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International Financial Reporting Standards: Indian Scenario

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Abstract

The present global scenario, world is witnessing the era of Globalization which has facilitated global trade and has opened the gate of domestic market for foreign countries which at one point of time was not opened to them. Globalization in short has turned the whole world into a "global village" for facilitating foreign trade and business at global level. There are different sets of accounting standards in every country according to which the country carries its business. International Financial Reporting Standards (IFRS) are set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB), and they specify exactly how accountants must maintain and report their accounts. IFRS were established in order to have a common accounting language, so business and accounts can be understood from company to company and country to country.

Keywords : Globalization, business, market, accounting, IFRS

Introduction

Financial reporting is the process of disclosure of financial information to the management and the public about a company's performance over a specific period of time. There are well defined principles for accounting known as Accounting Standards. With the advent of globalization, the financial reporting of business activities underwent a great deal of change which includes the adoption of IFRS (International Financial Reporting Standards). Accounting Standards are basically written documents, policy documents issued by recognized accounting body, prescribing various aspects of measurement, treatment, presentation and disclosure of accounting transactions in financial statement. Due to divergent or variety of accounting standards there was difference in financial statement which gave rise to inconsistency and ambiguity. Thus, in order to bring uniformity in accounting standard there was a need to formulate a single AS which is potent and transparent. The IFRS are an end product of such outrages and over the years IFRs has been widely used.

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The point of IFRS is to maintain stability and transparency throughout the financial world. This allows businesses and individual investors to make educated financial decisions, as they are able to see exactly what has been happening with a company in which they wish to invest. In the countries that have adopted IFRS, both companies and investors benefit from using the system since investors are more likely to put money into a company if the company's business practices are transparent. Also, the cost of investments are usually lower. Companies that do a lot of international business benefit the most from IFRS. Recently, India has also joined the bandwagon in order to compete with global market and in lieu of this move India's converge to IFRS.

Literature Review

Govindarajan (2014). A study on "Introduction to IFRS and Convergence" was done by N. Govindarajan, in which he mentioned about what is IFRS, its needs, Convergence and challenges faced by the stakeholders. He concluded that the convergence of IFRS with Indian Standards will, of course, benefit us. ASSOCHAM (2014). A study on the topic "IFRS in India" was done by ASSOCHAM, Hyderabad. It analyzed the Global Convergence of Accounting Standards with Indian Standards. It also focused on the use IFRS to various countries. Shanthanu (2015). Shantanu Kumar Das did study entitled "Indian Accounting Standards and IFRS" in 2014. The main goal of the study was the comparison of India Accounting Standards with IFRS, in which he concluded that the global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets with the adoption of IFRS. Kirit & Meenakshi (2015). A study on the topic "IFRS: Challenges Ahead" was done by Prof Kirit Magana and Dr. Meenakshi Somani. Here the main attention was on the benefits of IFRS to the Indian Corporate and Professionals, its key issues and challenges.

Objectives of the Study

The International Accounting Standard committee (IASC), now known as International Accounting Standard Board (IASB) was formed on 29th June 1973 by the recognized professional accounting bodies in Canada, Australia, France, Japan, Germany, Mexico, Netherlands, United Kingdom and the United States of America having its secretariat and head quarter in London. IFRS are sometimes confused with International Accounting Standards (IAS), which are the older standards that IFRS replaced. IAS was issued from 1973 to 2000, and the International Accounting Standards Board (IASB) replaced the International Accounting Standards Committee (IASC) in 2001.

The global economy and growing assimilation of world's capital market, financial reporting have witnessed significant changes. Therefore, to bring consistency standards across the world, International Foreign Reporting standards issued by IASB have emerged as desirable move towards a single and uniform "globally accepted financial reporting standard."

The four main components are the moving target of this paper: Firstly to understand different Accounting Standards followed as of now and the governing bodies; Secondly, to understand the need for adoption or convergence to IFRS in India; Thirdly, to analyze the recent trends of IFRS in India and lastly to examine the major advantages and challenges in implementing IFRS in India.

Convergence or Adoption of IFRS in India

This is a very common question which arises in one's mind that whether India is adopting or converging to IFRS. The two terms though used as synonyms but there is a distinct but important difference between the two. Adoption in one hand means a process of adopting IFRS as issued by IASB, with or without modification which could be either by adding disclosure requirement or by elimination of alternative treatments. It involves a declare approval of IFRS by legislative or regulatory with minor modification done by standard setting authority of a country. While on the other hand convergence means harmonization of national GAAP with IFRS through design and asserting accounting standards in a way that financial statement is prepared with national standard and in accordance with IFRS.

"Convergence means to achieve harmony with IFRS in precise terms convergence can be considered to design and maintain national accounting standards in a way that the financial statements prepared in accordance with the national accounting standards draw unreserved statement of compliance with IFRS" (ICAI).

India is one of the emerging economics in the world. For the economic development, Foreign Direct Investment (FDI) is needed, to facilitate the investment climate, it wants to integrate its financial reporting with rest of the economies of the globe so that investors from outside will understand the financial results and financial positions of the companies. The globalization of business firms and entities, attendant structures and the regulations, which support it and with development of the concept of e-commerce made a single globally accepted financial reporting system. Harmonization of accounting standards has become a highly demanded issue of discussion and debate among accounting professionals around the globe. The use of International Financial Reporting Standards (IFRS) as a universal financial reporting language is gaining thrust across the globe. Adopting IFRS by Indian corporate is going to be very challenging but at the same time could also be rewarding. Indian corporate is likely to reap significant benefits from adopting IFRS. Overall, most investors, financial statement preparers and auditors were in agreement that IFRS improved the quality of financial statements and that IFRS implementation was a positive development for financial reporting. There are likely to be several benefits to corporate in the Indian context. These are Improvement in comparability of financial information and financial performance with global peers and industry standards. This will result in more transparent financial reporting of a company's activities which will benefit investors, customers and other key stakeholders in India and overseas. The adoption of IFRS is expected to result in better quality of financial reporting due to consistent application of accounting principles and improvement in reliability of financial statements. This, in turn, will lead to increased trust and reliance placed by investors, analysts and other stakeholders in a company's financial statements.

Recent Trends in India

After the enactment of the Companies Act, 2013, the ministry of corporate affairs has now shifted its focus on rolling out international reporting standards for Indian companies which were to be implemented beginning April 1, 2011. According to the draft plan, the ministry wants to implement the international financial reporting standards (IFRS) beginning with companies that have a net worth of over Rs 1,000 crore from April 1, 2015, an official told The Indian Express. In the second phase, both listed and unlisted companies with a net worth of over Rs 500 crore but less than Rs 1,000 crore will have to converge with the international accounting standards from the financial year beginning April 1, 2016. IFRS had been put on the back burner by the government given issues raised by corporates, and unresolved taxation issues. Industry bodies had sought postponement arguing the industry needed more time to prepare. The IFRS-converged accounting standards deal with mark-to-market projections and valuation of financial assets among other things. The implementation is expected to cause some upheaval in companies' finances in the initial stage as the standards call for projecting assets' real value. Various sectors, including banking and real estate would be hit, experts have argued. "The Institute of Chartered Accountants of India (ICAI) has been asked to conduct a sector-wise study, elaborating on the impact the implementation will have on the sectors," the official said. As such, all Indian companies listed overseas or doing business on foreign land currently prepare financial statements as per the international standards. However, banking companies would be exempt from complying with the IFRS. In the third and fourth phase, beginning April 1, 2017, smaller companies would need to prepare their accounts as per the international standards. The main sectors which are likely to be impacted include oil and gas, finance, telecom and infrastructure companies. Over 100 countries have accepted IFRS while India has converged its accounting standards with the international reporting standards. Currently, the US, Japan and India are the three main economies that have not adopted IFRS while Canada, Brazil and Russia switched to IFRS last year

Advantages of Convergence

In this world of globalization in which Indian economy has also flourished convergence to IFRS would not only make Indian companies at par with other global companies but will also increase India's marketability in terms of foreign investments. Convergence with IFRS will provide following benefits to India.

Convergence to IFRS will provide impetus to cross- border transactions.

It will eliminate multiple reporting procedures.

It will reduce cost of capital and better access to global capital market.

It will provide better comparability and transparency of business performance and activities.

It will harmonize internal and external reporting by making a single accounting language across the business.

It will catalyze the growth of Indian economy.

Challenges of Convergence

Although convergence with IFRS is going to be a boon to Indian economy but there are many challenges attached to it which has to be taken care of. The various challenges are as follows:

- **Implementation issue** *:* Convergence is not a technical exercise but there is going to be a lot of practical implementation challenges like-

- **Complex financial reporting requirements** : Companies, auditors, users and regulators need to have a sound knowledge about the fair value measurement techniques while making financial reports. This will actually increase the complexity in reporting procedure.

- **Lack of IFRS resources** *:* Availability of IFRS resources will be one of the major challenges which will be faced by the Companies. To meet this challenge companies need to generate IFRS resources internally by training existing staffs so that they can audit IFRS financial statements.

- **Amendments required** : In order to converge to IFRS there are amendments to Regulators need to know IFRS implementation as well.

- **Training** : Lack of training and academic knowledge in IFRS is a challenge as far as Indian economy is concerned. Thus adequate training should be given to the stakeholders such as Chief Financial Officers (CFO), auditors, tax authorities. Then only it can be uniformly understood and consistently applied.

- **Financial reporting system** : In India financial reporting is done according to standards issued by ICAI (Institute of Chartered Accountants of India). We need to amend the same to suit the requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions etc.

- **Awareness** : The adequate knowledge about IFRS is still limited to few numbers of people in India. Most of the stakeholders like firms, banks, shareholders, exchanges etc. are not aware about the same. Such lack of awareness about these standards is one of the major challenges faced by Indians.

- **Change in IT Systems**: Financial accounting and reporting systems must be able to produce robust and consistent data for reporting. The system must be capable of capturing new information required for disclosure such as fair values of financial instruments, related party transactions, segment information etc.

- **Use of fair value measurement base** : IFRS uses fair value base to measure majority of items in the financial statements. The use of fair value accounting can bring a lot of volatility and subjectivity in financial statements, e.g.: it would increase volatility in reported earnings and related performance measures such as EPS (Earnings per Share), PE (Price Earnings) Ratio etc. Thus fair value (reflecting the true worth of assets) 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.

Conclusion

Looking at the present scenario of the world economy and analyzing the benefits of converging with IFRS the position of India convergence with IFRS can be strongly recommended. But at the same time it can also be said that this transition to IFRS will not be a swift and painless process. Implementing IFRS would rather require change in formats of accounts, change in different accounting policies and more extensive disclosure requirements coupled with other major challenges which needs to be solved first which will make this transition process a herculean task. As we all know that Indian has failed to meet its April 1 2011 deadline therefore we can say that still India is not fully prepared for this transition. For an effective and timely transition we need a sound implementation design and policy. Keeping in mind the fact that IFRS is more a principle based approach with limited implementation and application guidance and moves away from prescribing specific accounting treatment all accountants whether practicing or non-practicing have to participate and contribute effectively to the convergence process. Hence we can say that all the factors of economy has to work in harmony to make this whole transition process more effective.

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