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INTERNATIONAL FINANCIAL REPORTING SYSTEM (IFRS) AND ITS ADOPTION IN INDIA – PROSPECTS AND CHALLENGES

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Abstract: Indian business firms are presenting financial statements in different format as per requirement of countries. It will become cumbersome to make different format. The introduction of IFRS solved this problem as IFRS is a common financial language for business affairs around the world. IFRS is understandable and comparable across globe. In the modern era of globalization in which Indian economy has also bloomed, adopting IFRS would make Indian business at par with other global business and increase the scope of foreign investment in Indian market. India also decided to converge with IFRS by developing a standard called Ind AS. The main aim of the paper is discussing the prospects and challenges and its adoption in India.

Keywords: IFRS, financial statements, globalization, Indian business, economy

INTRODUCTION

Indian business firms are presenting financial statements in different format as per requirement of countries. IFRS is a common financial language for business affairs around the world. IFRS is understandable and comparable across globe. India also decided to converge with IFRS by developing a standard called Ind AS.

Indian Accounting Standards (Ind AS) are based on and substantially converged with IFRS Standards as issued by the Board. India has not adopted IFRS Standards for reporting by domestic companies and has not yet formally committed to adopting IFRS Standards. **Indian Accounting standards (Ind AS).** India is in the process of convergence of Indian accountings standards with International Financial Reporting Standards (IFRS). The current Indian Accounting standards will soon be replaced with Ind AS which are almost on par with IFRS, with some minor departures which are being made after considering the economic environment of the country. This will attract foreign investment in India, as the investor will be able to compare the financial statements of Indian companies with financial statements of companies abroad. As per the Companies (Indian Accounting Standards) Rules, 2015, adoption of IND AS is optional for companies for period beginning on or after 1 April 2015. Further, it is mandatory for following companies to comply with Ind AS in preparation of financial statements for the accounting periods beginning on or after **1 April 2016**:

1. companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more (INR 500 crores or more);

2. unlisted companies having net worth of rupees five hundred crore or more (INR 500 crores or more);
3. holding, subsidiary, joint venture or associate companies of above companies

Further, it is mandatory for following companies to comply with Ind AS in preparation of financial statements for the accounting periods beginning on or after **1 April 2017**:

1) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore (Less than INR 500 crores);
2) unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore or more (Between INR 250 crores and INR 500 crores);
3) holding, subsidiary, joint venture or associate companies of above companies

There is no doubt that the conversion to IFRS is a huge task and a big challenge for any economy as its revolutionary impact requires great deal of decisiveness and commitment. It is in the best interest of an economy to adopt IFRS condition applies that the regulatory agencies, lawmakers, auditors, and accountants, as well as representatives from the business sector, needs to work together to provide an ideal IFRS for the country considering all related issues such as political, social, legal and above all economical. The IFRS ship is already making its way around the world as a single set of high-quality global accounting standards. But this ship needs support and assistance from the countries where it embarks for an effective and efficient implementation and usage.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) set common rules so that financial statements can be consistent, transparent and comparable around the world. IFRS are issued by the International Accounting Standards Board (IASB). They specify how companies must maintain and report their accounts, defining types of transactions and other events with financial impact. IFRS were established to create a common accounting language, so that businesses and their financial statements can be consistent and reliable from company to company and country to country.

The International Financial Reporting Standards (IFRS) are accounting standards that are issued by the International Accounting Standards Board (IASB) with the objective of providing a common accounting language to increase transparency in the presentation of financial information.

The International Accounting Standards Board (IASB), is an independent body formed in 2001 with the sole responsibility of establishing the International Financial Reporting Standards (IFRS). It succeeded the International Accounting Standards Committee (IASC), which was earlier given the responsibility of establishing the international accounting standards. IASB is based in London. It has also provided the 'Conceptual Framework for Financial

Reporting' issued in September 2010 which provides a conceptual understanding and the basis of the accounting practices under IFRS.

The Standards issued by the IASB are called IFRS. The predecessor body, IASC, had however already issued certain International Standards which are called International Accounting Standards (IAS). These IAS were issued by the IASC between 1973 and 2001. Both IAS and the IFRS continue to be in force. The standards are listed below:

Standard No.	**Standard Title**
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinue Operations
IFRS 6	Exploration and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts

OBJECTIVES OF STUDY

1. To know the applicability, implication and prospects of IFRS.

3. To analyses the challenges faced by corporate firm in adopting IFRS and Ind AS

RESEARCH METHODOLOGY

The present work is descriptive research work. The present study is purely secondary data and the data is collected through various websites, journals, and books.

CHALLENGES IN THE PROCESS OF ADOPTION OF IFRS IN INDIA

Institute of Chartered Accountants of India set up a task force in 2006 to study and suggest a path for adoption of IFRS in India. On the basis of the recommendation

of task force, a 3 phased programme has been initiated to adapt to IFRS in India. Accounting Professionals in India and across the world have listed various benefits of adopting IFRS. In spite of these benefits, adoption of IFRS in India is difficult task and faces many challenges. Few of these have been listed as below:

Awareness of International Financial Reporting Practices

Adoption of IFRS means a complete set of different reporting standards have to bring in. The awareness of these reporting standards is still not there among the stakeholders like Firms, Banks, Stock Exchanges, Commodity Exchanges etc. To bring a complete awareness of these standards among these parties is a difficult task.

Training

Professional Accountants are looked upon to ensure successful implementation of IFRS. Along with these Accountants, Government officials, Chief Executive Officers, Chief Information officers are also responsible for a smooth adoption process. India lack training facilities to train such a large group. As the implementation date draws closer (2011), It has been observed that India does not have enough number of fully trained professionals to carry out this task of adoption of IFRS in India.

Amendments to the Existing Laws

In India, Accounting Practices are governed mainly by Companies Act 1956 and Indian Generally Accepted Accounting Principles (GAAP). Existing laws such as Securities Exchange Board of India regulations, Indian Banking Laws & Regulations, Foreign Exchange Management Act also provide some guidelines on preparation of Financial Statements in India. IFRS does not recognize the presence of these laws and the Accountants will have to follow the IFRS fully with no overriding provisions from these laws. Indian Lawmakers will have to make necessary amendments to ensure a smooth transition to IFRS.

Taxation

IFRS adoption will affect most of the items in the Financial Statements and consequently, the tax liabilities would also undergo a change. Currently, Indian Tax Laws do not recognize the Accounting Standards. A complete overhaul of Tax laws is the major challenge faced by the Indian Law Makers immediately. Enough changes are to be made in Tax laws to ensure that tax authorities recognize IFRS-Compliant financial statements otherwise it will duplicate the administrative work for the Firms.

Use of Fair Value as Measurement Base

IFRS uses fair value to measure majority items in financial statements. The use of Fair Value Accounting can bring a lot of volatility and subjectivity to the financial statements. Adjustments to fair value result in gains or losses which are reflected in the Income Statements and valuation is reflected in Balance Sheet. Indian

Corporate World which has been preparing its Financial Statements on Historical Cost Basis will have tough time while shifting to Fair Value Accounting.

Financial Reporting System

IFRS provide complete set of reporting system for companies to make their Financial Statements. In India, various laws and acts provide the financial reporting system but not as comprehensive as provided by the IFRS. Indian Firms will have to ensure that existing business reporting model is amended to suit the requirements of IFRS. The amended reporting system will take care of various new requirements of IFRS. Enough control systems have to be put in place to ensure the minimum business disruption at the time of transition. All the challenges mentioned here can be worked out by bringing a proper Internal Control & Reporting system in place. Firms, Regulators and Stock Exchanges in India should take some guidelines from the countries which have adopted the IFRS and have similar economic, political and social conditions

PROSPECTS FOR INTERNATIONAL FINANCIAL REPORTING STANDARDS IN INDIA

1. Implementation of IFRS-converged Indian Accounting Standards would help in bringing excellence in financial reporting, as these standards are based on the premise that the financial statements should be transparent and should faithfully represent the actual financial position and performance of the entity.
2. IFRS Standards would enable comparability of financial information, which will boost investor confidence, thereby enabling companies to raise capital at lower costs. It will provide better access to global capital markets and reduction in the cost of capital leading to overall economic growth.
3. Fair value approach, historical costs will be replaced by fair values in several balance sheet items, which will enable the entities to know its true worth. By providing transparent and comparable financial information, reporting as per these Standards will provide an impetus to cross-border acquisitions, will enable partnerships and alliances with foreign entities, and lower the cost of integration in post-acquisition periods.
4. Accounting professionals having expertise in these Standards would also get global recognition.
5. Indian Accounting Standards, which would bring financial reporting in India at par with the international financial reporting. While India is moving towards convergence at present, in future the Indian accountancy profession is expected to play a significant role not only in Indian financial reporting system, but also in international financial reporting by playing an influential role in the formulation of IFRSs before their finalization.
6. SEC has allowed foreign firms to report under IFRS only, without requiring any U.S. GAAP adjustments, a move estimated to

have saved affected firms as much as 2.5 billion Euros over time.

7. The prospect of gaining access to large U.S. capital markets a carrot that has been implicitly dangled in front of them based on U.S. involvement in the process over the years. Even in the markets' current weakened state, convergence remains a substantial benefit to foreign firms. However, the U.S. is likely to act based on its own self-interest in this key economic decision.
8. IFRS has resulted in improvements to the quality and consistency of financial reporting across the European Union

CONCLUSIONS

Ind AS – Indian Accounting Standards converged with International Financial Reporting Standards (IFRS) has now become a reality. The transition from Indian GAAP to Ind AS is a historic and a landmark change. It is true that the IFRS are expected to dominate the accounting world in India from year 2016 onwards. There has been a delay in adopting these norms and the process of adoption was once postponed in 2011 due to various reasons. But this time it should be implemented as per the Revised Roadmap without any excuse because, around 150 countries have already adopted IFRS in their economy. Successful Ind AS implementation will require a thorough strategic assessment, a robust step-by step plan, alignment of resources and training, effective project management as well as smooth integration of the various changes into normal business operations. To conclude, IFRS adoption in India is inevitable. Indian Government and Accounting Body are taking every possible step for a smooth transition process. In this regard, self-regulation is the answer which will ensure a complete and smooth adoption procedure. Awareness and proper Training should contribute to that process. Only enforcement mechanism will not help the procedure but an Advisor is also required. With all these systems in places, the IFRS adoption in India will become very smooth and accurate

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