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Obstacles of Implementation of IFRS In India

Adapa Jyothi

Research Scholar, Department of Commerce and Management studies
Andhra University, Visakhapatnam, Andhra Pradesh, India -530003
Email: jyothiadapa8@gmail.com

Abstract

In the age of liberalization, privatization and globalization accounting professionals and economic decision makers are realizing the fact that day-by-day reporting requirements, the information needs of the clients and regulatory bodies are changing very quickly. This has compelled them to go beyond the old accounting practices and reporting procedures. Globalization has laid down a way for all the countries to adopt a single set of accounting standards. More than 100 countries (including India) have converged or recognized the policy of convergence with the IFRS. IFRS are the globally accepted accounting standards and interpretations adopted by the IASB. India has decided to adopt the IFRS by April 2001. In India, the ICAI formulates the accounting standards on various issues. But since last few years, the aim has been following the IFRS to the extent possible. Henceforth, while issuing accounting standards, IFRS need to be adopted suitably. However, deviations from IFRS have been noted due to some unavoidable reasons like legal and regulatory requirements, economic environment, level of preparedness, conceptual differences etc. Thus, it can be argued that even if there has been a lot of deliberation on convergence of Indian accounting standards with IFRS, it is difficult to adopt IFRS considering the indigenous problems. In order to resolve this problem, the ICAI has given a roadmap through which, IFRS can be adopted in India in a phased manner from April, 2011. The present paper tries to highlight the obstaclesposed by the adoption of IFRS and particularly the role of academicians for convergence with IFRS.

Keywords: *Accounting standards, IFRS, IAS and Convergence*

1. Introduction

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which are comparable, understandable, reliable and relevant as par the users internal or external.

International Financial Reporting Standards (IFRS) is a set of financial reporting standards issued by the International Accounting Standards Board (IASB) is globally recognized under the brand name IFRSs. IFRSs are a trade mark of the International Accounting Standards Committee Foundation.

IFRSs comprise of:

- International Financial Reporting Standards
- International Accounting Standards and
- Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) and
- Interpretation issued by the former Standing Interpretation Committee (SIC).

The Ministry of Corporate Affairs (MCA) has finalized thirty-five Ind AS in February 2011. The actual date of application of these Ind AS is yet to be notified. These standards will need to be incorporated into law by amendments to the Companies Act. While these standards are similar to IFRS in many respects, some exemptions / changes have been made to some of them which may result in significant differences between IFRS and Ind AS for some companies. For instance, the standards equivalent to IAS 26, IAS 41, IFRS 9, IFRIC 2 and IFRIC 15 are yet to be issued while the application of IFRS 4, IFRS 6, IFRIC 4, IFRIC 12 and SIC 29 has also been deferred.

There is a process initiated by the Indian standard setters to study and expose for comments on the new developments in IFRS, and this is to enable the convergence process to continue at some point in the future.

Until the applicability of Ind AS is clarified, the original application was scheduled to be in phases commencing with certain larger companies making the move from April 1, 2011.

2. Review of Literature

Muniraju and Ganesh (2015) describes that the companies will find comfort in using accounting standards converged with IFRS if their accountants, auditors, shareholders and other stake holders along with the rating agencies and investment analysts are conversant with such new standards. It is true that during the transition period some problems may have to be faced by any of the aforesaid persons due to lack of adequate knowledge and experience. But such problems can be mitigated if the professional institutes and industry groups take initiative for imparting intensive training to the accounting and auditing professionals on the practical implications and applications.

Rajan Kumar (2015) showed that there are limitations in its implementation in India. Small and midsized industry would face challenge in terms of scarcity of expertise. Organizations would need to incur additional cost for modifying their current accounting and procedures for meeting the new disclosures and reporting requirements. Costs would also be incurred for upgrading the IT system. Irrespective of various challenges, adoption of IFRS in India has significantly changed the contents of corporate financial statements.

Abhilasha (2014) Concluded that transition from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended. This transition is not without difficulties as to the proper implementation process which would require a complete change in formats of accounts, accounting policies and also amendments in existing laws and regulations. Keeping in mind the fact that IFRS is more a principle based approach with limited implementation and application guidance and moves away from prescribing specific accounting treatment, all accountants whether practicing or non-practicing have to participate and contribute effectively to the convergence process. This would lead to subsequent revisions from time to time arising from its global implementation and would help in formulation of future international accounting standards.

MeenaJivrajbhaiMakwana (2013)discussion thatthe International Financial Reporting Standards (IFRS) aims to make international financial reporting comparisons as easy as possible because each country has its own set of accounting rules. The steps taken by ICAI and the other regulatory agencies to facilitate the smooth convergence of IFRS are commendable and give the positive idea that the country is ready for convergence.

Kapoor and JyotiRuhela (2013)expressed that many countries of the world have been benefitted after implementing IFRS; it is both threat and opportunity for India. Indian companies have various challenges and issues to implement IFRS. The biggest challenge in India is to harmonize IFRS with respect to existing laws and regulations. Proper implementation of IFRS will require substantial amendment in existing laws.

Mahender and Jignesh(2013)recognized thatthe problems and challenges in adoption of IFRS are the regulatory bodies should ensure changes in existing Companies Act 1956, Taxation, Foreign 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.

Sarbapriya Ray (2012)tried thatConvergence in India would be facilitated by the fact that historically Indian accounting standards have been based on principles as against rules. The conflicting legal and regulatory requirements related to financial statements, the technical preparedness of industry and accounting professionals and the economic environment prevailing in the country will pose challenges to this convergence. Given the task and challenges, all the entities should ensure that their convergence plan are designed in such a way as to achieve the objective of doing it once, but doing it right.

Chandrakant and Sachin (2012) IFRS provide complete set of reporting system for companies to make their financial statements. IFRS is a necessary step for the orderly development of the global capital market. It will substantially reduce the administrative costs of accessing the different capital markets. IFRS will also enhance the ability of investors to make informed cross-border investment decisions. It is true that there are still some obstacles to overcome but the pressure of globalization is so strong that it should not take much time to identify methods to overcome on it.

SunitaAjaykumarRai (2012)opined thatthe measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS are commendable and give the positive idea that the country is ready for convergence. The need is to have a systematic approach to make the organization and the investors ready for the change and the standards ready for renovation. Corporate need to gear themselves for constant updation and not only for the first time adoption.

3. Objectives of the Study

- To study the awareness among academicians about convergence of Indian Accounting Standards to IFRS; and
- To study the obstacles of convergence of Indian Accounting Standards to IFRS from academicians' perspective.

4. Research Methodology

The present study is based on the both primary and secondary data, an exploratory in nature, was conducted in Visakhapatnam city. Ninety-eight respondents were selected who teach accounting and finance and taxation papers. Purposive sampling technique was used. Teachers sample represent 13 junior Lecturers, 20 Senior Lecturers, 18Associate professors, 21 Assistant professors, and 26 Professor thus, bringing total respondents number to 98. A structured questionnaire containing different questions relating to various aspects of awareness of convergence of Indian Accounting Standards to

IFRS has been used.The SPSS 16.0 version was used to interpret and analyze the data. The techniques of frequencies, percentage and ANOVAs applied to derive the results.

5. Analysis and Interpretations

Table.1: Age Group-wise Distribution of Respondents

Age in years	Frequency	Percent
Below - 30	9	9.2
31-40	23	23.5
41-50	41	41.8
50 and above	25	25.5
Total	98	100.0

Table .1 presents age wise distribution of the respondents. Out of the total respondents 41.8% are in the age group of 41-50 years, 25.5% are in the age group of 50 and above years. Further, 23.5 per cent are in the age group of 31-40 years and 9.2 per cent are aged below 30 years.

Table.2: Gender of the Respondents

Gender	Frequency	Percent
Male	66	67.3
Female	32	32.7
Total	98	100.0

Table.2 depicts gender-wise distribution of respondents. It can be observed from the sample that majority of the respondents i.e., 66 out of 98 total respondents representing 67.3 per cent belongs to male category whereas the remaining 32 respondents representing 32.7 per cent belongs to female category.

Table.3: Academic Qualifications of the Respondents

Academic Qualifications	Frequency	Percent
Ph.D.	53	54.1
M.Phil.	15	15.3
Master	30	30.6
Total	98	100.0

Academic Qualifications of the sample respondents is presented in table3. Out of the total sample 53 respondents representing 54.1 per cent possess Ph.D. as their academic qualification, followed by 30 respondents representing 30.6 per cent are having Master's Degree as their academic qualification and 15 respondent's representing 15.3 per cent possess M.Phil.Degree as their academic qualification.

Table.4: Professional Qualifications of the Respondents

Professional Qualifications	Frequency	Percent
Commerce	91	92.9
Management	7	7.1
Total	98	100.0

Table.4 depicts the Professional Qualifications of the Respondents. It can be observed from the sample that majority of the respondents i.e., 91 out of 98 total respondents representing 92.9 per cent possess Commerce as their Professional Qualifications whereas the remaining 7 respondents representing 7.1 per cent possess Commerce as their Professional Qualifications.

Table.5: Designation of the respondents

Designation	Frequency	Percent
Junior Lecturer	13	13.3
Degree Lecturer	20	20.4
Assistant Professor	18	18.4
Associate Professor	21	21.4
Professor	26	26.5
Total	98	100.0

Table.5 shows the Designation of the respondents. Out of the total sample 26 respondents representing 26.5 per cent their designation is Professor, followed by 21 respondents representing 21.4 per cent their designation is Associate Professor, whereas 20 respondents representing 20.4 per cent their designation is Degree Lecturer, 18 respondents representing 18.4 per cent their designation is Assistant Professor and the remaining 13 respondents representing 13.3 per cent their designation is Junior Lecturer.

Table.6: Work Experience of the respondents

Work Experience	Frequency	Percent
Below 5 years	11	11.2
6-10 years	32	32.7
11-15 years	23	23.5
16-20 years	10	10.2
21 years and above	22	22.4
Total	98	100.0

Table.6 presents the Work Experience of the respondents. Out of the total sample 32 respondents 32.7 per cent representing their work experience is 6-10 years followed by sample 23 respondents 23.5 per cent representing their work experience is 11-15 years, whereas 22 respondents 22.4 per cent representing and 11 respondents 11.2 per cent representing their work experience is 21 years and above and below 5 years and 10 respondents 10.2 per cent representing their work experience is 16-20 years.

Hypothesis: there is no significant difference in opinions for different category of academicians regarding obstacles of introduce IFRS in India.

Table.7: ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Taxation system and in adequate technical infrastructure	Between Groups	1.892	4	.473	.539	.707@
	Within groups	125.432	143	.877		
	Total	127.324	147			
In adequate knowledge of Indian professional accountants.	Between Groups	3.734	4	.934	2.056	.090@
	Within groups	64.935	143	.454		
	Total	68.669	147			
Inconsistency of existing laws and regulatory framework of accounting	Between Groups	25.005	4	6.251	6.513	.000***
	Within groups	37.265	143	.960		
	Total	162.270	147			
Implementing IFRS has increased financial reporting risk due to technical complexities.	Between Groups	20.980	4	5.245	8.238	.000***
	Within groups	91.040	143	.637		
	Total	112.020	147			
In IFRS framework/ treatment of some expenses is different than present method.	Between Groups	19.530	4	4.883	4.975	.001*
	Within groups	140.328	143	.981		
	Total	159.858	147			
It is Difficult for the small firms.	Between Groups	1.238	4	.309	.380	.823@
	Within groups	116.438	143	.814		
	Total	117.676	147			
IFRS financial statements are significantly more complex.	Between Groups	15.790	4	3.974	7.122	.000***
	Within groups	79.258	143	.554		
	Total	95.047	147			
Lack of presentation in international bodies.	Between Groups	7.535	4	1.884	2.967	.022**
	Within groups	90.789	143	.635		
	Total	98.324	147			
Bias by the developed countries.	Between Groups	12.940	4	3.235	9.003	.000***
	Within groups	51.385	143	.359		
	Total	64.324	147			
Lack of political and local recognition of IASB.	Between Groups	12.251	4	3.130	4.162	.003*
	Within groups	107.553	143	.752		
	Total	120.074	147			
The regulatory authorities have to make significant changes in the norms for the Industry.	Between Groups	15.996	4	3.999	8.570	.000***
	Within groups	66.727	143	.467		
	Total	82.723	147			
The fair value method used for valuing embedded derivatives is a complex method.	Between Groups	18.688	4	4.672	5.466	.000***
	Within groups	122.231	143	.855		
	Total	140.919	147			

*** - *Highly Significant* ** - *Significant at 5% level*

* - *Significant at 1% level* @ - *Not Significant*

It can be noted that the obtained significance values forInconsistency of existing laws and regulatory framework of accounting (0.000), Implementing IFRS has increased financial reporting risk due to technical complexities (0.000),IFRS financial statements are significantly more complex (0.000),Bias by the developed countries (0.000), The regulatory authorities have to make significant changes in the norms for the Industry (0.000), The fair value method used for valuing embedded derivatives is a complex method(0.000)highly significant. Hence it can be concluded that there is a high significant difference of opinions on Inconsistency of existing laws and regulatory framework of accounting, Implementing IFRS has increased financial reporting risk due to technical complexities, IFRS financial statements are significantly more complex, Bias by the developed countries, The regulatory authorities have to make significant changes in the norms for the Industry, The fair value method used for valuing embedded derivatives is a complex method based on the different category of academicians.

It can be noted that the obtained significance value for Lack of presentation in international bodies (0.022) is significant at 5% level. Hence it can be concluded that there is significant difference of opinions on Lack of presentation in international bodies based on the different category of academicians.

It can be observed that the obtained significance values for In IFRS framework/ treatment of some expenses is different than present method (0.001), Lack of political and local recognition of IASB (.003) are significant at 1% level. Hence it can be concluded that there is a significant difference of opinions on In IFRS framework/ treatment of some expenses is different than present method, Lack of political and local recognition of IASB based on the different category of academicians.

It can be noted that the obtained significance values for Taxation system and in adequate technical infrastructure (.707),in adequate knowledge of Indian professional accountants (0.090),it is Difficult for the small firms (0.823) are not significant. Hence it can be concluded that there is no significant difference of opinions onTaxation system and in adequate technical infrastructure, in adequate knowledge of Indian professional accountants, it is Difficult for the small firms based on the different category of academicians.

6. Findings of the Study

1. Out of the total respondents 41.8% are in the age group of 41-50 years, 25.5% are in the age group of 50 and above years.

2. It can be observed from the sample that majority of the respondents i.e., 66 out of 98 total respondents representing 67.3 per cent belongs to male category whereas the remaining 32 respondents representing 32.7 per cent belongs to female category.

3. Out of the total sample 53 respondents representing 54.1 per cent possess Ph.D. as their academic qualification, followed by 30 respondents representing 30.6 per cent are having Master's Degree as their academic qualification and 15 respondent's representing 15.3 per cent possess M.Phil.Degree as their academic qualification.

4. It can be observed from the sample that majority of the respondents i.e., 91 out of 98 total respondents representing 92.9 per cent possess Commerce as their Professional Qualifications whereas the remaining 7 respondents representing 7.1 per cent possess Commerce as their Professional Qualifications.

5. The study found that out of the total sample 26 respondents representing 26.5 per cent their designation is Professor, followed by 21 respondents representing 21.4 per cent their designation is Associate Professor, whereas 20

respondents representing 20.4 per cent their designation is Degree Lecturer, 18 respondents representing 18.4 per cent their designation is Assistant Professor and the remaining 13 respondents representing 13.3 per cent their designation is Junior Lecturer.

6. Out of the total sample 32 respondents 32.7 per cent representing their work experience is 6-10 years followed by sample 23 respondents 23.5 per cent representing their work experience is 11-15 years.

7.The study reveals that there is a high significant difference of opinions on Inconsistency of existing laws and regulatory framework of accounting, Implementing IFRS has increased financial reporting risk due to technical complexities, IFRS financial statements are significantly more complex, Bias by the developed countries, The regulatory authorities have to make significant changes in the norms for the Industry, The fair value method used for valuing embedded derivatives is a complex method based on the different category of academicians.

8. The study found that there is significant difference of opinions on Lack of presentation in international bodies, In IFRS framework/ treatment of some expenses is different than present method, Lack of political and local recognition of IASB based on the different category of academicians.

7. Conclusion

Converging to global accounting standards i.e. IFRS facilitates comparability between enterprises operating in different jurisdictions. Thus, global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets. Convergence 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. It is also burdensome and costly for enterprises operating across several countries to comply with a multitude of national accounting standards and convert them to a single standard for group reporting purposes. Convergence would thus help reduce both the cost of capital and cost of compliance for industry.

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