Research Paper
Impact Factor: 6.462
Peer Reviewed & Indexed Journal
www.ijmsrr.com

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

IFRS IS A NEW GUARDIAN OF ACCOUNTING IN INDIA

Dr. Divya Jain
Assistant Professor, Department of Commerce Vardhaman College, Bijnor, UP, India.

Abstract
International Financial Reporting Standards (IFRS) are international guidelines for accounting which help to understand and to compare accounts of companies across international boundaries. These are published by international accounting standard board (IASB) and aimed at a global practice. There is a need to implement IFRS in India due to liberalization and with the fast-changing economy. Initially this paper will describe the reforms of IFRS in India. We have used secondary source of data. Further, we have also examined consequences of adopt and implement the IFRS by companies to identify whether it will be helpful in eliminating unethical behaviour and accounting scandals in future or not.

Keywords: IFRS, Financial Reporting, Accounting Standards.

Abbreviations used in this paper: *International Financial Reporting Standards (IFRS), International Accounting Standards Board (IASB), Ministry of Corporate Affairs (MCA), International Accounting Standards (IAS).*

Introduction

For efficient financial reporting, it is necessary that accounting information should be reliable, understandable and comparable. With the advent of globalisation and growing economic unification along with rise in transnational transactions there is an obvious need to harmonise accounting differences across different nations. Multiformity in accounting practices as well as standards followed by different nations leads to difficulties not only in comparison and performance evaluation but also transparency and multiple financial reporting problems. IFRS ay eliminate such difficulties by creating comparable, reliable, and transparent financial statements. Also accounting operations can be reduced by implementing IFRS, as these are principle-based standards which will act as a watchdog against accounting fraud.

International Financial Reporting Standards:

IFRS have been developed by the International Accounting Standards Board (IASB) which is a single set of financial reporting standards for making company accounts more understandable as well as comparable across the globe. International Accounting Standards was issued between 1973 and 2001 by IASC (International Accounting Standards Committee) board. On 1st April 2001, the new board, international Accounting Standards Board (IASB) took over the responsibility for setting IAS. IFRS are new standards issued with the establishment of the IASB.

In fact, IFRS are international guidelines for accounting which make not only easy to understand and compare accounts of companies across international boundaries but also help to internal and external users of financial statements with the ability to easily compare the financial position of companies with their international peers. Therefore, IFRS not only provided the firms with common accounting codes to make business and accounts transparent from company to company but also provide complete set of reporting system for companies to make their financial statements. In India, various laws and acts provide the financial reporting system but they are not as comprehensive as IFRS.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

IFRS, according to IFRS Foundation Constitution adopted in early 2000

"To develop, in the public interest, 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 high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements." In India, accounting standards are developed by the Institute of Chartered Accountants. Companies listed on public stock exchanges are legally required to publish financial statements in accordance with the relevant accounting standards.

IFRS reforms in India

There is utmost need for implementing IFRS in India due to liberalization and with the fast-changing economy and moving of almost 130 countries to IFRS. India has been decided in 2007 to act accordance with convergence on recommendations by ICAI. The Ministry of Corporate Affairs, government of India has also supported the convergence. Overall, India has begun to adopt IFRS from financial year 2015. ICAI has asked for speedy implementation of these standards and revised IFRS convergence roadmap as its implementation so it is to be done in a phased manner.

The MCA of the Government of India on 2 January 2015 issued a revised blueprint for companies other than banking, insurance and non-banking finance companies for implementation of Indian Accounting Standards converged with IFRS. Therefore, Indian Accounting Standards were applicable to companies as follows:

1. **On voluntary basis**
   For accounting periods beginning on or after 1 April 2015, with the comparatives for the periods ending 31 March 2015 or thereafter.
2. **On mandatory basis**

A. For accounting periods beginning on or after 1 April 2016, with comparatives for the periods ending 31 March 2016, or thereafter, for:
   - All companies having net worth of INR 500 crore or more.
   - Holding, subsidiary, joint venture or associate companies of the companies in (a) above.

B. For the accounting periods beginning on or after 1 April 2017, with comparatives for the periods ending 31 March 2017, or thereafter:
   - 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 INR 500 crore
   - companies other than those covered in paragraph (i) and paragraph (ii) (a) above i.e. unlisted companies having net worth of INR 250 crore or more
   - holding, subsidiary, joint venture or associate companies of the above class of companies.

According to the proposed roadmap, phases to implement IFRS are given below:

In the first phase starting April 1, 2015, the MCA plans to implement the IFRS for the companies that have a net worth of over Rs. 1,000 crore.

In the second phase, all the companies listed or non- listed with net worth of over Rs. 500 crore but less 1,000 crore will have to converge with IFRS from the fiscal year beginning April 1, 2016.

However, the Banking and Insurance companies were exempted from complying with the IFRS. The roadmap for banking, insurance and NBFC's will be released after consultation with their respective regulators such as Reserve Bank of India (RBI) and Insurance Regulatory and Development Authority of India (IRDA).

Research Methodology

This research is qualitative in nature hence we have not used any quantitative tool to analyze the data. We have used secondary source based on data collected from literature surveys, various journals, websites, and books.

Outcome of adopting IFRS

According to Van Tendeloo and Vanstraelen (2005) multiple benefits will be resulted from IFRS adoption. First, such adoption will provoke greater investors' ability to make informed financial decisions, putting an end to confusion that arises from the existence of different ways to measure status along with financial performance in different countries, leading to bring down risk for investors and curtail cost of capital for companies. Second, it will lead to reduce costs related to getting ready financial information according to divergent sets of standards. Third, it will open on to greater incentives for international investment. Fourth, it will allow a more worthwhile allocation of financial belongings worldwide.

In divergence, the present research in a routine law developing country has shown that IFRS imperceptibly improves accounting quality under dissimilar circumstances which can be universal in developing countries.

Callao et al (2007) in their research on financial data of Spanish firms revealed that local comparability is adversely affected if both IFRS as well as local Accounting Standards are applied in the same country at the same time. This study itself is called for implementation of IFRS.

Barth et al (2008) research work of financial data of firms from 21 countries examined whether application of IFRS is associated with higher accounting quality or not. The findings of the study has confirmed that firms applying IFRS evidence less earnings management, more timely loss recognition and more relevance of accounting numbers. The study also found out that the firms applying IFRS experienced an improvement in accounting quality between the pre-adoption and post adoption period.

Capkun et al. (2008) has also analyzed the impact of mandatory change in financial reporting standards in European Union and found that the transition from local GAAP to IFRS had a small but arithmetical noteworthy impact on total assets, equity, total liabilities and among assets the most prominent impact on intangible assets and property plant and equipment.

Epstein (2009) in his article on economic effects of IFRS adoption has spotlight on the fact that universal financial reporting standards will not only increase market liquidity but also decrease transaction costs for investors and lower cost of capital along with facilitating international capital formation and flows.

Existing literature in field of accounting supports this view of researchers that adoption of IFRS enhances the quality of financial information and also ensures timely loss recognition. In brief, adoption of single set of financial reporting standards brings various advantages to reporting entities, investors, bankers and other interested parties. IFRS adoption has a optimistic effect on information quality, the capital market, analysts' ability to forecast, comparability, and information use.

Advantages of adopting IFRS in India

Earlier Studies have put forward various benefits of adopting IFRS and economies across the globe have benefitted by it. Acceptance of IFRS is attaining velocity across the globe. Few advantages are given below:

- **Enhancement in comparability**
  Firms are using IFRS to report their financial performance in more than 100 countries around the globe. With the adoption of IFRS by Indian firms, the comparison has become easier as IFRS are international guidelines for accounting. It is also spoonful to investors, lenders and various other parties to easily correlate the financial statements of companies following same reporting system.
- **Homogenization of capital market across globe**
  Indian firms are spreading out and need funds at cheaper cost to meet with drastic competition, which is available in other capital markets across the globe. Indian companies have to report their financial statements as per IFRS to meet the regulatory requirements of these markets. Thus, by adoption of IFRS will support Indian firms in straighten out global Capital Markets for funds at cheaper cost.
- **Revamping transparency of financial results**
  IFRS adoption in India is look forward to result in better quality of financial reporting, due to harmonious application of accounting principles and refinement in reliableness of financial statements. IFRS follows a concept of fair value which can help Indian firms to reflect their true value of assets held in the financial statements. IFRS are harmonious, reliable and easy to adopting and setting the seal on better quality of financial reporting. Revamping transparency through adoption of IFRS would also captivate investment.
- **Benefits for investors, shareholders and regulators**
  IFRS comes up with better financial information to various stakeholders. It shoots up the comparability between financial statement viz., Balance Sheet and Profit and Loss Account of numerous companies across the nation. It gives better understanding of financial internationally as compare to Indian accounting standards and US Generally accepted accounting Principles. Investors can better explore accounting information presented by dissimilar companies belonging to divergent nations, if accounting across nations is harmonised. It will flourish superior understanding as well as confidence among the investors.
- **Superior Management of global operations**
  The Indian corporate reputation and relationship with international finance community will boost because of fulfilment of higher level of steadiness between reporting structure and requirements, better access to international markets; enhancing confidence among the international investors. By adopting IFRS there will be superior management of global operations as international comparability will also get boost strengthening the industrial as well as capital markets in the country.

The above merits are perceived merits of adoption of IFRS. Researchers are yet to be carried out to understand genuine benefits of adoption of IFRS. Such researches are insignificant for Indian financial data, as India is yet to step in the era of IFRS.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

Challenges in the way of Adoption of IFRS in India

While transforming to IFRS is a complex assignment, these standards have important and affirmative indication for organizations as well as individuals that adopt them and will face many challenges. Few of them may be listed as below:

- **Use of Fair Value as Assessment Base:**

  IFRS requires trustworthy value approach to be followed in financial statements. The use of Fair Value Accounting can bring a lot of enthusiasm and materiality to the financial statements. Adjustments to fair value result in gains or losses which are mirrored in the Income Statements and valuation is mirrored in Balance Sheet. Indian Corporate World which has been drawing up its Financial Statements on Historical Cost Basis will have durable time while shifting to Fair Value Accounting. India does not have ample depth and breadth for authentic determination of fair values.
- **Scarcity of number of trained human resource:**

  Enactment of IFRS would require a enormous number of experts who are proficient with its enactment. But regrettably, India lacks in number of fully trained professional accountants and specialist who would carry out the task of adoption of IFRS in India. India also has insufficient training facilities to train workforce which can further provoke the problem.
- **Redrafting to the Existing Laws:**

  In India, present laws such as Securities Exchange Board of India regulations, Indian Banking Laws & Regulations, Foreign Exchange Management Act also bring forth some guidelines on preparation of financial statements in India. IFRS does not perceive the presence of these laws and the accountants will have to follow the IFRS fully with no uppermost provisions from these laws. Compatibility of IFRSs with other Laws and acts in the country like Companies Act is a big challenge. Further rephrasing in IFRS will also make the convergence process more complex as with every redrafting in IFRS, recasting may be required in the present Law.
- **Taxation**

  IFRS adoption will affect most of the items in the Financial Statements and accordingly, the tax liabilities would also go through a change. Currently, Indian tax laws do not confess the accounting standards. A complete renovate of Tax laws is the crucial challenge faced by the Indian Law Makers right now. Ample changes are to be made in tax laws to make certain that tax authorities recognize IFRS-Compliant financial statements otherwise it will replicate the administrative work for the firms.
- **Financial Reporting Systems:**

  Proper Internal Control & Reporting system is indispensable for effectively adopting IFRS. Firms, Regulators and Stock Exchanges in India should take hold of some guidelines from the countries which have adopted the IFRS and have homogeneous economic, political and social conditions. Companies would have to make sure that the existing business reporting model is rescripted to suit the reporting requirements of IFRS. The information systems should be sketched to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc.

Conclusion (IFRS - a remedy to reduce accounting scandals)

Creative accounting would be restricted by adoption of mandatory IFRS, as these are principle-based standards which will act as a watchdog against accounting fraud, though the predominant aim of the IASB is to make trust in financial markets. Enactment of IFRS expects to result in better quality of

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

financial reporting and enhancement in transparency of accounts of firms across the globe. It will also go ahead as a catalyst to the process of curbing creative accounting practices as it will restrict accounting practitioners to manipulation. IFRS having this well defined advantage undoubtedly diminishes the scope of accounting frauds.

References

1. http://www.kpmg.com/in/en/topics/ifrs-conf-2015/pages/ifrsconvergence.aspx.
2. http://www.ifrs.org/About-us/Pages/What-are-IFRS.aspx
3. Lourenço, Isabel Maria Estima Costa, & Branco, Manuel Emílio Mota de Almeida Delgado Castelo. (2015). Main Consequences of IFRS Adoption: Analysis of Existing Literature and Suggestions for Further Research. *Revista Contabilidade & Finanças*, *26*(68), 126-139. Epub July 10, 2015.
4. Outa, E. R. (2011). The impact of International Financial Reporting Standards (IFRS) adoption on the accounting quality of listed companies in Kenya. *International Journal of Accounting and Financial Reporting*, *1*(1), Page-212. http://macrothink.org /journal /index. php /ijafr/article/viewFile/1096/905
5. http://articles.economictimes.indiatimes.com/2014-02-24/news/47635966_1_new-companies-act-international-financial-reporting-standards-new-accounting-standards
6. http://www.ijcem.org/papers112012/ijcem_112012_06.pdf
7. https://en.wikipedia.org/wiki/International_Financial_Reporting_Standards.
8. https://www.crowehorwath.net/uploadedfiles/crowe-horwath-global/services/audit/international%20financial%20reporting%20standards.pdf
9. http://www.datatracks.in/xbrl-blog/indian-accounting-standards-IAS-convergence-with-ifrs-april-2015
10. http://www.investopedia.com/terms/i/ifrs.asp#ixzz3odbWiRrJ .