AN ANALYTICAL STUDY OF IMPLEMENTATION OF IFRS IN INDIA

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Abstract

After Implementation of New Economic Policy, the significance of globalization has been felt by the Large-Scale Companies Across the globe & Particularly in India. In the early 2000 & subsequent decisions taken by the European community to make the Accounting Practices & Standards universals has paved the way for the development IFRS.The IFRS is the customized version of International Accounting Standards. Till the implementation of IFRS Countries were having their own Financial Reporting System. Firms, Investors, Bankers who were interested in cross border investment were facing lot of trouble in taking Investment Decision on the basis of these multiple Financial Reporting System. That is why universality of accounting practices were

Fulfilled by the implementation IFRS. In 2005, member countries of European Union adopted International Financial Reporting Standards. In subsequent years, other countries either adopted IFRS or converged to IFRS. India is no exception. This study tries to analyze the information available on IFRS adoption process in India. It also discusses the IFRS adoption procedure in India and the utility for India in adopting IFRS.In data Analysis & Conclusion the research paper has focused on the constraints & utility of IFRS for the Indian Corporate.

KEY WORDS: System of Accounting, International Accounting Standards, Accounting Standard Board &International Financial Reporting Standards (IFRS)

1) Introduction

Last decade has observed various changes of doing business across the world. The process of financial reporting of business activities also underwent a great change. This started in 2005 when European Union made it mandatory for publicly traded companies to present

4. To discuss the ways through which these problems can be addressed.

Since EU was the first to adopt IFRS across the globe, most of the research has been carried out on IFRS analyzing the data from member countries of EU. Comparatively fewer numbers of studies have been carried out on data from other countries. This paper makes an attempt to bridge this gap and tries to study the Indian data with reference to IFRS adoption, utility of IFRS adoption for India, obstacles faced by the stakeholders in the process of adoption of IFRS in India and the ways to remove these obstacles.

2) IFRS Adoption Procedure in India

In 1949, Indian government to streamline accounting practices in the country established Institute of Chartered Accountants of India by passing ICAI Act, 1949. Accounting Standard Board was constituted by ICAI in 1977 with a view to harmonize the diverse accounting policies and practices in India. The other objectives of the Board are: (i) conceive of and suggest new areas in which Accounting Standards are needed, (ii) formulation of Accounting Standards, (iii) examine how far IAS and IFRS can be adapted while formulating the accounting standards and to adapt the same [vii], and (iv) review the existing Accounting Standards and revise them regularly as and when necessary, among others. In 2006, a task force was set up by ICAI. The objective of the task force was to lay down a road map for convergence of IFRS in India. Based on the recommendation made by the Task Force and on the basis of outcome of discussions and public opinions on IFRS adoption procedure, a 3 step process was laid down by the Accounting Professionals in India. This three steps IFRS adoption procedure can be summarized as follows:

Step 1 – IFRS Impact Assessment

In this step, the firm will begin with the assessment of the impact of IFRS adoption on Accounting and Reporting Issues, on systems and processes, and on Business of the firm. The firm will then identify the key conversion dates and accordingly a IFRS training plan will be laid down. Once the training plan is in place, the firm will have to identify the key Financial Reporting Standards that will apply to the firm and also the differences among current financial reporting standards being followed by the firm and IFRS. The firm will also identify the loopholes in the existing systems and processes.

Step 2 – Preparations for IFRS Implementation

This step will carry out the activities required for IFRS implementation process. It will begin with documentation of IFRS Accounting Manual. The firm will than revamp the internal reporting systems and processes. IFRS 1 which deals with the first time adoption of IFRS will be followed to guide through the first time IFRS adoption procedure. To make the convergence process smooth, some exemptions are available under IFRS 1. These exemptions are identified and applied. To ensure that the IFRS are applied correctly and consistently, *control systems are designed and put in place.*

Step 3 – Implementation

This step involves actual implementation of IFRS. The first activity carried out in this phase is to prepare an opening Balance Sheet at the date of transition to IFRS.A proper understanding of the impact of the transition from Indian Accounting Standards to IFRS is to be developed. This will follow the complete application of IFRS as and when required. First time implementation of IFRS requires lot of training and some difficulties may also be experienced. To ensure a smooth transition from Indian Accounting Standards to IFRS, Continuous training to staff and addressing all the difficulties that would be experienced while carrying out the implementation is also required.

3) Utility for India in Adopting IFRS

Economies across the globe have benefitted by adopting IFRS for financial reporting purposes. Previous Studies have suggested various benefits of adopting IFRS, notably, Better financial information for shareholders, Better financial information for regulators, Enhanced comparability, Improved transparency of results, Increased ability to secure cross-border listing, Better Management of global operations and Decreased cost of capital.This study will try to connect some of these and few other benefits 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[viii]*. For this they need funds at cheaper cost which is available in American ,European and Japanese Capital Markets* [ix]*.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, Firma 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

As mentioned earlier, 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.

4) 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 (already discussed somewhere in this paper) 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 Fin ncial 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.

5) Conclusion

Ensuring a 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. 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. Some other ways to tackle the obstacles in adoption of IFRS can be summarized as follows:

1) The lawmakers in India will have to make necessary changes in the existing Companies Act 1956, Tax Laws, Foreign Exchange Management Act, and Insurance Act etc. These changes are required to bring Indian Accounting Practices in line with IFRS. In July 2009, a committee has been formed by Ministry of Corporate Affairs Government of India, with a view to identify the various legal and regulatory changes required for convergence and to prepare a roadmap for achieving the same.

2). In order to ensure timely adoption of IFRS in India, trained Accountants and Auditors in IFRS are required in large number. India currently does not have the sufficient number of IFRS trained Accountants and Auditors. The Institute of Chartered Accountants of India (ICAI) has started IFRS Training programmes for its members and other interested parties. Yet there exists a large gap in the Trained Professionals required and trained professional available.

3.) To ensure that all the Firms are complying with adoption procedure, Indian lawmakers and Accounting Body (ICAI) should have a Financial Reporting Compliance Monitoring

Board. Other than the job of monitoring the compliance part, the board can play the advisory role also for the firms on IFRS Adoption Procedure.

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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