules for reporting increases the reliability of economic data as well as guarantees timely recognition of losses.

**Review of Literature**

Loyeung et al., 2016 found different execution flaws in their research. It also finds that execution costs have risen because of the absence of accessibility of IFRS Specialists. Along with that training costs and auditors, the cost has also increased.

Baig and Khan, 2016 analysed in their analysis that there is steady decline in the earning management of 100 public limited companies listed on Karachi stock exchange listed companies.

M. Muniraju and Ganesh S.R., 2016 in their research findings reveal that adopting IFRS would be more useful to draw the attention of international capital market. As well as he findings shows that the participants were not consciously aware of IFRS, which generates a hurdle to IFRS implementation in India. The article proposed that for smooth transformation, lectures, seminars and activities should be held.

Abedana and Gayomey, 2016 addresses in their research the tax difficulties experienced when IFRS was adopted. Ghana has faced various issues such as measurement of fair value,
cost, Absence of skills and knowledge of Professional Accountants and CA’s in IFRS adoption.

**Abbasi, 2015** concluded in their research that a few ratios showed a growing pattern after adopting IFRS and a few of them showed inverse effect. Cost of implementation has increased and due to fair value measurement the treatment of sale of investment is different in IFRS and GAAP.

**Fathima, 2015** discussed in their research paper the difficulties like GAAP & IFRS variantsions, education and training, Tax and Regulatory factors etc.

**Chakrabarty, 2014** discussed in their article the Ind AS conceptual models and discovered that IFRS is essential for reporting of great quality by Indian corporations and its importance in the age of Industrialization and privatization.

**Sambaru and Kavitha, 2014** discussed in their study, the various benefits and challenges. These issues need to be addressed urgently and Indian corporate & accounting experts are improving their readiness to implement IFRS effectively in India.

**Akhter, 2013** Examined the results of the IFRS Consciousness amongst Kashmir PG learners. Most learners were unaware of the even complete form of IFRS, ideas, convergence, implementation process and distinction between GAAP and IFRS. He suggested that accounting learners need to have a good deal of education and knowledge on IFRS for adequate enforcement and comprehension.

**Pohane (2012)** reviewed that the housing industry remains a great illustration of the variations that may emerge from applying and interpreting seemingly simple accounting standards.

**Gopichand B (2012)** in their study GAAP & IFRS, found the Adoption mechanism for IFRS and analysis of difference between GAAP and IFRS.

**Rai (2012)** in their study reveals the various Difficulties and issues affecting the companies on first time acceptance of IFRS in India caused by the lack of expertise, cost and awareness etc.

**Devalle et al (2010)** The study of the adoption of IFRS by 3721 companies listed on 5 European trading platforms increased the influence of total income on a company's shares.

**RESEARCH METHODOLOGY**

The research is mainly qualitative in nature and does not use any quantitative tool for data analysis. It was carried out primarily on the grounds of study of literature and secondary information.
OBJECTIVES OF THE STUDY

The objectives of the paper are the following:
1. Explore the current IFRS convergence environment in India
2. To examine the opportunities in implementing IFRS
3. To analyse the problems faced by Indian corporates due to the convergence of IFRS with Indian Accounting Standards.

SOURCE OF DATA

In writing this paper, various newspapers, newspaper articles and magazines have been referred to.

OPPORTUNITIES TO INDIA IN ADOPTING IFRS

Capitalist economies rely heavily on overseas transactions and the steady flow of international finance. More than one-third of all financial transactions take place across continents and this level is projected to grow. Folks are looking for prospects to long term growth and investment around the global economy, while multinationals raise capital, actively participate in transactions or have global operations and subsidiary companies in different nationalities. This research will attempt to link a few of these and some other advantages to companies in India as well as India as a nation.

Access to Global Market

India is gaining momentum as a diversified economy on the chart of the world economy over the past decade. Companies in India are expanding their business all over the world in the form of merger and acquisition, for this they need funds at cheaper rates which can be taken from other countries like American, Japanese and EU financial markets. To be able to accommodate these prerequisites, India needs to Publish their financial reports according to the legal framework of these countries. So, acceptance of IFRS is not only helping Indian companies to reach Global but also give them liberty to raise funds at cheaper rates from foreign countries.

Comparison

As Indian Companies are working across the world, and all other companies are using IFRS so adoption of IFRS will enhance the confidence between the foreign investors. Moreover, the comparison between two become easier. It will be simpler for foreign investors to contrast the financials using same set of accounting rules. Because Indian corporate entities are trying to raise money via people from other countries, so they need to report their financial statements to stakeholders and lenders. So preparing statements in lines with IFRS will provide Indian Companies a better access to these money markets.
**Easy Cross Border Listing**

As Indian Companies are raising funds from European markets with plans to integrate. They need to get themselves listed on European markets. So resenting financial statements in conjunction with IFRS will help them to get listing on European capital markets.

**Quality of Reporting**

The integration of IFRS will improve the reporting reliability in India owing to consistent introduction of standards of accounting and transparency, which strengthens the trustworthiness of accounting reports. IFRS is primarily focused on a fair value principle which can facilitate the Indian firms to highlight the relevance of their assets held in the Annual Reports.

**Elimination of Multiple Reporting**

Many Indian Businesses like TATA, Birla and Reliance are quoted in European markets along with in Indian markets. So, they are preparing annual statements according to the Indian GAAP and as per the requirements of these countries as well. IFRS implementation would minimize numerous disclosures by following a single standard of accounting principles.

The above strengths are the purported positive effects of IFRS enforcement in India. Scholars has yet to study and comprehend the additional opportunities. India has still to reach the IFRS age of enlightenment. This needs future research possibilities on the positive and negative effects on Indian Manufacturers after adoption of IFRS on the Indian economic system.

**IMPLEMENTATION ISSUES AND CHALLENGES IN INDIA**

The adoption / conversion of IFRS will benefit sectors in numerous respects while the method of conversion has some problems and the method of execution becomes complicated. These above are the obstacles that Indians industries may face.

**Awareness of International Financial Reporting Standards:**

After the implementation of IFRS, the Complete set of financial disclosures procedures must endure an intense shift. It would be a challenge to create awareness among the different stakeholders of financial statements, as the literature shows even some of the users even not aware about the full form of IFRS.

**Lack of Training**

To assure the effective application of IFRS, professional accountants are looked at. Also ultimately responsible for a smooth adoption process of IFRS in India. All accounting officials, auditors and CEO’s need great amount of training of IFRS adoption. India is lacking in fulfilling the gap between the knowledge of these officials. As literature shows that there is
a huge glut of IFRS academic courses in India. The ICAI has started a learning programme for its members and other large business corporations.

Changes to existing Law

Accounting practices in India are predominantly regulated Companies Act 2013, and the (GAAP). Existing regulations such as SEBI regulations, Indian Banking Laws & Regulations, Foreign Exchange Management In fact, the Act gives instructions on the processing of financial results in India. IFRS is indeed not acknowledge the existence of these legislation and Accountants will have to comply completely with these legislation without any overriding regulations. Legal Authorities of India needs to make certain modifications making the transition to IFRS seamless.

Fair value measurement

Fair value is considered by IFRS as a foundation for measuring most items of financial reports. It can give the financials a lot of uncertainty and rationality. It often requires a high level of technical expertise in obtaining the fair value. Furthermore, fair value variations that expressed in the declaration of profit.

Adoption convolution

Conversion of IFRS is going to improve the difficulty through incorporating principles such as present value and calculation of fair value. The application of accounting transactions in the IFRS context is distinct in IND AS like treatment of the valuation for contracts, treatment of lease, charge payable on redeemable debentures, discount provided on debenture issuing, commission for the refinancing of debentures etc. This leads in a complication to comprehend the financial statements.

Taxation

IFRS implementation will influence some elements of Financial reports and therefore tax commitments would also be subject to modify. At the time the Accounting Principles are not acknowledged by Indian tax authorities. The difficult challenge facing Indian legislators is a full restructuring of tax legislation. Enough modifications in tax legislation are to be made to guarantee that tax administrators acknowledge IFRS-compliance financial statements. Else it will duplicate the clerical work of the organization.

Time consuming process

Approximately ninety percent of corporates in the European Union and Australia took quite a while to complete the IFRS Transformation and about forty percent took over two decades to complete. Government of India delays the migration to IFRS. ICAI performs a crucial task in harmonizing as well as putting forward the execution strategy, but only a few corporations have reported their accounts accordingly. The government has announced a new proposal for
mandatory adoption of IFRS but we were too late at that time. It is time consuming because set of financial statements needs to prepare.

Cost of convergence

The International standards for financial reporting convergence is cumbersome due to deficiency of specialist and professionals, For the first time, clients, dual annual reports are required to comply with is the precondition. So if a company does not have such extremely experienced employees, they need to consider taking the facilities of outsiders which leads to increase in their cost in the form of service charges, audit fees, system change charges etc.

All the problems listed here can be solved by putting in place a correct system internal inspection and monitoring. In India, companies, trading platforms and regulatory bodies must start taking a couple of extra guidance from the nations that already implemented the IFRS and having comparable financial, Socio-political circumstances.

CONCLUSION

The shift to Indian GAAP to Ind AS is a quiet complicated path, Although at the same time moment it has profited handsomely to the customers in general. financial Statements reported in line with IFRS increases comprehensibility, coherence, interoperability and replacement of the dual set financial statements of entities operating outside India. The effective implementation process require complete change in the system of maintaining Financial records so it is the responsibility of government as well as company professionals to implement the change for a good cause. All the accounting professionals need a greater knowledge for the smooth functioning of IFRS implementation. The consequences of IFRS, furthermore, is quite long bridge-functional for business organisations. Indian companies that have compiled their traditional cost accounts will have a hard time switching to fair value accounting. In order to harmonize and converge with global norms, extensive research is needed.

SUGGESTIONS

Based on the above observation, few suggestions can be made in Indian Context for the smooth execution process of IFRS.

1. More training programs should be on a continuing basis for accounting professionals. IFRS must be incorporated in the curriculum so that students are conscious of global standards and are consistent with the atmosphere of change.

2. Proper Trainings and workshops should be provided by ICAI to Accounting professionals as well as to the other interested parties.
3. Higher management of Indian corporations should initiate and establishes learning environment in order to facilitate them qualified, IFRS training/workshops should be given for their accounting team.

4. Taking into consideration the complexities of IFRS companies, the transition process should begin with a favourable approach within the time frame

5. Third parties like foreign investors and lenders should be familiar with the annual reports prepared based on IFRS in order to comprehend and analyse the financial data according to their own.

References


