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IFRS AND ITS IMPACT ON INDIAN CORPORATES

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ABSTRACT

Financial reporting is as old as existence of Joint Stock Companies. The need of financial reporting arises due to separation of ownership and management of the companies. In India financial reporting is regulated by the enactment of the Chartered Accountants Act, 1949 and The Companies Act, 1956 and earlier Companies Act. For long time Indian Corporates were working in the separate isolated compartment, somewhat immune from global environment and reporting was concentrated within the needs of domestic arena only. ICAI with issuance of Accounting Standards was successfully able to standardise the Indian Reporting System. With the popular LPG reforms a new era of competitive environment was thrown open to Indian corporates, which not only led to consolidation of Indian corporates with foreign multinational and transnational organisations, but also required Indian reporting system to sync with global standard to facilitate comparison among all global business entities. International Financial Reporting Standards (IFRS) provides a standardised reporting system to facilitate easy comparison of different business entities to serve unique needs of its various stakeholders. This paper discusses the needs for IFRS, its adoption procedure in India and the utility for India in adopting IFRS, the problems and challenges faced by the stakeholders and its impact on India. Further, this paper also tries to bring about the ways through which these problems can be addressed.

Keywords: *IASB, Financial Reporting, IFRS, the Companies Act, 2013, IND-AS*

1. INTRODUCTION: -

Globalization has converted many closed economies into open economies. Now a day's every national economy is integrating in international market with other countries by spreading their trade and business outside their own country. Foreign Direct Investments, Foreign Institutional Investors, Merger and Acquisition, Franchising and Business Outsourcing are some example of international transaction in global business. Apart from these, there are multinational and transnational organisations which also influence the global trade. Since accounting is the regarded as language of a business, it is necessary for the business organisations spread across the world to adopt a common set of accounting standards. Therefore,the International Accounting Standards Committee (IASC) was founded in June 1973 in London to standardise the reporting system and as a result International Accounting Standard (IAS) came into existence. IASCwas responsible for development and promoting the use of these standards. On April 1 2001,a new International Accounting Standards Board (IASB) took over the responsibility of setting International Accounting Standards from the IASC. It has since then continued to develop standards which arecalledas new International Financial Reporting Standards (IFRS). The vision for development of IFRS is to prepare 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 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 across the globeby reducing the cost of consolidation of accounts.A constant use of accounting standards provides higher quality information which enables the various accounting usersto make prudent decision which leads to overall allocation of funds in more efficient manner in the market and helps the company to reduce its overall cost of capital.

2. OBJECTIVES OF THE STUDY: -

a) To understand the concept of International Financial Reporting Standards (IFRS) and Indian Accounting Standard (Ind-AS).
b) To learn about the Roadmap for implementation of IFRS in India.
c) To bring out the advantages of convergence of IFRS.
d) To study the challenges and problems faced in the adopting of IFRS and measures taken to address the challenges.

3. RESEARCH METHODOLOGY: -

The data and material used for study is collected from secondary sources only. Apart from various published and unpublished articles,many numbers of websites arereferred in the process of collection of relevant material. Due credit is given to all the source material is given in bibliography section.

4.ABOUT INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS):

4.1 Meaning and Definition:

IFRS can be regarded as

"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"

The aim of IFRS is to bring harmony in Standard and efficient reporting practices in order to bring more transparency in reporting and generate trust in all the user of accounting information.

4.2 Need for IFRS

The challenge of international capital market is to reduce or eliminate the differences in the reporting standards, to produce a level playing field for financial reporting and to help create more efficient international capital markets.

The below are the main factors influencing the variations in national practices and regulation of financial reporting.

a) Variation in the policies of capital markets of each country
b) Variations in the legal systems of each country
c) Variation in government policies & systems
d) Variation in the type and scale of economic activity, from agricultural to financialservices and from developing economies to industrialised economies;
e) Variation in the degree of international influence and openness of an economy;

There hasalways been pressure from international community to standardise the financial reporting practice and regulations globally to minimise the inconsistencies. It is less acceptable and not preferableto report the same transactions differently in different countries. The need of having a standard financial report has become a necessity for investors and financial experts and forced companies to adopt the International Financial Reporting Standards.

4.3 Primary factors that drives IFRS globally

The below are the primary drivers encouraging the use of IFRS globally.

a) Globalisation of trade & capital markets
b) Rapid development of Information Technology and its impact on operations
c) Fast & simplified process of moving funds between countries
d) Increased investors interest in foreign investments

A significant milestone towards achieving the goal of having one set of global standards was reached in October 2002 when the Financial Accounting Standards Board (FASB), the US standard setter, and the IASB entered into a Memorandum of Understanding called the 'Norwalk Agreement'. The Agreement set out a number of initiatives, including a move to eliminate minor differences between US and international standards, a decision to align the two Boards' future work programmes and a commitment to work together on joint projects.

Since the publication of the Norwalk Agreement, the IASB and FASB (The Financial Accounting Standard Board) have been working together with the common goal of producing a single set of global accounting standards and this resulted in a further formal Memorandum of Understanding being published in February 2006.

In November 2007 the US Securities and Exchange Commission (SEC) agreed to remove with immediate effect the requirement for non-US entities reporting under IFRS (as issued by the IASB) to reconcile their financial statements to US GAAP. Prior to this announcement there was a need for US Registrants to prepare reconciliation between their financial statements and certain key figures such as earnings and net assets under IFRS with their equivalents under US GAAP.

IFRS is now accepted/ adopted in most of the countries and there is a huge increase in the number of companies across the globe moving to IFRS reporting, to make sure that their financials are comparable for investors and capital markets. Instead of adopting IFRS, India has chosen to converge with IFRS with issuance of Indian Accounting Standards called Ind-AS, which corresponds to the IFRS and IAS.

5. ROADMAP FOR IMPLEMENTATION OF IFRS IN INDIA

The Ministry of Corporate Affairs (MCA) announced on February 16, 2015 a roadmap for theimplementation of Indian Accounting Standards ("Ind AS") - India's accounting standards thatare based on and substantially converged with IFRS standards as issued by IASB. India has chosenthe path of IFRS convergence and not adoption.

The application of Ind AS is based on the listing status and net worth of a company.

The Ind AS shall be applicable to the companies as follows:

(i) On voluntary basis for financial statements for accounting periods beginning on or afterApril 1, 2015, with the comparatives for the periods ending 31st March, 2015 orthereafter;

(ii) On mandatory basis for the accounting periods beginning on or after April 1, 2016, withcomparatives for the periods ending 31st March, 2016, or thereafter, for the companiesspecified below:

(a) Companies whose equity and/or debt securities are listed or are in the process oflisting on any stock exchange in India or outside India and having net worth of Rs.500 Crore or more.

(b) Companies other than those covered in (ii) (a) above, having net worth of Rs. 500Crore or more.

(c) Holding, subsidiary, joint venture or associate companies of companies coveredunder (ii) (a) and (ii) (b) above.

(iii) On mandatory basis for the accounting periods beginning on or after April 1, 2017, with comparatives for the periods ending 31st March, 2017, or thereafter, for the companies specified below:

(a) Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred Crore.

(b) Companies other than those covered in paragraph (ii) and paragraph (iii)(a) above that is unlisted companies having net worth of two hundred and fifty crore or more but less than rupees five hundred Crore.

(c) Holding, subsidiary, joint venture or associate companies of companies covered under paragraph (iii) (a) and (iii) (b) above.

However, Companies whose securities are listed or in the process of listing on SME exchanges shall not be required to apply Ind-AS. Such companies shall continue to comply with the existing Accounting Standards unless they choose otherwise.

(iv) Once a company opts to follow the Indian Accounting Standards (Ind-AS), it shall be required to follow the Ind-AS for all the subsequent financial statements.

6. ADVANTAGES OF CONVERGING TO IFRS

Since, IFRS provides a common unified system of principle basedreporting for accounting internationally,it provides a platform for synchronization of accounting standards globally which ensures effective comparison, and more reliable and transparent financial statements. The implementation of IFRS will also help in the efficient allocation of capital globally by attracting investment through creating trust among investors by ensuring transparency which will result in reduced cost of capital and increase in overall world-wide investment. There are many advantages to various beneficiaries for convergingtowards IFRS such as the economy, investors and industries.

The Economy:The convergence to IFRS benefits the economy by increase in growth of international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby inducing economic growth. It further encourages international investment and enhances capital inflows into the country because of easy understanding and comparison of financial statements across the globe.

The Investors:The investor will be benefited in as the way accounting information made available to them will be more reliable, relevant, timely and most importantly the information will be comparable across different legal framework. IFRS would enhance the comparability between financial statements of various organizations managing business across the globe. It will develop better understanding and confidence among the investors to take better investment decisions by comparing different financial statements.

Role of Professionals in IFRS:The professional, both in practice and in employment will get benefits as they will be able to provide their services in various parts of the world. The practicing chartered accountants would get opportunities to serve international clients also and thereby increase the horizons of their service. It would furtherincrease their mobility to work in different parts of the world either in industry or practice.

Other Stakeholders:Other stakeholders of business organisations like lenders, governments, suppliers, customers and employees will be benefitted due to increase in overall transparency of the reporting of companies.

7. COMPARISON OF IND-AS WITH IFRS STANDARDS

India chooses to converge to IFRS rather than adoption of IFRS as it is. The equivalent of IFRS as issued by the Ministry of Corporate Affairs in consultation with the Institute of Chartered Accountants of India are known as Indian Accounting Standards (Ind-AS). A total of 39 Ind-AS has already been issued. The Ind-AS corresponding to the IFRS begins with serial number 101 and Ind-AS corresponding to IAS begins with serial number 1. A list of Ind-AS with corresponding IFRS/IAS is presented below: -

Notified Ind AS	Title	Corresponding IAS/IFRS
(Ind AS) 101	First time adoption of Indian Accounting Standards	IFRS 1
(Ind AS) 102	Share –based payment	IFRS 2
(Ind AS) 103	Business Combinations	IFRS 3
(Ind AS) 104	Insurance contrancts	IFRS 4
(Ind AS) 105	Non-current Assets held for sale and Discontinued Operations	IFRS 5
(Ind AS) 106	Exploration for and Evaluation of Mineral Resources	IFRS 6
(Ind AS) 107	Financial Instruments: Disclosures	IFRS 7
(Ind AS) 108	Operating Segments	IFRS 8
(Ind AS) 109	Financial Instruments	IFRS 9
(Ind AS) 110	Consolidated Financial Statement	IFRS 10
(Ind AS) 111	Joint Arrangements	IFRS 11
(Ind AS) 112	Disclosure of Interests in Other Entities	IFRS 12
(Ind AS) 113	Fair Value Measurement	IFRS 13
(Ind AS) 114	Regulatory Deferral Accounts	IFRS 14

Notified Ind AS	Title	Corresponding IAS/IFRS
(Ind AS) 115	Revenue from Contracts with Customers	IFRS 15
(Ind AS) 1	Presentation of Financial Statements	IAS 1
(Ind AS) 2	Inventories	IAS 2
(Ind AS) 7	Statement of Cash Flows	IAS 7
(Ind AS) 8	Accounting Policies, Changes in Estimates and Errors	IAS 8
(Ind AS) 10	Events after the Reporting Period	IAS 10
(Ind AS) 12	Income Taxes	IAS 12
(Ind AS) 16	Property, Plant and Equipment	IAS 16
(Ind AS) 17	Leases	IAS 17
(Ind AS) 19	Employee Benefits	IAS 19
(Ind AS) 20	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20
(Ind AS) 21	The Effects of changes in Foreign Exchange Rates	IAS 21
(Ind AS) 23	Borrowing Costs	IAS 22
(Ind AS) 24	Related Party Disclosures	IAS 24
(Ind AS) 27	Separate Financial Statements	IAS 27
(Ind AS) 28	Investments in Associates and Joint Ventures	IAS 28
(Ind AS) 29	Financial reporting in Hyperinflationary Economies	IAS 29
(Ind AS) 32	Financial Instruments: Presentation	IAS 32
(Ind AS) 33	Earnings Per Share	IAS 33
(Ind AS) 34	Interim Financial Reporting	IAS 34
(Ind AS) 36	Impairment of Assets	IAS 36
(Ind AS) 37	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
(Ind AS) 38	Intangible Assets	IAS 38
(Ind AS) 40	Investment Property	IAS 40
(Ind AS) 41	Agriculture	IAS 41

8. PROBLEMS AND CHALLENGES OF IFRS

International Accounting Standard Board has prepared and issued IFRS. But, the responsibility to adopt or converge with IFRS lies with the local government and accounting and regulatory bodies. In India the implementation of IFRS is executed by the Ministry of Corporate Affairs (MCA) and Institute of Chartered Accountants of India (ICAI). Accordingly, MCA under the powers conferred by the Companies Act, 2013, issued the Companies (Indian AccountingStandards) Rules, 2015 dated 16.02.2015 and Companies (Indian AccountingStandards) (Amendment) Rules, 2016 dated 30.03.2016 to implement the IFRS in India.

Indiahowever, has several constraints and practical challenges for adoption and compliance with IFRS. Some laws and regulations governing financial accounting and reporting in India needs to be changed or modified. Further, there are also some legal requirements which also required to be looked into during the implementation of IFRS. For e.g., the format for preparation and presentation of financial statement is guided by the provisions of the Companies Act, 2013, but this may be different from what is prescribed under IFRS.

Another issue is related to Businesstakeovers, merger, acquisitions etc. Under present Indian General Accepted Accounting Principles (GAAP), the consideration over and above the book value of assets is treated as goodwill. However, under IFRS, accounting is done for all assets including hidden intangibles at fair value. When all the assets are recognized at fair value including intangible assets like goodwill, amortization of these assets will reduce future year profits under IFRS.

Therefore, there are several likely challenges that will be faced on the way of IFRS convergence in India. These are: -

8.1- GAAP and IFRSDifference: Adoption of IFRS requires drastic change in entire set of financial statements. GAAP has been followed since long time and very deep routed in the financial reporting culture of the country there to bring about awareness of IFRS implementation and impact among the users of financial statements is a challenging task.

8.2- GAAP Reconciliation: The Securities Exchange Commission(SEC) laid out two options in its proposal-one calling for the traditional IFRS first-time adoption reconciliation, the other requiring that step plus an on-going unaudited reconciliation of the financial statements from IFRS to U.S. GAAP which is clearly more costly approach for companies and for investors.

8.3- Lack of Training and Education in IFRS: India very well lack the training facilities and academic courses on IFRS. Further, the professional who can impart training in IFRS are very few, therefore, spreading the IFRS education is difficult.

8.4- Legal and Regulatory considerations: Currently, the reporting requirements are governed by various regulators in India and many a time their provisions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.

8.5- Taxation: IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws of country needs to address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.

8.6- Fair value Measurement: IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of instability and prejudice to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used. Moreover, computation of fair value is not free from ambiguity and there are more than one method is available for arrival of fair value.

8.7- ContractRe-negotiation: Many a contracts where profitability is a criterion has to be re-negotiated after implementation of IFRS as the profitability may change under new reporting standard. Re-negotiated is a little bit trick and challenging due to existing laws under which contract is made, as they have not undergone any change.

8.8- Change in existing Management Information System (MIS): Existing MIS of companies needs to be modified to suit the reporting requirements of IFRS. Further, the new reporting system needs to capture all the data asrequired by IFRS, which has to be integrated with the IFRS reporting. This not only is a tedious and time consuming but also expensiveprocess.

9. MEASURES TAKEN TO ADDRESS THE CHALLENGES

9.1- For changes required in rules and regulations of various regulatory bodies, draft recommendations have been placed before Accounting Standard Board.

9.2- The ICAI issued various interpretations of accounting standards, with a view to resolve various intricate interpretational issues arising in the implementation of new accounting standards.

9.3 Guidance notes have been issued by ICAI for providing immediate guidance on accounting issues.

9.4- To facilitate discussions at seminar, workshops, etc., ICAI has issued background material on newly issued accounting standards.

9.5- For the purpose of assisting its members, the ICAI council has formed an expert advisory committee to answer queries from its members.

Moreover, to face the challenges of IFRS implementation and future reporting, more effective steps like building adequate IFRS skills professionals by investing more in training processes for Indian accounting professionals is required. This will help India to manage the smooth transition to the regime of IFRS. This can be done by research on effect of IFRS conversion in different countries and brief knowledge of IFRS should be added into the studies for professional courses with worldwide latest examples.

10. CONCLUSION: -

Ind AS - Indian Accounting Standards converged with International Financial Reporting Standards (IFRS) has now become a reality.The transition from Indian GAAP to Ind AS is a historic and a landmark change. By making Indian Accounting Standards par with IFRS, the Indian corporate and the accounting professional will reap the benefits of global accounting standard. Irrespective of various challenges, adoption of converged IFRS in India will significantly change the contents of corporate financial statements as a result of more refined measurements of performance and state of affairs, and enhanced disclosures leading to greater transparency and comparability. Successful Ind AS implementation will require a thorough strategic assessment, a robust step-by step plan, alignment of resources and training, effective project management as well as smooth integration of the various changes into normal business operations. Finally, the Ind AS implementation exercise needs to establish sustainable processes so as to continue to produce meaningful information long after the conversion exercise is completed.

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