A STUDY OF IFRS EFFECTS ON ACCOUNTING AND INDUSTRY

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Abstract

IFRS are International Financial Reporting Standards, which are issued by the International Accounting Standards Board , a committee compromising of 14 members, from nine different countries, which work together to develop global accounting standards . Presently, there are two sets of accounting standards that are accepted for international use namely, the U.S., Generally Accepted Accounting Principles and the International Financial Reporting Standards issued by the London-based International Accounting Standards Board. Generally, accepted accounting principles are diverse in nature but based on a few basic principles as advocated by all GAAP rules. The attempt to achieve congruence with IAS appears to be more a by-product of the country's rapid economic growth rather than its catalyst. However, continued growth and the attraction of foreign capital to domestic ventures will depend on the transparency of the financial dealings. The global financial crisis surfaced the lack of transparency about the risks to which investors were exposed from their involvement with off balance sheet vehicles as a result of which the G20 leaders and the Financial Stability Board asked the International Accounting Standards Board to review the accounting and disclosure requirements for such off balance sheet vehicles .

Key Word: IFRS, GAAP, IASB, Foreign capital, Disclosure

Review of Literature

Chunhui Liu, did work with entitle of "Are IFRS and US-GAAP already comparable?" in the year of 2009. The main purpose of this study is to the literature on changes in the difference between IFRS and US-GAAP and their value relevance. This study founded to value differently to the market (Harris and Muller, 1999).

Dr. Mahender k. Sharma did work in the field of "IFRS and India –Its problems and challenges in 2013. The main objective of this study is to analyze the information available on IFRS adoption process in India. It also focuses on the IFRS adoption procedure in India and the utility for India in adopting IFRS.

Kaushik datta did study entitled of "similarities and differences a comparison of IFRS, US GAAP and India GAAP" in the year of May 2009. The main objective of this study recognizes that there are indeed many advantages arising from convergences to various stakeholders.

Santanu Kumar Das, did study entitled of "Indian Accounting Standards and IFRS" in the year of 2014. The main aim of this study is to thus; global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets with IFRS is also in the interest of the industry since compliance with them would be able to create greater confidence in the mind of investors and reduce the cost of raising foreign capital.

Problem statement:

"A STUDY OF IFRS EFFECTS ON ACCOUNTING AND INDUSTRY"

Objectives of the study

To study the effects of IFRS on Industry

To study the effects of IFRS on Accounting

To study the awareness level of stakeholders towards the implementation of IFRS

To know the impact of IFRS Convergence on Different Sectors

Challenges for International Financial Reporting Standard

(I) Fair Value Accounting

The use of fair value accounting can bring volatility and subjectively to the financial statements it is very difficult to arrive at the fair value and valuation experts also feel difficulty to shift from reality.

(II) Historical method to fair value method.

Moreover, adjustments to fair value results in gains or losses which are reflected in the income statements. Whether this can be included in computing distributable profit is also debatable issue.

(II) 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 should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS. A complete renovation in Tax Laws is the major challenge faced by the Indian Law Makers.

(IV) Training

One of the biggest hurdles in implementing IFRS is that lack of training facilities and academic courses on IFRS in India.

(V) Auditing

Another affected sector is the audit firms in India who have to audit the fair value accounting as per the IFRS without adequate guidance at present these audit firms are doing the audit as per the cost concept accounting. IFRS are implemented without adequate audit guidance by the ICAI, it will not be justified to expect from the auditors to discharge their responsibility as per the new Companies Act, 2013.

(VI) Other regulatory changes

In addition to the direct tax implications covered by the ICDS, the regulators would also need to make conforming changes to other regulations such as indirect taxes particularly when India is moving towards Goods and Service Tax.

The impact of IFRS standards on specific industries:

There are certain standards within the present set of IFRS Standards that would impact all industries only because the standards either deal with a new concept or are to be followed when an entity moves over to IFRS for the first time. Being principle based IFRS, there are lot of changes is happening in different sectors in India.

Airlines

The aircrafts are normally acquired by long-term lease arrangements. The revenue does not come with the same velocity due to differential pricing adopted by airlines to manage competition. IFRS standards that could impact the industry:

Agriculture:

IASB issued a separate standard on Agriculture IAS 41, IAS 41 is of the opinion that a biological transformation of the living animals or plants would constitute an agricultural activity to come within the scope of the standard. It is obvious that IAS 41 would be the go-to standard for the agricultural industry.

Automotive

The automotive industry is a capital sensitive. They have a long supply chain. They have complicated agreements with suppliers. They keep incurring research and development costs and have to keep bringing out new models of vehicles. The following IFRS standards could impact the automotive industry. IAS 16 – Property, plant and equipment: constructing a plant to manufacture automobiles is costly and time consuming process.

Banking

Banking is a highly regulated sector with a regulator in each country overseeing the functioning of banks. Banks thrive on financial instruments. Banking financial statements reflect the impact of transactions in financial instruments. The IFRS standards on financial instruments would have a significant impact on the banking industry. IAS 32, 39, IFRS 7 & IFRS 9 – financial instruments: recognition, measurement, de recognition and disclosures and hedge accounting: financial

Limitations:

The data collected for the secondary data is restricted to only to the specific sectors like Airlines, Agriculture, Fast Moving Consumer Goods, banking and automotive sectors. Therefore, overall impact position cannot be decided from the analysis. More number of sectors would be appropriate to test the impact of IFRS adoption. The ultimate result cannot be determined in the awareness level and the impact of IFRS on Financial Statements is due to less selected sample. More samples can be the good indicator in analyzing the efficiency of IFRS adoption.

Summary and Conclusion:

The results of this study indicate 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 instruments, explain the changes within the key accounting ratios. Adoption of fair value accounting rules and stricter requirements of certain accounting issues are the reasons for the changes observed in accounting figures and financial ratios. The results also tells about the respondents are not fully aware of IFRS, which creates a barrier in adoption of IFRS in India. Conferences, seminar and events should be held to make smooth transition to impart knowledge about IFRS. IFRS should be made a compulsory part in the academic curriculum. IFRS should be accepted as a blessing and not as an unknown, as it can prove very beneficial for India. More than 130 countries have already in line with IFRS. IFRS is more transparency and impacts accounting. Accountability of minute events also makes more impact on a company’s finance under IFRS. IFRS also has stringent income recognition rules. Several Indian companies having businesses abroad are preparing their financial statements using IFRS. This helps to seek to have one comparable reporting standard around the world.

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