

IFRS IMPLEMENTATION IN INDIA: OPPORTUNITIES AND CHALLENGES

Dr. J.Muni Narendra

Post-Doctoral Fellow, ICSSR, Dept. of Commerce,
Sri Venkateswara University, Tirupati.
e-mail: narendrajangiti@gmail.com Cell no: 9000068569.

Dr.Y.Mallikarjunrao

Lecturer, Dept. of Commerce,
S.G.S Arts College, Tirupati

Prof.M.Venkateswarlu

Professor, Dept. of Commerce,
Sri Venkateswara University, Tirupati.
e-mail: drmidasala@gmail.com Cell no: 9491152135

Abstract The International Financial Reporting Standards (IFRS) Foundation is a not-for-profit international organisation responsible for developing a single set of high-quality global accounting standards, known as IFRS Standards. Our mission is to develop standards that bring transparency, accountability and efficiency to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy. International organisations responsible for the wellbeing of the global economy [support our work](#), including the G20, the Financial Stability Board and the World Bank. IFRS Standards are now required in [more than 140 jurisdictions](#), with many others permitting their use. The IFRS Foundation has a three-tier governance structure, based on an independent standard-setting Board of experts (International Accounting Standards Board), governed and overseen by Trustees from around the world (IFRS Foundation Trustees) who in turn are accountable to a monitoring board of public authorities (IFRS Foundation Monitoring Board). It is well known that companies all over the world have become more and more internationally oriented during last few decades. They create fusion, make investment, conduct trade and co-operate over country borders. International Financial Reporting Standards (IFRS) is becoming the global language of business with over 40 per cent of the world having moved to IFRS in the past few years. By 2020, it is expected that all companies in major markets will be using IFRS. The globalization creates an increased need for communication in the terms of language, awareness of culture differences and domestic customs. Moreover the financial communication such as accounting and financial results is just as important for business leaders and employees to master.

Keywords: IFRS, Accounting Standards, Major Markets and Business Leaders.

INTRODUCTION

India being one of the global players, migration to IFRS will enable Indian entities to have access to international capital markets without having to go through the cumbersome conversion and filing process. It will lower the cost of raising funds, reduce accountants' fees and enable faster access to all major capital markets. Furthermore it will facilitate companies to set targets and milestones based on a global business environment rather than an inward perspective. It will enable management to bring all components of the group into a single financial reporting platform. This will eliminate the need for multiple reports and significant adjustment for preparing consolidated financial statements or filing financial statements in different stock exchanges.

In recent years, India has experienced strong economic growth, rising foreign exchange reserves, falling inflation, global recognition of its technological competence and interest shown by many developed countries to invest in the engineers and scientists produced in the country, including by setting up of new research and development centres. Above all, as the largest democracy in the world, India has a reputation for providing leadership for one billion people in a country with different cultures, languages and religions. The technological competence and value systems of India are highly respected. Foreign institutional investors find investing in India attractive. Indians are also investing in companies abroad and are opening new business ventures. The Government of India is also committed to

economic development, ensuring a growth rate of 7–8 per cent annually, enhancing the welfare of farmers and workers and unlocking the creativity of the entrepreneurs, business persons, scientists, engineers and other productive forces of the society. Today, India is one of the fastest growing economies in the world, with a compounded average growth rate of 5.7 per cent over the past two decades. The Government of India has plans to transform India into a developed nation by 2020. In India, accounting standards are issued by the Institute of Chartered Accountants of India based on international financial reporting standards (IFRS). Departures from IFRS are made with a view to the prevailing legal position and customs and usages in the country. Accordingly, this case study of India is prepared to highlight the practical challenges involved in adapting IFRS in India. This case study also throws light on the existing regulatory framework in the country and the enforcement of the standards in the country.

Need for IFRS in India

India already played an increasing important role in the global economy and many Indian companies occupied significant positions in International Capital Markets. IFRS adoption is demand of the day in order to enter global market. India's convergence to IFRS will not only help the economy, but also further the acceptance of IFRS as global accounting language which provides single set of high quality information globally. Adoption of IFRS provides better access to global market as there is single accounting standards which are globally accepted and also helps investors to compare financial statement of different countries which

allows them to enter into global market. It provides better comparability of financial statement of different countries as single accounting standards are followed which helps the investors and other stakeholders to compare financial statement of one country with other country which allows competing globally. Adoption of IFRS is expected to result in better quality of financial reporting due to consistent applications of Accounting Principles and improvement in reliability of financial statement. As IFRS follows a concept of Fair value accounting which help the firms to reflect their true worth of Assets held by them.

Objective of the study

The main objective of the study is to discuss the opportunities and challenges of IFRS in India.

Opportunities of the IFRS

This study will try to connect some of the few opportunities of the IFRS with respect to the firms in India and also India as a country.

Better Access to Global Capital Markets

During the last decade, India has emerged as a strong economy on the global economy map. Indian Firms are expanding. These firms are not only setting plants in other countries but also acquiring other firms across the globe. For this they need funds at cheaper cost which is available in American, European and Japanese Capital Markets. To meet the regulatory requirements of these markets, Indian Companies should report their financials as per IFRS. Thus adoption of IFRS not only helps Indian Firms in accessing global Capital Markets for funds but also availability of funds at cheaper cost.

Easier Global Comparability

Across the globe, Firms are using IFRS to report their financial results. With the adoption of IFRS by Indian firms, the comparison of two becomes easier. Investors, Bankers and Lenders also find it easy to compare the two financial statements following same reporting procedure. Indian companies in the process of raising funds from overseas capital markets have to provide financial results to interested parties. Since majority of Indian Firms are accessing European capital markets, preparation and presentation of financial statements on the basis of IFRS helps firms in getting easy accessibility to these capital markets.

Easy Cross Border Listing

Indian firms require funds for their expansion plans which are not limited to the economic and political boundaries of India. Indian Firms are acquiring firms outside India also. They are also getting listed in European and American 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.

Better Quality of Financial Reporting

Adoption of IFRS is expected to result in better quality of financial reporting due to consistent application of Accounting Principles and improvement in reliability of financial statements. Among various latest trends-based concepts, IFRS follows a concept of fair value which can help Indian firms to reflect their true worth of Assets held in the financial statements.

Since a single body (IASB, London) is preparing IFRS, these are very consistent, reliable and easy to adopt ensuring better quality of financial reporting.

Elimination of Multiple Reporting

Large Business Houses in India like TATA, BIRLA, and AMBANI have firms registered in India and also firms registered outside India in European and American capital markets. Firms registered in India prepare their Accounts as per Indian Accounting Standards whereas firms registered in other countries prepare their financial statements as per the Reporting standards of the respective country. Adoption of IFRS ensures the elimination of multiple financial reporting standards by these firms as they are following single set of Financial Reporting. The above benefits are perceived benefits of adoption of IFRS. Researchers are yet to be carried out to understand actual benefits of adoption of IFRS. Such researches are negligible for Indian financial data, as India is yet to step in the era of IFRS. This calls for a future scope of study on impact of adoption of IFRS by Indian Companies on Indian Economy and Firms.

Challenges of the IFRS

IFRS are formulated by International Accounting Standard Board. However, the responsibility of convergence with IFRS vests with local government and accounting and regulatory bodies, such as the ICAI in India. Thus ICAI need to invest in infrastructure to ensure compliance with IFRS. India has several constraints and practical challenges to adoption and compliance with IFRS. So there is a need to change some laws and regulations governing financial accounting and reporting in India. **Therefore there**

are several challenges that will be faced on the way of IFRS. These are

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.

Training and Education

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

Legal Consideration

Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.

Taxation Effect

IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.

Fair value Measurement

IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of

instability and prejudice to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.

Suggestions for Proper Implementation of IFRS in India

The following suggestions should be considered by Indian regulatory and professional bodies and the by the industry at large to ensure smooth implementation of IFRS in India.

Education and Training

The investors, financial analysts, stakeholders, teachers, accountants, auditors, tax professionals, etc. all need to be educated and trained. IFRS should be introduced as a full-fledged subject in universities, especially in Chartered Accountancy curriculum. The ICAI has already launched Certificate Course and e-learning course on IFRS. Also, in collaboration with the MCA, the ICAI has started a large-scale IFRS awareness drive and has conducted several workshops, seminars and conferences on IFRS in various parts of the country.

Amendments in existing laws

The existing laws should be timely and suitably amended to make them consistent with IFRS.

Tax Clarification

The tax authorities in India should issue clarifications on tax treatment of items arising on account of convergence with IFRS.

Adequate Infrastructure

The Indian firms should build required infrastructure to ensure smooth and hassle free transition to IFRS.

Co-ordination

All the interested parties including regulators, top management, investors,

accounting & tax professionals and other stakeholders should work together as a team to accomplish this challenging task of convergence.

Disciplinary Action

The proposed roadmaps and timelines should be strictly followed and disciplinary action should be taken in case of non-observance and default. The RBI and IRDA should also give clarification on adoption of IFRS for banking and insurance companies. The representation on IASB should be more diverse and political pressure on it should be avoided so as to be fair to all the countries around the world.

Conclusion

Despite various challenges faced by law makers, regulators, industry and accounting professionals, India has been slowly and steadily progressing in the process of convergence. The smooth and speedy transition to IFRS requires India to have adequate infrastructure, sufficient number of educated and trained professionals and proper coordination among the various interest groups involved in the convergence process. Adoption of IFRS in India has significantly changed the contents of corporate financial statements as more refined measurements of performance and state of affairs, and enhanced disclosures leading to greater transparency. With the rapid liberalization process experienced in India over the past decade, there is now a huge presence of multinational enterprises in the country. Furthermore, Indian companies are also investing in foreign markets. This has generated an interest in Indian GAAP by all concerned. In this context, the role of Indian accounting standards, which are becoming closer to IFRS, has assumed a

great significance from the point of view of global financial reporting. Indian companies using the Indian accounting standards are experiencing fewer difficulties accessing international financial markets, as Indian accounting standards are becoming closer to IFRS. Indian standards are expected to converge even further in over the next few years.

2.<https://unctad.org/en/docs/diaeed20081en.pdf>.

3.[https://www.academia.edu/35904219/IFRS Implementation in India: Opportunities and Challenges](https://www.academia.edu/35904219/IFRS_Implementation_in_India:_Opportunities_and_Challenges).

4.[File:///C:/Users/Lenovo/Downloads/Epg module-IFRS in india.Pdf](File:///C:/Users/Lenovo/Downloads/Epg_module-IFRS_in_india.Pdf).

References

1.[https://www.ifrs.org/about-us/our structure](https://www.ifrs.org/about-us/our-structure).