



INTERNATIONAL FINANCIAL REPORTING STANDARDS CONVERGENCE: BENEFITS AND CHALLENGES IN INDIA

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ABSTRACT :

International Financial Reporting Standards (IFRS) has made drastic change in the process of the financial reporting, in particular the continuing adoption of IFRS. IFRS are the globally accepted accounting standards and interpretations adopted by the International Accounting Standard Board (IASB). An upcoming economy on world economic map, India, too, decided to converge to international financial reporting standards (IFRS). In India, Institute of Chartered Accountants of India (ICAI) has decided to adopt the IFRS by April 2011. IFRS are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. IFRS is becoming the global language of business. IFRS is useful to improves the financial statement comparability and transparency that helps to attract greater cross border investments. This paper focuses on the convergence of IFRS with Indian Accounting Standards, Challenges faced in the process of implementation of IFRS and benefits by adopting there kinds of international practices.



KEYWORDS : IFRS, Financial reporting, Global, Financial Statement, Comparability, Transparency, Benefits, Challenges.

1. INTRODUCTION:

International Financial Reporting Standards (IFRS), formerly known as International Accounting Standards (IAS) are the Standards, Interpretations and framework for the Preparation and Presentation of Financial statements adopted by the International Accounting Standards Board (IASB). International Accounting Standards was issued in 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). On April 2001 by the new IASB took over the responsibility of setting International Accounting Standards from IASC. It has since then continued to develop standards called as the new standards IFRS. 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.

Globalization has changed the close economy into open economy. Now a day's national economy is integrating in international market with other countries by spreading their trade and business outside their own country. IFRS are high quality, understandable, enforceable and globally acceptance accounting standards issued IASB. Accounting standards were prepared for some benefits in global market which are compelling.

The use of common set of accounting standards throughout the world provides an easy way of comparability and transparency of financial information. It also reduces the cost of preparing financial statements. A constant use of accounting standards provide higher quality information which enables the investors to make a better decision, indirectly fund will allocate in more efficient in the market and the company can reduce cost of capital.

2. REVIEW OF LITERATURE :

Abhinaya L. P., Vidyashree N. S. and Manu H. (2016), They focused on "IFRS in India - Its Impact on Indian Corporate Benefits and Challenges." In their article they opined that India adopting the international financial reporting standards (IFRS) can not only ensure justice to investors but IFRS bring opportunity for the country to emerge as the dominating force in the new accounting standards. IFRS it is one of the roadmap to transition it can bring great benefits to global capital market. It is based on understandability, reliability, relevance and comparability. IFRS also enables companies become more transparent in disclosure. Babu R. Muni Narendra J. and Venkateswarlu M. (2016) They studied on IFRS in India : Problems and Challenges". The main focus of the study was conversion from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended because the measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS are creditable and give the position idea that the country is ready for convergence. IFRS is more a principle based approach with limited implementation and application guidance to all accountants have to participate and contribute effectively to the convergence process so the need is to have a systematic approach to make the organization and the investors ready for the change and for the renovation. It also studied the structure of IFRS foundation the esteem organization which involved in the process of internationalization of accounting practices.

M. Muniraju and Ganesh S. R. (2016) Made a study on 'A study on the impact of international financial reporting standards convergence of Indian corporate sector'. In their article they opined 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 instrument, explain the changes within they accounting ratio. Adoption of fair value accounting rules and requirements of certain accounting issues are the reasons for the changes observed in accounting figures and financial ratios. The paper suggested that conferences, seminar and events should be held to makes it better understanding for smooth conversion.

Achalapathi K. V. and Bhanu Sireesha P. (2015) A study made on "Impact on IFRS adoption on Financial Statements of Select Indian Companies". In the article they discussed that each country using a version of their own Generally Accepted Accounting Principles, is known as GAAP. The firms also prepare their financial statements in accordance to the GAAP that applies to them. Under such circumstances various questions arises but IFRS based on transferency, under relevance and comparability, it is impact of uniformity for preparation of financial statement as well as profitability, capital structure, efficiency and liquidity considered pre and post IFRS adoption stages.

Srivastava Anubha and Bhutani Purna (2012) Made a study on "IFRS in India : Challenges and Opportunities". in their article they found that, the main objective is to find out up to what extent IFRS has been adopted by the organizations, what challenges and opportunities companies are facing regarding IFRS and what measures to be taken to make the smooth process of IFRS. The paper focuses on the awareness and adoption of IFRS in India.

3. OBJECTIVES OF THE STUDY :

- 1) To study the need of International Financial Reporting Standards.
- 2) To study the concept of International Financial Reporting Standards.
- 3) To study the beneficiaries of convergence with International Financial Reporting Standards.
- 4) To study the challenges of International Financial Reporting Standards.

4. RESEARCH METHODOLOGY:

The present study is based on secondary data which is collected from various publications, journals, magazines, reference books, internet and annual reports etc.

5. NEED OF THE IFRS :

There is a need of International Financial Reporting Standards because IFRS are high quality, understandable, enforceable and globally acceptable accounting standards issued by International Accounting Standard Board. The objectives of issuing these standards is to achieve a single set of high quality, common accounting standards that is practiced all around the world. So, as to facilitated transparency of financial information. This is frame work that establishes recognition, measurement, presentation and disclosure requirement relating to transactions and events that are reflected in the financial statements.

- IFRS has to make a common platform for better understanding of accounting.
- To create comparable, reliable and transparent financial statements.
- To synchronize the accounting standards across the globe.
- To increase and improve foreign investments.
- It is useful to increase the industrial growth.
- It is helps to remove information of flow barriers.

6. CONCEPT OF IFRS :

"A single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions".

At present, Accounting Standards Board (ASB) formulates and issues accounting standards in India which are more or less in line with IFRS except for a few instances where departure is necessary to comply with the legal, regulatory and economic environment. Council of the Institute of Chartered Accountants of India (ICAI) opined in May 2006 that adopting IFRS was considered and supported by the ASB. IFRS task force was set up to provide a road map for convergence and it decided to converge with IFRS from the accounting period commencing on or after 1 April 2011. In India, Ministry of Corporate Affairs carried out the process of convergence of Indian Accounting Standards with IFRS after wide range of consultative process with all the stakeholders.

Adopting IFRS in India is going to be very challenging by Indian corporate but at the same time Indian corporate are likely to get significant benefits from adopting IFRS.

At the present time IFRS are harmonizing as a financial reporting language across the globe. Over a 100 countries in the Europe Union, Africa, Most-Asia and Asia-Pacific region either require or permit the use of IFRS. In India recently ICAI released a concept paper on convergence with IFRS in India; it includes the detail of strategy for adoption of IFRS in India with effect from April 1, 2011. Ministry of Corporate Affairs had also confirmed the agenda for convergence with IFRS in India by 2011.

7. IFRS - IN INDIA :

The drastic change in the economic environment in India during last decade has led to increased attention towards accounting standards as a means to ensuring potential and transparent financial reporting by the corporate entities. ICAI, as a premier accounting authority in our country, playing a leadership role by establishing ASB, more than two and half decades back, to fall in line with the national and global expectations. In the present scenario the accounting standards issued by the ICAI have come a long way. The ICAI as the accounting standard - formulating body in the country has always made efforts to setup high quality accounting standards and the institute is quite successful in doing so. Indian Accounting Standards established by the institute have withstood the test of time. With the continuous globalization, has given rise to the discussion on convergence of national accounting standards of ICAI with International Financial Reporting Standards. Today, the ASB of ICAI formulates the Accounting Standards based on International

Financial Reporting Standards. However, these accounting standards have remained sensitive to local conditions, including both the legal and economic environments. Likewise, Accounting Standards issued by the institute (ICAI) depart from corresponding International Financial Reporting Standards with a view to ensure consistency with legal and economic environment of India.

8. BENEFICIARIES OF CONVERGENCE WITH IFRS :

The researchers have pointed out several beneficiaries to the convergence of Indian Generally Accepted Accounting Principles (GAAP) with IFRS. Some of them are discussed here below.

1) The Investors :

Convergence of Indian Accounting Standards with IFRS makes accounting information more reliable, relevant timely and comparables across different legal and economic frameworks and requirements since it would be prepared by using common set of accounting standards which will be useful to the investors who are willing to invest in the countries apart from India. It is also useful to develop better understanding of financial statements worldwide which increase the confidence among the people as investors.

2) The Industry :

It is very useful to the researchers came across is the industry which in the event of convergence with IFRS will be benefited because of some basic reasons. It will enhance confidence in the minds of foreign investors, it decreases the burden of financial reporting, and it would make the process of preparing the individual and group financial statements easier and simplest, as well as it is important that this will reduce cost of preparing the financial statements using different sets of accounting standards.

3) Accounting Professionals :

However, at initially there are many problems but convergence with IFRS would surely benefit the accounting professionals and it will be helpful to them to sell their talent and expertise across the globe.

4) The Corporate World :

Convergence with IFRS would build the reputation of the Indian Corporate world with the international financial entities. The corporate entities back in India would be benefited because of several reasons. The higher level of consistency will be maintained between external and internal reporting it will improve the risk rating and makes the corporate world more and more competitive globally as their comparability with the global competitors will increase.

5) The Economy :

IFRS would help industry grow and is beneficial to 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 the foreign investors. The international comparability is also benefiting the industrial and capital markets in the country which lead to better economy across the country.

9. CHALLENGES OF IFRS :

1) Lack of Training : Lack of training and academic knowledge in IFRS, it is one of the challenge in Indian economy. So, it is very necessary, adequate training should be given to the stakeholders, officers, auditors, Tax authorities. Then only it can be uniformly understood and consistently applied.

2) Awareness of International Financial Reporting Standards : The whole set of financial reporting practices to undergo a extreme change after the adoption of IFRS to overcome the number of differences between the GAAP and Ind AS. The adequate knowledge of IFRS is still limited to few numbers of people in India. Such lack of awareness about these standards is one of the major challenge faced by Indians.

3) Requirement of Amendments in Regulations : It has been observed that there are lot of inconsistencies with existing laws and it becomes the hurdle for smooth implementation process. So, there is need to amend our existing rules and regulations, adequate changes must be made in order to follow IFRS. Thus, legal constraints are major challenge would be faced.

4) Use of Fair Value Measurement : IFRS consider fair value measurement base for valuing most of the items of financial statement. The use of fair value accounting can bring a lot of volatility and subjectivity in financial statement. It also involves a lot of knowledge and expertise in arriving at the fair value. Fair value

results in gains or losses which are reflected in profit and loss accounts. Indian corporate entities which prepare financial statements on historical costs will need to have enough time for shifting into fair value accounting.

5) Complexity in Adoption : Converting to IFRS will increase the complexity with the introduction of concepts such as present value and fair value measurement. In IFRS framework, treatment of various accounting transaction is different in IND AS like treatment of lease, premium payable on redemption of debentures, discount allowed on issue of debentures, underwriting commission paid on issue of debenture etc. it results a complexity to understand the income statement.

6) Concerned with Small Manufacturing Sector : Scarcity of resource and lack of expertise with SME (Small manufacturing sector) act as a barrier for the process of convergence to IFRS. As for as SME are concerned, cost would surpass its benefits as a result of convergence with the IFRS. Hence, it act as a challenge.

7) Time consuming process :

In India, IFRS adoption is delayed by the government. ICAI plays vital role to harmonization and proposed implementation plan but only few companies prepared their financial accordingly, Government announced another phase wise implementation plan later. So in this way we are too late. IFRS implementation is a time consuming process for first time users due to dual set of financial statements are prepared.

10. SUGGESTIONS :

On the basis of the above observation there can be few suggestions for the smooth implementation process of IFRS.

- To organize more training programme for accounting professionals on regular basis.
- Top management of companies should provide the IFRS training / workshops to their accounting staff to enable them familiar and competent.
- Proper awareness should be given about IFRS and the need to converge the same to stakeholders.
- Necessary modification should be made in governing business and laws.

11. CONCLUSION :

Convergence of IFRS with the Indian Accounting Standards will ensure greater creditability in the international capital market. IFRS by Indian corporate is going to be very challenging but at the same time it could also be rewarding. Indian corporate is likely to reap significant benefits from adopting International Financial Reporting Standards. IFRS are high quality, understandable, enforceable and globally acceptable accounting standards issued by International Accounting Standard Board (IASB). IFRS designed common global language for business affairs so that company accounts are understandable and comparable across international boundaries. International accounting standards stating how a particular type of transaction and other event should be reported in the financial statement. The process of convergence has making a slow but steady progress in India and is expected to have a common set of high quality standards in adoption. There are several challenges that we come across while converging to IFRS but the benefits from the same are worthier than that of its challenges. The impact of IFRS is truly cross-functional for business units. Accounting statement prepared according to IFRS enhance under stability, uniformity, comparability and transparency A continuous research is required to harmonize and converge with the international standards

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