ISSN: 2320-4168 UGC Approval No: 44120 Impact Factor: 3.017

THE STUDY ON CHALLENGES AND ISSUES INVOLVED IN CONVERGENCE OF IFRS IN INDIA

Article Particulars

Received: 7.7.2017 Accepted: 13.7.2017 Published: 28.7.2017

Dr. S. RAJI
Vice Principal and Asst. Professor,
SEA college of Science Commerce and Arts,
K.R.Puram, Bangalore, India

Asst. Prof. Mrs. HEMAVATI
HOD of Commerce and Management,
SEA College of Science Commerce and Arts,
K.R.Puram, Bangalore, India

Abstract

This study investigates the challenges and issues that face adopting of International Financial Reporting Standards (IFRS) by Indian Firms. This paper analysis the concepts of new accounting system involving a major shift from perspective involving greater judgement. The main difficulty in the free flow of money across the borders has been the different reportage standards. So IFRS has been introduced with aim of increasing the flow of capital. Globalisation has changed the monopoly economy into open and free economy. Now national economy is integrating with international markets of other countries by spreading their trade and business outside the territory of their own country. Business Combination, FDI, consolidated financial statement, Cash Flow Statement, technical collaborations and business outsourcing are some of the examples of International transaction in global business. The present paper makes to attempt to understand various issues and challenges involved in convergence with IFRS in India.

Keywords: *IFRS, India, Issues and Challenges, Global Business*

Introduction

IFRS are International Financial Reporting Standards, which are issued by the International Accounting Standards Board (IASB), a committee compromising of 14 members, from the 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 US GAAP (Generally Accepted Accounting Principles) and the International Financial Reporting Standards (IFRS) issued by the IASB (International Accounting Standard Board), London. IFRS is a set of accounting standards developed by the IASB and is becoming a universal standard for the preparations of public company financial statements. Over 100 countries worldwide have recognised the policy of convergence with IFRS. In future, almost all the countries of the world are going to implement IFRS. India too decided to converge IFRS. IFRS are designed as common global language for business affairs so that company accounts are understandable and comparable across international boundaries. It aims to make IFRS comparisons as easy as possible because country has its own set of accounting rules. For example, US GAAP is different from Canadian GAAP and both are far apart from Indian GAAP. Synchronising accounting standards across the globe is an ongoing process in the international accounting community.

GAAP

Generally Accepted Accounting Principle is a universal term for a set of financial accounting standards and reporting plans used to prepare accounting givensituation. For example, UK GAAP in London, US GAAP in America. The purpose of GAAP is to safeguard that financial reporting is clear and constant from one organisation to another.

Accounting Standards

Accounting Standards are written documents, policies and actions issued by professionals accounting body or government or other regulatory body covering features of acknowledgment, measurement, treatment, presentation and disclosure of accounting transactions in the financial `statement.

IASB

International Accounting Standard Board was formed an accounting standard is a principle that guides and regulates accounting practices. The Generally Accepted Accounting Principles (GAAP) is a group of accounting standards generally accepted as appropriate to the field of accounting necessary so financial statements are meaningful across a wide variety of businesses and industries. An accounting standard is a guideline for financial accounting, such as how a firm prepares and presents its business income, expenses, assets and liabilities, and may be in accordance to standards set by the IASB.

Literature Review

Dr.Mahender k. Sharma, did work in the field of IFRS and India- Its problems and challenges in 2013. The main aim of this study is to analyse the information available on IFRS implementation process in India. It also aims to adoption of IFRS procedure in India and the utility for India in converge with IFRS.

Srivastava, Anubha; Bhutani, Prerna, did work in the field of IFRS in India: Challenges and Opportunities" in the year of 2012. The main aim of this study is to analyse to find out up to what extent IFRS has been adopted by the organisations, companies are facing issues and challenges in IFRS and to take the measures in the process.

Kaushik Dattadid work in the field of "similarities and differences a comparison of IFRS, US GAAP and Indian GAAP" in the year of May 2009. The main aim of this study recognises that there are many merits arising from convergences to various stakeholders.

Statement of the Problem

Most of the countries have faced obstacles in their decisions to converge IFRS, its wide spread adoption has been helped by the disagreement that he welfares outweigh the costs. There has been aimpulsion towards the conversion of IFRS improved and issued by the IASB. The organisations should enable managers and others to measure the effectiveness of the financial reporting system in place such as training and growth for practitioners and few members, due meticulousness for accounting standards and overall institutional and expert organisation and the overall institutional and professional organisation conductive for effective used standards. So adoption of IFRS is not able to get information regularly and increase the communication like between all shareholders and also decrease the cost of preparing financial statements in the global level organisation.

Objectives

1. To develop and adopt of IFRS in India
2. To examine the impact of IFRS on quality of financial statements
3. To find out the issues involved in convergence of IFRS in India.
4. To analyse the challenges in convergence of IFRS in India.

Methodologies

For the present study, mainly literature survey and secondary data has been used. The required secondary data was collected from the authorised Annual Reports and official website of ICAI and IFRS, various journals and research papers, diagnosticStudy reports and newspapers articles have been surveyed in making this study.

Conversion or Adoption of IFRS in India

Now India has become an International economic force. Indian companies haveexceeded in several sectors of the industry that includes ITES (Information Technology Enable Service),Software, pharmaceutical, automobiles to name a few.Adaptation is much more than a technical accounting issue. IndAs (the converged IFRS Std.) in India may affect a company's day processes and even impact the reported profitability of the business itself. Conversion brings onetime opportunity to comprehensively reassess financial reporting. MCA issued note outlining the various phases in which Indian Accounting standards converged with IFRS is planned to be applied in India for company's other than banking companies, Insurance companies and NBFCs. The announcement of these IFRS converged standards fills up significant gaps that exist in the current accounting guidance and India can now claim to have financial reporting standards, that are contemporary and virtually at par with the leading global standards.

After presentation of Companies Act 2013 the ministry of corporate affairs has focus to applied IFRS from April 1 2011. According to the draft plan the ministry announces to implement IFRS in the companies having turnover over Rs. 1000 crore from April 1 2015 and from April 1 2016 for those whose turnover is between Rs. 500 crores to Rs. 1000 crore but the professionals are still having difference on how to get fair value of assets and liabilities.

India has to develop its discussion regarding to IFRS convergence. Also need to recover some training programs for IFRS policies. For successful conversion of IFRS with Indian Corporate, India has well-organized experts to operate in this arena. Moreover,IFRS require the fair market value applications in financial reporting this may create noteworthychanges in financial details presented in financial reports. This may result in the reduced the earnings of the company. Indian companies have to create awareness to customers, investors and stakeholders regarding IFRS as well as they have to make clear themselves to explain the reason for this change and maintain understanding, transparency and reliability of their financial statements. Due to the lack of availability of professionals with valuation skills to stimulate Indian Corporate to get fair value estimate, India has not gain benefits of IFRS. If companies are following the encouraging of adopting of IFRS effectively has to get more profits in the last year like IT Companies have to get good profit from the convergence with IFRS.

Issues

The process of IFRS which will carry out such activities required for IFRS implementation process. It deals with the implementation and convergence of first time process. Recording of accounts and reporting issues on rules, regulations, and procedures on core business of the entitles. Then the firm will find the key conversion dates according to IFRS training plan has laid down. To find out the important financial reporting standards to the firm and recent financial reporting standards followed by the firm and includes IFRS.

Challenges

Convergence of IFRS must get several benefits as may be looked out by the different people, there will be many challenges that will be faced.

GAAP and IFRS

Adoption of IFRS means that the entire set of financial statements will be required to undergo a extreme 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.

Training and Education

Lack of training facilities and academic courses on IFRS will also pose challenge in India. There is a need to be educated on IFRS and its application.

Taxation

IFRS convergence would disturb many items in the financial statements and accordingly the tax liabilities would also change. 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. The taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS, this is another challenge resulting from application of IFRS, it is extremely important that the taxation laws recognize IFRS grievance financial statements otherwise it would replacement managerial work for the companies.

Fair value Measurement

The use of fair value accounting can bring unpredictability and personally to the financial statements it is very difficult to arrive at the fair value and valuation professionals feel difficulty to changes from conventional method to fair value method. All the adjustments to fair value results in profit or loss which reflected to the income statement. The fair value financial reporting under International Financial Reporting Standards (IFRSs) got twisted in the current economic confusion in the US that shocked global financial markets and institutions. As per fair value accounting banks and other entities would require adopting mark to market valuation of financial assets.

Auditing

Audit firms in India is another sector who should audit the fair value accounting as per the IFRS without any guidance at present all the firms are doing the audit as per the cost concept 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 applied without adequate audit guidance by the ICAI, it will not be acceptable to expect from the auditors to release their responsibility as per the new Companies Act, 2013. This is the challenging for less globally oriented audit firms which typically may have fewer resources available through affiliated or network firms located in jurisdictions in which issuers already report in accordance with IFRS.

Other Governing Changes

In addition to the direct tax consequences covered by the ICDS, the regulators would also need to make changes to other regulations such as indirect taxes particularly when India moved \ towards Goods and Service Tax (GST). This is particularly relevant since the impact on sales, earnings and net worth for several companies may not be irrelevant. Although the regulators need to do their bit, there is a need for an active discussion amongst companies, industry association, investors, lenders and analysts on the impact and challenges relating to the transition.

Actions Taken to Report the Challenges

1. For assisting its members, the ICAI council has formed an expert advisory committee to answer requests from its members.
2. The ICAI issued 30 interpretations of accounting standards, with a view to resolve various complicated interpretational issues arising in the implementation of IFRS.
3. Guidance notes have been issued by ICAI for providing immediate guidance on accounting issues.
4. For changes required in rules and regulations of various regulatory bodies, draft recommendations have been placed before Accounting Standard Board
5. To facilitate discussions at seminar, workshops, etc. ICAI has issued some material on newly issued accounting standards.

Impact of IFRS on Quality of Financial Statement

The impact of financial statements of some of the changes are outlined in this paper.

Business Combination

Business Combination is the key roleof Impact of IFRS on quality of financial statement. If any company has to amalgamate or absorb, adoption of IFRS3is the major impact of financial statement IFRS 3, most if not all accounting standards used by European companies involved some type of an allocation of the acquisition cost to specifically identifiable assets and liabilities of the acquired company; the remainder remained as unallocated goodwill. The impact of IFRS on assets and liabilities of acquired companies were typically measured at fair value.

Consolidation of Financial Statements

IFRS 10 prescribes the consolidated financial statements. Consolidation procedures are the following:

- Combine all the items like assets, liabilities, equity, income, expenses and cash flows of the holding and subsidiary companies.
- The holding company's portion of equity of each subsidiary
- The carrying amount of the holding company's investment in each subsidiary.
- Remove in full intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group.

Summery of Findings

The procedures taken by ICAI and the other regulatory bodies to enable the smooth convergence to IFRS are praiseworthy and give the positive idea that the country is ready for convergence. The need is to have a methodical approach to make the organisation and the investors ready for the change and the standards ready for renovation. Corporates need to tackle themselves for constant updating and not only for the first-time adoption. It is advocated that adoption of IFRS will lead to easier comparability of financial data across borders and assessor investment opportunities.

Conclusions

Conversion from Indian GAAP and IFRS with Indian Accounting System will face many complications but the adoption of IFRS continues with many countries setting timetable or roadmap for adoption expecting to secure benefits of IFRS adoption. Nevertheless, there are several challenges a country must provoke and overcome. In India, the financial reporting thus must be viable and based on global accounting standards. The paper discusses the impact of IFRS on quality of financial statement and issues and challenges of convergence of IFRS in India will lead to greater transparency and understandability and also reduced national standard setting cost.

References

1. Jermakowicz, Eva K. 2004. Effects of Adaptation of International Financial Reporting Standards in Belgium: The Evidence from BEL-20 Companies.
2. Rong-RueyDuhNational Taiwan University, August 21, 2009," Adopting IFRS: Implications for Accounting Educators".
3. Sumon Bhattacharjee, "Problems of Adoption and Application of International Financial Reporting Standards (IFRS) in Bangladesh", International Journal of Business and Management, Vol 4. No 12 December 2009.
4. Barth, M. E., W. R. Landsman, and M. H. Lang. 2008.The international of accounting standards and accounting quality. TheJournal of Accounting Research 46, 467-498.
5. Puspitaningtyas, Z. 2012. The Relevance of Accounting Information Value and It's Benefits for Investors. The Journal of Economics and Finance. Vol. 16, 2, 164-183
6. Armstrong, C.S., M. E. Barth, A.D. Jagolinzer, and E. J. Riedl. 2010. Market Reaction to the Adoption of IFRS in Europe. Accounting Review 85 (1): 31-61.
7. Zuliarni, S. 2012. The Effect of Financial Performance of the Company's stock price on Mining and Mining Service in the Indonesia Stock Exchange (BEI).The Journal of Business Applications.Vol. 3, 1.
8. Barth, ME, G.Linch and T.Shibano, 1999, The International Accounting Harmonization and Global Equity Markets. Journal of Accounting and Economics 26: 201-270.
9. Brown, S, J., And J.B Warner. 1985 "Using Daily Stock Return: The Case of Event Studies", Jornal of Financial Economics 14, hal.3-31
10. Covrig, V. M., M. L. De Fond, and M. Hung. 2007. "Home biased, foreign mutual fund holdings, and the voluntary adoption of International Accounting Standards". Journal of Accounting Research 45 (1): 1-70.
11. Fama, E.F. 1970. Efficient Capital Markets: A Review of Theory and Empirical Work. Journal of Finance 25, p. 383-417.