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International Financial Reporting Standards (IFRS) and Indian Accounting Standard (Ind AS) Implication, Scope and Challenges

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Abstract

The world has become a global village courtesy globalization and foreign trade policies adopted by various countries of the world. The volume of global transaction has increased drastically in the last few decades. More and more companies are looking outside their boundaries for potential buyers, targets, and capital so the knowledge of International Financial Reporting Standards here after referred as IFRS becomes increasingly important. Indian Accounting Standard is the Accounting standard adopted by companies in India and issued under the supervision of Accounting Standards Board (ASB) which was constituted as a body in the year 1977. MCA has to spell out the accounting standards applicable for companies in India. The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting. Although there is coordination between FASB and IASB still there are many differences between Indian Accounting standards Ind AS and IFRS. Understanding these differences and their impact on key deals will help in decision making process.

Ravi Kumar Rangvani
Assistant Professor,
Dept. of Commerce,
CN Arts & BD Commerce College,
Kadi, Gujarat, India

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Introduction

A good financial reporting system is the most important aspect of any country or organization to run the system effectively. Having this aspect in their mind every country have its own accounting rules and principles which are known as accounting standards. Every company prepares its financial statements in accordance with the accounting standards followed by that country. Because of globalization every country is doing business across its boundaries with other countries so for that companies are required to prepare different set of accounts as per other country requirement so that comparison can be done easily. There arises a need for common set of accounting standards for all. IASB introduced IFRS initially it was adopted by European countries and later on other countries also adopted converged IFRS. Till now approximately 120 countries have adopted IFRS and India is one of them.

In India Institute of Chartered Accountants of India (ICAI) plays key role in implementation of IFRS in three phase manner. IFRS are not fully adopted by India but they are converged as per Indian environment and named as IndAS.The Paper deals with Implications,Scope and Challenges in adoption of IFRS in India.

The IASB is an independent accounting standard-setting body, based in London. It consists of 15 members from multiple countries, including the United States. The IASB began operations in 2001 when it succeeded the International Accounting Standards Committee. It is funded by contributions from major accounting firms, private financial institutions and industrial companies, central and development banks, national funding regimes, and other international and professional organizations throughout the world. While the AICPA was a founding member of the International Accounting Standards Committee, the IASB's predecessor organization, it is not affiliated with the IASB. The IASB neither sponsors nor endorses the AICPA's IFRS resources website (www.IFRS.com).1

The use of IFRS/US GAAP in India by companies for its statutory reporting is not allowed. Companies may be affected by IFRS/US GAAP at different times and to a different degree depending on factors such as size, industry, geographic makeup and global expansion plans. The global merger and acquisitions are taking place at very high level. More and more companies are looking outside their boarders for potential buyers, targets and capital, knowledge and understanding of IFRS and US GAAP becomes interestingly important. Despite the FASB and IASB recent standard setting coordination there are some differences in both. Understanding the difference is very important and we also need to understand the impact of key aspects and at the same time its impact on long term and short term financial reporting requirements will lead to a more informed decision making process.

India has not adopted IFRS standards. India has adopted Indian Accounting standards (Ind AS) that are based on and substantially converged with IFRS standards as issued by IASB. Ind AS is being applied in a phased manner from 1 April 2016, beginning with companies whose net worth is equal to or exceeding 500 crore INR. Comparative Ind AS information for the year ending on 31st March 2016 is also required. Listed companies and others with net worth equal to or exceeding 250 crore INR have to follow standards from 1 April 2017. Banks and Insurance companies are required to comply with Ind AS from 1 April 2018.The companies not covered under Ind AS roadmap have to continue apply existing Indian GAAP, However they voluntarily adopt Ind AS

but if once Ind AS is applied an entity cannot switch back to Indian GAAP.

IFRS comprises the following

1. International Financial Reporting Standards (IFRS) issued after 2001
2. International Accounting Standards Issued after 2001
3. Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) after 2001
4. Standing Interpretation Committee (SIC)
5. Framework for the preparation of Financial Statements 1989 [2].

Objectives of the Study

This paper deals with the scope and challenges in implementation of converged IFRS in India and measures taken to face the challenges in India.

Research Methodology

This paper is based on secondary data collected through various websites, books, and Research papers.

Literature Review

Marra , 2016study the pros and cons of Fair Value measurement in global accounting and found that it has positive remark on securities traded on highly liquid markets and questionable remark on illiquid or non-traded assets such as goodwill. Changes have been evident so globally financial reports are ever increasing based upon fair value.

M. Muniraju and Ganesh S.R., 2016The 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, leaseaccounting 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. The paper suggested that conferences, seminar and events should be held to makes it better understanding for smooth conversion. Gokulnath M, 2015Discuss various challenges in IFRS implementation in India like, awareness of IFRS, lack of expertise, fair value measurement and existing law has not supported IFRS and also encountered benefits of IFRS and conclude that by proper planning IFRS implementation will be beneficial for Indian corporate and Investors etc

Sumaiya Fathima, 2015discuss in their study the prospective challenges like difference in GAAP & IFRS, training and education, legal & Regulatory consideration etc. 2

Amit Kumar Chakrabarty, 2014 discussin their study the conceptual framework of Ind AS and found that IFRS is necessary for Indian corporate for high quality reporting and its significance in Liberalization and globalization era

MeenuSambaru and N. V. Kavitha, 2014discuss the various benefits and challenges**.** There is an urgent need to deal with these challenges and Indian corporate & accounting professionals improve their preparedness for effective implementation of IFRS in India.

Vinayagamoorthy, 2014 discuss various challenges in IFRS adoption in India. There are the various differences between GAAP & IFRS. Lack of training and education, complexity in fair value measurement, various regulatory laws override other law and IFRS does not permit that, re negotiation has required in IFRS for contract, Tax treatment. Paper concludes that IFRS adoption challenges can be addressed by the suitable efforts of top management, auditors/accounting professionals and regulators and help in efficient implementation.

Aabida Akhter, 2013 conclude the result of the survey on awareness on IFRS among the PG students of Kashmir. Majority of students was unaware about the IFRS full form, concepts, Convergence and difference between GAAP and IFRS so it is clear that there is a great need of awareness as well as education on IFRS among the accounting students for effective implementation and understandability.

Rakesh H M, 2013in their study to assess the relationship between IFRS and FDI and its impact on Indian Economy found out that IFRS is a right step in this direction. With adoption, Indian companies will produce more credible financial statements that will not only be uniform but also provide a basis for better interpretation. They invariably boost investors' confidence and attract cross border financial transaction which is the basis for economic growth.

Kishori J. Bhagat in his article (2012) There are so many aspects relating to IFRS convergence which still need to be clarified, such as IFRS first time adoption standard, compliance of comparative previous period figures with IFRS, changes required to the Companies Act to comply with IFRS, changes to the Income-Tax Act, the Reserve Bank of India's requirements for banks, etc.

H. S. Patange (2012)discuss in their article that being a premier accounting body in the country, ICAI took upon itself the prominent role by establishing Accounting Standard board , more than twenty five years back, to fall in line with the international and national expectations. Today, accounting standards issued by the Institute have come a long way.

Pawan Jain (2011)in their paper concludes that for high quality corporate financial reporting environment depends on effective Control & Enforcement Mechanism. Merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure.

Shobana Swamynathan & Sindhu, 2011 in their researchpaper investigate the implications of adopting IFRS by Wipro through their financial statement and it conclude that IFRS is fair value oriented and Balance Sheet oriented accounting where there are more transparent disclosures and Indian GAAP is conservative approach.

Challenges inInd AS implementation

Adoption of IFRS by way of converged Ind AS will help the Indian industry grow at global level in various ways. Transition process may be tricky or difficult and it makes implementation process challenging. Following challenges might be faced by the Industry and Corporate:

Lack of Trained Workforce

The biggest problem in adoption of IFRS in India is lack of trained workforce. IFRS has been implemented since 2011 but still India lacks the manpower with proper knowledge of IFRS. The institute of Chartered Accountants of India (ICAI) has started training programmes on IFRS but still there exist a large difference between actually required professionals and available professionals.

Awareness of International Financial Reporting Standards

The whole process of adoption of IFRS requires undergoing many changes to reduce or overcome the differences between GAAP and Ind AS. The challenge is to bring about awareness among the users of financial statements.

Requirement of Amendment in existing Laws and rules

There are many barriers in implementations of IFRS due to present taxation laws in India, SEBI regulations and guidelines, banking rules and Insurance regulatories.

Needs a lot of time

It is a time consuming process. According to a report most of the companies in Europe and Australia took more than one year to complete IFRS transition. In India IFRS adoption has been delayed by the Government. ICAI has a major role to play in harmonization and implementation but only few companies prepare their statements in accordance to the IFRS.

High conversion cost

The transition of IFRS requires high cost because it requires expert staff and dual set of financial reports are also required for the first time users so extra manpower is required for that and if the organization does not have sufficient staff it has take help of outside sources which would require more and more extra cost.

Complex adoption process

The adoption process of IFRS is very much complex because it involves various technical aspects. In IFRS framework treatment of various accounting aspects is different. For ex treatment of lease, treatment of contract accounting entries, premium payable of redemption of debentures, discount allowed on issue of debenture, underwriting commission paid on issue of debentures etc. Many such aspects are to be taken into consideration while adopting IFRS.

Benefits of IFRS adoption

Easy comparison at Global level

All over the world the companies are adopting IFRS for reporting their financial statements so by adopting IFRS in preparation of financial statements by Indian companies the comparison would become easier for the Indian companies to compete at global level. Also for raising the funds from various investors of the world the financial results are to be provided to interested parties and if the reports are prepared in accordance to that it would be compatible for them to understand.

Easy listing of shares in Foreign Capital Markets

As discussed earlier the Indian companies are adopting expansion process so they are not limited only up to economical or geographical boundaries but they are also raising and investing funds in foreign companies as well. They are getting listed in American and European Capital markets through raising funds from these markets.One of the major pre-requisites of getting listed on European Markets is preparation of Accounts as per IFRS requirements. A few Indian Companies which have raised funds through the European Capital Markets have started preparing their Financial Statements as per IFRS.

High standards of financial reporting

Adopting IFRS ensures high standards and better quality of financial reporting so that application of various accounting principles and reliability of reports can be maintained. Fair value measurement concept is followed by IFRS so that Indian companies can actually get the fair value of their assets and net worth.

Elimination of multiple standards

IFRS can eliminate following multiple standards since only single set of standards are prepared under IFRS. Big companies of India like Reliance, Tata, Adani, Birla have their business expanded in India as well as in America, Australia and European countries as well. They prepare their financial reports in Indian companies as per Ind AS whereas reports of companies operating in foreign countries are prepared on the basis of other standards so IFRS ensures that multiple standards are not followed.

Better access to Global capital markets

Indian economy has progresses a great deal in last few decades. Indian firms are not only setting their plants within country but they are setting their plants outside country as well. For this purpose they need funds at cheaper rates from foreign capital markets and to meet their requirements adoption of IFRS becomes mandatory.

Conclusion

Indian economy has advanced a lot in the past few decades and it is important for the Indian companies to be in parallel to the global companies big companies of India like Reliance, Tata, Wipro, Adani, Birla, Infosys and many such other companies have expanded their business outside the country and they have been successful as well. They raise funds from capital markets and they also get listed in foreign capital markets so to cop up with the requirements of foreign markets and funds requirement and make continuous progression Indian companies have to follow the requisite standards. Merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure.[3] Top Management should ensure that the Financial Statements are prepared in compliance with the IFRS. Auditors and Accountants should prepare and audit Financial Statements in compliance with IFRS. Regulators and Law Makers must implement efficient monitoring system of regulatory compliance of IFRS. Along with this the Regulators should ensure that proper changes are to be made in existing laws for IFRS adoption process.[4]

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