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# INTERNATIONAL FINANCIAL REPORTING STANDARDS – NEED IN INDIA

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***Abstract***
*Globalization has laid down a way for all the countries to adopt a single set of accounting standards. Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. More than 100 countries have converged or recognized the police of convergence with the IFRS. International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements. International Financial Reporting Standards (IFRS) are being used worldwide by over 120countries and reporting jurisdictions that either require or allow its use for the preparation of financial statements for publicly-held companies.*

*This paper discusses the IFRS 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. The paper concludes by stating the successful ways of implementing IFRS.*

*Trust and transparency led to a discussion of financial reporting. Consistent, comparable and understandable financial information is the lifeblood of commerce and making investment. In ICAI has decided to adapt IFRS for accounting periods commencing on or after April 1, 2011. This study tries to analyze the information available on IFRS adoption process in India. It also discusses the IFRS adoption procedure in India and the utility for India in adopting IFRS. The paper discuss the problems faced by the stakeholders (Regulators, Accountants, Firms etc) in the process of adoption of IFRS in India.*

***Key Words: Accounting Standards, IFRS.***

## Introduction
International Financial Accounting 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). IAS was issued in 1973 and 2001 by the board of the Internal Accounting Standards Committee (IASC). On April 1 2001 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.

Many country have recognized the need for convergence of accounting standards and are moving towards its implementation whilst others are more passive in their approach, perhaps having issues too complex to resolve or have not comprehended the importance of IFRS,. The timeline for the governance of select countries, including India, with IFRS is given below.

**Time line for Adoption of IFRS**

| Country | | Target date for convergence to IRFS |
|---|---|---|
| Brazil | | 2010 |
| Russia | | Limited adoption in initial phase |
| India | Companies with net worth of Rs. 1000 crore and | April 2011 |
| | those which are part of BSE sensex, NIFTY and | |
| | companies listed in overseas exchange | |
| India | All companies with a net worth between Rs. 500- | April 2013 |
| | 1000 Crore and banks & non banking finance | |
| | companies | |
| India | All listed companies with a net worth of Rs 500 | April 2014 |
| | crore or less | |
| Chine | Keen but has reservations on some aspects | No date set |
| Canada | | 2011 |
| Japan | | 2011 |
| Malasiya | | 2012 |
| United kingdom | | 2012 |
| USA | | 2014-15 |

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**IFRS - In Global Context**

In the present scenario of globalization and liberalization, the world has become a small village. 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. By today the number of business entities and multinational companies are establishing their business with various countries. The corporate entities in emerging economies are enhancing access to the global markets in order to fulfill their capital fund needs by getting their securities listed on the stock exchanges with other countries. Thus the capital markets are becoming consistent with this global trend. The use of various different accounting practices in different countries, require inconsistent treatment and presentation of the same underlying economic transitions, and create problems for the users of financial statement reporting. Such problems and confusions led to inefficiency in capital markets across the globe. So, increasing rigidity of business transactions and globalization of capital markets set up a single set of high quality accounting standards. High standards of financial reporting underpin the trust among investors. A single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRS.

**IFRS - In Indian Context**

The drastic shift 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.

**Convergence with IFRS**

Convergence with International Financial Reporting Standards (IFRS) implies to achieve harmony with IFRSs and to design and maintain national accounting standards according to the International Accounting Standards. The transition will make enable Indian corporate entities to be fully according to IFRSs and give an “unreserved and clear statement of compliance with International Financial Reporting Standards” in their financial statements.

**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 the important are discussed here below.

**1. The Investors:** Convergence of Indian Accounting Standards with IFRS makes accounting information more reliable, relevant, timely and comparable across different legal and economic frameworks and requirements since it would then be prepared by using a common set of accounting standards which will facilitate the investors who willing to invest in the countries apart from India. It will also fruitful develops better understanding of financial statements worldwide, hence it develops the confidence among the people as investors.

**2. The Industry:** The other important set of beneficiary the researchers came across is the industry which in the event of convergence with IFRS will be benefited because of some basic reasons. Firstly it will enhance confidence in the minds of the foreign investors, secondly, it decreases the burden of financial reporting, thirdly, it would make the process of preparing the individual and group financial statements easier and simplest, and the last and important one is that this will reduce cost of preparing the financial statements using different sets of accounting standards.

**3. Accounting Professionals:** However, there would be initially many problems; convergence with IFRS would surely benefit the accounting professionals and it will be helpful them to sell their talent and expertise across the globe.

**4. The Corporate World:** Convergence with IFRS would build the reputation and long lasting relationship of the Indian corporate world with the international financial entities. Moreover, 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, two, because of better access to global financial markets, three, 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.

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**5. The Economy:** All the discussions made above explains how convergence with IFRS would help industry grow and is beneficial to the corporate entities in the country as this would make the internal and external highly consisted, and it will report improvement in the risk rating among the foreign investors. Moreover, the international comparability also benefiting the industrial markets and capital markets in the country. This will definitely lead better economy across the country.

**IFRS Adoption Procedure in India**

To streamline accounting practices in the country, the Indian government in 1949, established Institute of Chartered Accountants of India by passing ICAI Act, 1949. Accounting Standard Board was constituted by ICAI in 1977 in order to create harmony among the diversified accounting policies and practices in India. Based on the both the recommendations made by the task force and outcome of the discussions, public opinions on International Financial Reporting Standards, three steps process was laid down by the Accounting Professionals in India. This process of IFRS adoption can be summarized as follows:

**Step 1 – IFRS Impact Assessment**

This is the first step. In this step the firm will assess the impact of IFRS adoption on Accounting and Reporting issues, on procedures and systems, and on core business of the entities. Then the firm will find the key conversion dates according to IFRS training plan has laid down. As and when the training plan is in place, the firm will have to identify the important Financial Reporting Standards which will apply to the firm and also the variations among the present financial reporting standards being followed by the firm and IFRS both. The firm will also ensure the loopholes in the current systems and processes

**Step 2 – Preparations for IFRS Implementation**

This is the second step of the process, which will carry out such activities required for IFRS implementation process. Then the firm will reform the internal reporting systems and processes. IFRS first deals with the adoption and implementation of firs time adoption process. To make this process smooth, few exemptions are mentioned under IFRS one. These exemptions can be identified and applied. The control systems are developed and put in implementation to ensure the correct application and consistency of IFRS.

**Step 3 – Implementation**

This is the final step of the process which deals with the actual implementation of IFRS. The initial phase of this step is to prepare an opening Balance Sheet at the date of transition to IFRS. To understand the actual impact of the transition from the Indian Accounting Standards to IFRS is to be developed. This will follow the full application of IFRS as and when it is required. At the initial stage of implementation of IFRS requires lot of training and various technical difficulties may be experienced. The smooth implementation of the transition from Indian Accounting Standards to IFRS, regular training to personals and identify the problems while carrying out the implementation.

**Objective of the Study**

1. To study the Problems and Challenges faced by Indian Companies in the process of Convergence to IFRS.
2. To examine the need for IFRS in Indian Context.
3. To focus on the Measures taken to address the Challenges.

**Methodology**

For the purpose of the present study, mainly literature survey and secondary data has been used. The required secondary data was collected from the authorized Annual Reports and Official Website of ICAI and IFRS, various Journals and Research Papers, diagnostic study reports and newspaper articles have been surveyed in making this study.

**Problems and Challenges**

Every coin has two sides. In spite of several benefits as may be looked out by the different professionals, people and employees there will be some challenges that will be faced on the way of IFRS convergence by the Indian firm.

**1. Variations in GAAP and IFRS**

The differences between GAAP and IFRS are wide and very deep routed. Bringing awareness about IFRS and its impact among the people who prepares financial statements is a challenging task.

**2. Issue of GAAP Reconciliation**

The Securities Exchange Commission (SEC) came out with two options in its proposal-firstly calling for the traditional IFRS first time adoption process, secondly requiring that step plus an on-going unaudited reconciliation of the financial statements from IFRS to US GAAP. Clearly the second one is a more costly approach for firms and its users.

**3. Training and Development**
Lack of training and education courses about the implementation IFRS and its use have raised challenge in India. So, it is essential need to provide training and education on the operations of IFRS.

**4. Legal and Regulatory**
Presently, the financial reporting requirements are authorized by various regulatory authorities in India and their provisions override other laws and regulators. IFRS, taking care for not doing such overriding laws. So, such laws and regulatory in India will create challenges to IFRS and its application.

**5. Taxation**
The adoption of IFRS in India will not only affect the Financial Statements but also the tax liabilities would also get changed. Present scenario, Indian Tax laws do not recognize the Accounting Standards. To entertain immediate change in the Indian Tax Law is the major challenge faced by the Indian Law makers.

**6. Fair value Measurement**
IFRS uses fair/ true value to measure majority of transaction in financial statements. By using fair value accounting can lead lot of flexibility and subjectivity to the financial statements. The professionals have to work hard to arrive at the fair value and valuation exerts have to be used.

**7. Re-negotiation of Contract**
The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP.

**8. Reporting Systems**
The corporate houses have to ensure to make necessary amendments to suit the reporting requirements of IFRS. The IT system should be designed to undertake new requirements with regards to fixed assets, segment disclosures and related party transactions.

**Measures Taken to Address the Challenges**
1. To undertake necessary changes require in rules and regulations of various regulatory bodies, drafted recommendations have been placed against Accounting Standard Board.
2. In order to resolve several rigid interpretational issues arising in the implementation of new accounting standards, the ICAI issued thirty interpretations of these standards.
3. To provide instance guidance on accounting issues and problems, the ICAI has issued guidance notes.
4. To facilitate discussions at seminar, workshops, etc., ICAI has issued background material on newly established accounting standards.
5. To help its members, the ICAI council has formed an expert advisory committee to respond the queries from its members.

**Utility for India in Adopting IFRS**
The adoption of IFRS for Financial Reporting purposes have benefitted to global economies. The past studies and researches have suggested several advantages of adopting IFRS. The implementation of IFRS leads better financial information for both shareholders and regulators, it enhances comparability, improves transparency of recorded results, enhanced ability to secure global listing, managing the global operations and reduced cost of capital.

**1. Better Access to Cross-Border Capital Markets**
On the global economic framework, Indian economy has emerged as strong economy during last decade. These firms are not only establishing plants in other countries but also acquiring other entities across the world. To serve this purpose, the firm requires funds at cheaper cost which is available in American, European and Japanese Capital Markets. To meet the regulatory requirements of the above stated market, Indian entities should manage their financial reports according to IFRS guidelines. Hence the adoption and implementation of IFRS will helps Indian firms in accessing global markets for the requirement of funds and also makes available funds at cheaper cost.

**2. Easier Global Markets Comparability**
At present across the world, firms are using IFRS to report their financial results. The adoption of IFRS by Indian business firms, the comparison of two entities becomes easier. With this reporting process Investors, Bankers and Lenders can easily compare the two financial statements. Indian firms have to provide financial results to interested parties while raising funds

from cross border capital markets. As major Indian business entities are operating European Capital markets by preparing and presenting financial statements according to IFRS and the firms are getting easy accessibility to such markets.

**3. Easy Global Market Listing**

As we have discussed earlier, availability of fund is essential for the expansion plans of the Indian firms which are not limited to economic and political boundaries of India. Indian firms are taking over firms across the globe. By raising the funds from European and American Markets, these firms are also getting listed in both European and American Capital Markets. One of the important requirements for the getting listed on European Markets is the preparation of accounts according to IFRS. The Indian corporate companies which have raised funds from the European markets have already started preparing their Accounts and Financial Statement according to IFRS regulations.

**4. Qualitative Financial Reporting**

Implementation of IFRS ensures better quality of financial reporting due to regular application of Accounting Principles and improves the reliability of financial statements and accounting. IFRS follows a concept of true/ fair value which will help Indian entities to reflect their true worth of Assets in the financial statements. As a single body (IASB,

**5. Elimination of Multiple Reporting**

In India there are several entities like TATA, BIRLA, and Reliance etc. are not only registered to Indian Market but also outside India in European and American capital markets. The corporate houses registered in India are maintaining their accounts as per Indian Accounting Standards whereas the firms registered outside India, prepare their financial statements as per the Accounting Standard of the respective country. By adopting IFRS, multiple financial reporting standards can be eliminated by such firms as they are following common standard financial reporting. The researchers have yet to carry out to understand actual benefits and advantages of IFRS. This can be a future scope of study on impact of adoption of IFRS by corporate houses.

**IFRS in India**

In India, Accounting standards are formulated by council of Institute of Chartered Accounts of India (ICAI).In July 2007, the Council of the Institute of Chartered Accountants of India set a target of adopting International Financial Reporting Standards (IFRS) for all listed, public interest and large-sized entities from accounting periods beginning on or after 1 April 2011.

In 2007 ,India has decided to converge with IFRS in 2007.ICAI started the process of developing a complete set of accounting standard that are “converged with” IFRS- which will be known as Indian AS .There is a difference between adoption and convergence to IFRS. Adoption means using IFRS as issued by IASB. Convergence means that the Indian Accounting standard board and IASB would continue working together to develop high quality, compatible accounting standard over time. With an objective to ensure smooth transition to IFRS from 1 April, 2011, ICAI is taking up the matter of convergence with IFRS with National Advisory Committee on Accounting Standards (NACAS) established by the Ministry of Corporate Affairs, Government of India and other regulators including Re-serve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI The Core Group for IFRS convergence formed by MCA has recommended convergence to IFRS as under:

**Phase I (Opening Balance Sheet As at 1 April, 2011)**

1. Companies which are part of BSE - Sensex 30 and NSE- Nifty 50;
2. Companies whose shares or other securities are listed outside India;
3. Companies whether listed or not, having net worth of more than Rs. 1,000 crores.

**Phase II (Opening Balance Sheet As at 1 April, 2013)**

Companies are not covered in Phase 1 and having net worth exceeding Rs. 500crores.

**Phase III (Opening Balance Sheet As at 1 April, 2014)**

Listed companies not covered in earlier phases. (If the financial year of a company commences at a date other than 1 April, then it shall prepare its opening balance sheet at the commencement of immediately following financial year.) Separate Road Map would be prepared for banking and insurance companies. The issue of convergence with IFRS has gained significant momentum in India recently.

**The Benefits of IFRS Adoption**

**Benefits of IFRS to Users and Preparers of Financial Statements**

1. If a business adopts IFRS, the business will be able to present its financial statement on a single set of high quality and global standards.

2. Adoption of IFRS will result in high quality, transparent and comparable financial statements that are based on modern accounting principles and concepts that are being applied in global markets.
3. If a company uses IFRS, the company could enjoy the benefit of raising capital from abroad.
4. Comparison is made easier with a foreign competitor if a company presents its financial statement according to IFRS.
5. The adoption of IFRS will improve cross border investment by enhancing comparability of financial statements prepared anywhere in the world.

**Benefits of IFRS for National Regulatory Bodies**

1. Indian Accounting standard Board will be alert to the best international accounting practice (IFRS) to guide them in the establishment of highly improved reporting practices in India**.**
2. It brings about a higher and improved standard of financial disclosure.
3. It also brings about better ability to attract and monitor listings by foreign companies.

**Difference in GAAP and IFRS**

Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements. While IGAAP has been converging with IFRS as much as possible in recent years, differences still remain, and some of these were viewed as significant challenge to overcome. Participants noted concerns in the following areas.

a. IFRS is more principles based, and therefore more 'liberal' than Indian GAAP. More choice under IFRS will mean the increased need to use professional judgement, and this will require a fundamental change in mindset for Indian accountants.
b. Initial transition will be a challenge given differing recognition and measurement criteria for assets and liabilities. These will not only impact earnings, but it is important to be able to capture those differences through appropriate information systems.
c. Specific accounting areas that will be more complex included business combinations and financial instruments. Many of the problems associated with them arise from the greater use of fair value accounting under IFRS.

**Interaction between Legislation and Accounting**

There are concerns about the compatibility of Indian laws with IFRS in certain matters pertaining to accounting, such as formats and presentation requirements. Similarly, there is uncertainty over tax treatments of items arising from convergence such as unrealized gains and losses and the move from a tax basis for depreciation (IGAAP) to one of useful economic life (IFRS).

**Training and Education**

Lack of training facilities and academic courses on IFRS will also pose challenge in India. A key challenge is to ensure companies, auditors, regulators and the investment community is appropriately skilled to apply and interpret IFRS

The IASB has a separate IFRS for SME's, which reduce some of the Disclosure requirements of IFRS for SME's. In India, there are a large number of SME's. The Road map does not specify any timeline for SME's to move over to IFRS. There can be no doubt in the fact that the true impact of IFRS in India would be understood when the IFRS is implemented for SME's. The Standards should not be too complex and implementation should come to a reasonable cost this could prove to be the biggest challenge. IFRS Standards are themselves a work-in-progress the IASB is working on amending quite a few Standards. The Challenge for India would be to keep pace with the IASB and amend Ind AS Standards regularly in order that there are no differences between the two Standards.

**Conclusion**

To spread the positive framework regarding the implementation of IFRS and smooth convergence, the ICAI and regulatory bodies have taken several measures. The need is to have a systematic approach to make the corporate entities and the investors to prepare them to adopt the standards. Corporate houses need to gear themselves for continuous updation. Ensuring a qualitative corporate financial reporting depends on effective control and enforcement mechanism. The corporate management should ensure the compliance of IFRS with Financial Statements. Auditors and Accountants should prepare and audit Financial Statements in accordance with IFRS. The regulators and law makers must implement efficient monitoring system of regulatory compliance with IFRS. With the help of these professionals and regulators should ensure necessary changes in the existing laws for IFRS implementation process. These problems and challenges in adoption of IFRS can be concluded as under: The regulatory bodies should ensure changes in existing Companies Act 1956, Taxation, Foreign

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Exchange Management Act, Banking Laws, and Insurance Act etc. these changes will be beneficial to line up Indian Accounting Practices with IFRS. In July 2009, a committee has been formed by Ministry of Corporate Affairs Government of India, in order to identify various legal and regulatory changes which are required for convergence. With a view to make sure adoption of IFRS in India in time, skilled and trained professional accountants and auditors in IFRS are required in large numbers. India lacking the required number of IFRS trained accountants and auditors. The ICAI has taken initiatives to arrange the training programmes for its members and other parties for IFRS. Yet India need to build a bridge in the gap between available trained professionals and required such professionals. To ensure that all the corporate houses are complying with adoption procedure, Indian regulators and Accounting Body (ICAI) should have Financial Reporting Compliance Monitoring Board.

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