Title: A study on convergence of Indian Accounting Standards with International Financial Reporting Standards - challenges and problems

Track: Regulatory Framework

Sunil. A
M.Com, III Semester
SSMRV Degree College,
Jayanagar Bangalore- 560041
suni5292@gmail.com
ph. 8147279932

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Abstract:

This study is to know the importance of convergence of Indian Accounting Standards with International Financial Reporting Standards. Consistent, comparable and understandable financial information is the lifeblood of commerce. The idea of global harmonization of accounting standards helps in better analysis of financial statements across the country. The main fascination with adoption or convergence of IFRS is sound business sense. Increasing cross border investing and proliferation (Rise) of financial products have posed a challenge to companies as they faced multiple standards. Harmonization and convergence with IFRS can greatly contribute to the efforts to build global financial reporting infrastructure. In India, the Institute of Chartered Accountants of India (ICAI) has decided to adapt IFRS for accounting periods commencing on or after April 1, 2016. This decision is an important milestone in achieving full convergence with IFRS, as India will join 109 countries, which presently require or permit use of IFRS. India's blue-chip companies have begun to align their accounting standards to the International Financial Reporting Standards (IFRS), two years ahead of the mandatory time for the switchover. The list of companies includes IT firms like Wipro, Infosys Technologies and NIIT, automakers like Mahindra & Mahindra and Tata Motors; textile companies like Bombay Dyeing and pharmacy firm Dr Reddy's Laboratories. This is a significant move towards the emergence of IFRS as a global accounting language. This article deals with concept, objective and benefits of convergence with IFRS and explores how we converge, the Indian GAAP with IFRS Problems and challenges faced in the process of convergence in Indian perspective have been, discussed, this article also focuses on IFRS prospects in Indian scenario. This article puts forward a viewpoint that convergence will bring forth galore benefits to investors, industry, professionals and the economy as a whole.

Key words: IFRS, GAAP, ICAI, globalization, financial reporting infrastructure, IAS

1.1 Introduction:

In India, the Central Government prescribes accounting standards in consultation with the National Advisory Committee on Accounting Standards (NACAS) established under the Companies Act, 1956. NACAS has been engaged in the exercise of examining Accounting Standards prepared by Institute of Chartered Accountants of India (ICAI). It has adapted the international norms established by the International Financial Reporting Standards issued by the International Accounting Standards Board. The Government has adopted a policy of enabling disclosure of company accounts in a transparent manner at par with widely accepted international practices, through a process of convergence with the International Financial Reporting Standards (IFRS). This space can fill with the emergence of International Financial Reporting Standards (IFRS), as formulated by the International Accounting Standards Board. IFRS has emerged as a new force in aligning the global firms on a single line. The International Accounting Standards Board (IASB) sets International Financial Reporting Standards. The mission of IASB is to develop in the public interest, a single set of high quality, understandable and International Financial Reporting Standards (IFRS) for general-purpose financial statements. IASB is an independent standard-setting board, appointed and overseen by a geographically and professionally diverse group of Trustees of the IASC Foundation who are accountable to the public interest. An external advisory council (SAC) and an interpretations committee (IFRIC) to offer guidance wherever divergence in practice occurs support it. The IASB cooperates with national accounting standard setters to achieve convergence in accounting standards around the world.

1.2Review of literature:

1.2.1 S.P. Srivastava, Sanjay Kumar Patel (2009), Irrespective of various challenges, adoption of IFRS in India has significantly changed the contents of corporate financial statements as a result of more refined measurements of performance and state of affairs, and enhanced disclosures leading to greater transparency. Concerned, the roles of Indian accounting standards, which are becoming closer to IFRS, have assumed a great significance from the point of view of global financial reporting.

1.2.2 Vandana Saxena Poria (2009), entities are in a position to access the funds globally in the most advantageous markets. For this, investors from all over the world rely upon financial statements before taking decisions. They need to be convinced that the financial statements are true and fair and what they understand from the statements is what the person preparing them intends to convey. Implementing IFRS has involved various challenges.

1.2.3 The South Indian Bank Ltd (2009), Considerable divergence exists with regard to accounting policies and practices prevalent in different countries. The globalization of economic activity has resulted in an increased demand for high quality internationally comparable financial information. Hence, the need for convergence of accounting practices across the countries is now recognized.

1.2.4 Dr. Kedar V. Marulkar (2013), for successful implementation of IFRS in India through convergence, it is necessary to train the academicians about various intricacies of the IFRS. Then only, the academicians would be in a position to give their contribution in such implementation. The role of academicians is at the centre stage as they have an ability to prepare the young aspirants in the field of accountancy to face the challenges posed in the profession of accountancy.

1.2.5 Shobhan Sen (2013), In the process of adoption of IFRS, difficulties have cropped up particularly relating to the differences lying in between the prevalent standards and the IFRS. Hence, preparation of IFRS-converged standards is a challenge before the preparers both in India and outside.

1.2.6 Dr. Kishore Kumar Das, Priyabrata Panda, Sovan Mishra(2013), have identified key areas of impact, discussing the issues at all the different levels in the banks imparting necessary training to the employees on the risk management practices system and procedure and training the concerned staff on the new method.

1.3Objectives of the study:

1.3.1 To develop an insight about the global financial reporting language i.e. IFRS

1.3.2 To know about the likely beneficiaries of convergence of Indian GAAP with IFRS

1.3.3 To study the challenges and risks specific to India in adoption of IFRS

1.3.4 To give suggestions towards successful implementation of IFRS

1.4 Overview of Convergence across Countries:

European Union, Australia, New Zealand and Russia have already adopted IFRS for listed companies. China has started adoption of IFRS from 2008 and Canada has decided to adopt the same from 2011. As regards United States of America, the Financial Accounting Standards Board

(FASB) and the International Accounting Standards Board are working together towards convergence of the US GAAP and the IFRS. The Securities Exchange Commission (SEC) has also made a proposal to permit in near future filing of IFRS-compliant financial statements without requiring presentation of a reconciliation statement between US GAAPs and IFRS.

1.5 Indian Scenario:

With regard to India, the Ministry of Corporate Affairs has committed to converge, the Indian Accounting Standards with the IFRS effective on or before 1 April 2016. The convergence process is picking up momentum with the credit going to the Ministry of Corporate Affairs. The Ministry has extended its unstinted support and guidance to the various regulatory and legal bodies that are spearheading a smooth transition process. Admirably, the highest authorities of the Indian Government have concluded that convergence of Indian Accounting Standards with IFRS is very vital for the country to take a lead role in the global foray. While formulating Indian Accounting Standards, changes from the corresponding IAS/ IFRS, are made only in those cases where these are unavoidable considering:-

1.5.1 Legal and/ or regulatory framework prevailing in the country

1.5.2 To reduce or eliminate the alternatives so as to ensure comparability

1.5.3 State of economic environment in the country

1.5.4 Level of preparedness of various interest groups involved in implementing the accounting standards

1.6 Benefits from Convergence with IFRS:

The adoption of IFRS is expected to have a significant impact on all stakeholders, such as regulators, professionals, prepares of financial statements, analysts, users of financial information and so on.

1.6.1 The Economy: The convergence with IFRS benefits the economy as a whole by accelerating growth of international business. It strengthens the economy with a strong and efficient capital market, where cost of capital becomes cheaper, leading to inflow of international investment into the country.

1.6.2 The Investors: Convergence with IFRS facilitates those investors who want to expand their cross-border business operations. For this purpose, investors want information that is relevant, reliable, timely and comparable across locations. Convergence with international standards will mean a clear understanding of financial statements by investors.

1.6.3 The Industry: Entities can raise capital from foreign markets at lower cost only if they can create trust and confidence in the minds of the foreign investors through "True and Fair" presentation of their financial statements by adopting globally acceptable standards.

1.6.4 The Accounting Professionals: Convergence benefits accounting professionals who can offer their services to different parts of the world. It offers diverse opportunities to accounting professionals in any part of the globe, as the same accounting practices prevail throughout the world.

1.7 Challenges in the Convergence with IFRS faced by India:

The problem of differences in accounting standards will continue to exist for some time**.** From a regulatory perspective, convergence to IFRS would require amendments to the Companies Act
In addition, the Income Tax Act, to mention the major ones. Currently industries such as banking and insurance are also regulated, by specific acts that prescribe accounting norms. Today, IFRS does not provide industry specific standards so there would be additional transition challenges as and when progress is, made IFRS requires valuations and future forecasts, which will involve use of estimates, assumptions and management's judgments. The ICAI and the Ministry of Corporate Affairs have already made note worthy progress in moving towards IFRS.

1.7.1 **Legal and regulatory considerations**

In some cases, the legal and Regulatory accounting requirements in India differ from the IFRS. In India, Companies Act of 1956, Banking Regulation Act of 1949, and IRDA regulations In addition, SEBI guidelines prescribe detailed formats for financial statements to be, followed by respective enterprises in their financial reporting. In such cases, strict Adherence to IFRS in India would result in various legal problems.

1.7.2 **Economic Environment**

Some IFRS require fair value approach to be, followed for example IAS 39, Financial Instruments: Recognition and Measurement, IAS 41, Agriculture the markets of many economies such as India, normally do not have adequate depth and breadth for reliable determination of fair values. With a view to Provide, further guidance on the use of fair Value approach the IASB is developing a document.

1.7.3 **SME Concerns**

In emerging economies like India, as significant part of the economic activities is carried on, by small- and medium-sized entities (SMEs). Such entities face problems in implementing the accounting Standards because of Scarcity of resources and expertise with the SMEs to achieve compliance. Cost of compliance not commensurate with the expected benefits. In India, exemptions/ relaxations have been provided, to SMEs. These exemptions/ relaxations are primarily related to disclosure requirements, though some exemptions/ relaxations from measurement principles have also been provided, e.g., AS 28 - Impairment of Assets and AS 15 - Employee Benefits. Keeping in view the difficulties faced by the SMEs, the IASB is developing an IFRS for SMEs**.**

1.7.4 **Training to Preparers**

Some IFRS are complex. There is lack of adequate skills amongst the preparers and users of Financial Statements to apply IFRS. Proper implementation of such IFRS requires extensive education of preparers.

1.7.5 **Interpretation**

A large number of application issues arise while applying IFRS. There is a need to have a forum, which may address the application issues in specific cases. In India, the Institute of

Chartered Accountants of India has constituted the Expert Advisory Committee to provide guidance on enterprise specific issues.

1.8 **Problems in Introducing IFRS in India:**

1.8.1 The researchers feel that the biggest risk in converging Indian GAAP with IFRS is the fact that the accounting entities underestimate the complexity involved in the process. Instead, it should be recognized, well in advance that teething problems would definitely creep in. Converting to IFRS will increase the complexity with the introduction of concepts such as present value and fair value. Similarly, some recognition and measurement issues would create quite a lot of controversy.

1.8.2 Implementing IFRS has increased financial reporting risk due to technical complexities, manual workarounds and management time taken up with implementation.

1.8.3 Another risk involved is that the IFRS do not recognize the adjustments that are prescribed through court schemes and consequently all such items will be recorded through income statement

1.8.4 In IFRS framework, treatment of expenses like premium payable on redemption of debentures, discount allowed on issue of debentures, underwriting commission paid on issue of debentures etc is different from the present method used. This would bring about a change in income statement leading to enormous confusion and complexities.

1.8.5 IFRS will introduce changes in the very concepts and definitions of in a few areas like change in the definition of 'equity'. This would result in tax benefits of hybrid instruments where 'interest' is treated, as receiving a dividend.

1.8.6 At the ground level, it will be difficult for the small firms and the accounting companies to keep pace with the process of convergence with IFRS and it will be more challenging for them. The idea is that it should be made, mandatory for the companies to prepare consolidated financial statements, which would require them to provide information about their unlisted companies as well under IFRS. This may however result in increased challenges to the small and medium firms in the country.

1.8.7 IFRS financial statements are significantly more complex than financial statements based on Indian GAAP. This complexity threatens to undermine the usefulness of IFRS financial statements in making decisions. The risk is that the preparation of financial reports will become just a technical compliance exercise rather than a mechanism for communicating performance and the financial position of companies.

1.8.8 Laws and pronouncements are always country specific and no country can abandon its own laws altogether. It will always be checked, to see if the IFRS pronouncements fit for application in a particular country and its environment.

In fact, it is not yet very clear whether IFRS would be directly adopted, nor will they converge into Indian GAAP. This also shows our unpreparedness towards the convergence process.

1.9 **Suggestions**

1.9.1 Political pressure on International Accounting Standards Board (IASB) should be avoided, from various interest groups like private sector and government agencies.

1.9.2 IASB should publicize standards developed by it and get support from the accounting profession, member countries and corporate management all over the world.

1.9.3 IASB should encourage member bodies to adopt IFRS, formulate, and reformulate their rules that they are in line with IFRS

1.9.4 Governing bodies of the various accounting profession can also be used, to apply disciplinary procedures in case of non-convergence with IFRS.

1.10 Conclusion:

Looking at the present scenario of the world economy and the position of India convergence with IFRS can be strongly recommended However, at the same time it can also be said that this transition to IFRS will not be a swift and painless process. Implementing IFRS would rather require change in formats of accounts, change in different accounting policies and more extensive disclosure requirements. Therefore, all parties concerned with financial reporting also need to share the responsibility of international harmonization and convergence. 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. A continuous research is in fact needed, to harmonize and converge with the international standards and this in fact can be achieved only through mutual international understanding both of corporate objectives and rankings attached to it.

1.11 Reference:

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