

Convergence of IFRS and its Impact in India

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ARTICLE DETAILS

Article History

Published Online: 10 December 2018

Keywords

IASB, EU, Financial Reporting, IFRS.

ABSTRACT

Globalization has set out a path for every one of the nations to embrace single set of accounting standards. Late years have seen significant changes in financial reporting worldwide under which the clearest is the proceeding with selection of IFRS around the world. IFRS remains for Worldwide Monetary Announcing Models, which are drafted and issued by a body called International Accounting Standards Board (IASB). European Association was shaped in 1993. In 2002 The European Unions (EU) received enactment requiring every recorded organization to set up their combined money related proclamations utilizing IFRS beginning in 2005, turning into the principal real capital market to require IFRS. Joining with IFRS will enhance similarity of monetary data and financial performance with worldwide companions and industry models. In excess of 130 nations have met or perceived the arrangement of combination with the IFRS. A forthcoming economy on world economic map, India, as well, chose to combine to International Financial Reporting Standards (IFRS). In India, ICAI has chosen to receive the IFRS by April 2011 yet at the same time there is no development in the execution of IFRS. This paper examines the procedural parts of selection of IFRS in India, the advantages if reception and the issues and difficulties looked by the stakeholders and its effect on India.

1. Introduction

International Financial Reporting Standards (IFRS) embraced by International Accounting Standards Board (IASB) is an institutionalized configuration of money related announcing that is picking up force worldwide and is a solitary steady bookkeeping system and is probably going to end up transcendent GAAP in times to come. In this universe of globalization in which Indian accounting standards convergence with IFRS suggests to accomplish concordance with IFRSs and to outline and keep up national bookkeeping benchmarks in a way that they agree to the Global Bookkeeping Models. The change would empower Indian elements to be completely IFRS consistent and give an "open and express explanation of consistence with IFRS" in their money related articulations economy has additionally thrived, receiving IFRS would not just make Indian organizations at standard with other worldwide organizations yet will likewise expand India's attractiveness universally as far as remote ventures. The present paper makes an endeavor to comprehend the different recipients by receiving IFRS, the difficulties looked by India in embracing the same and the reasonable dangers in presenting IFRS. The paper additionally makes an endeavor to break down the necessities for effective usage of IFRS in India.

2. Review of literature

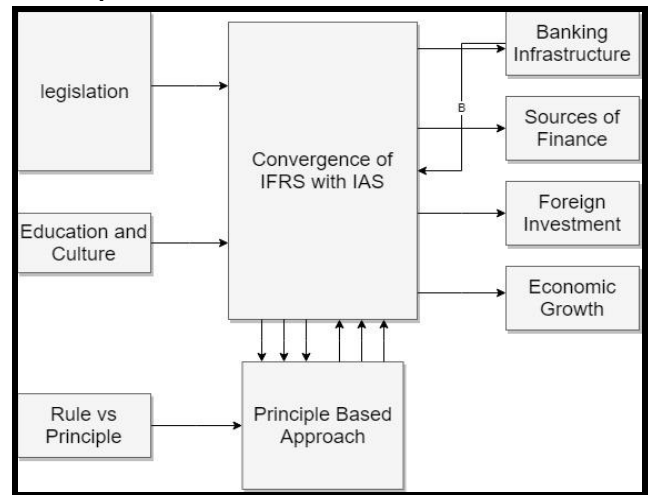
a) **(Ball, 2006)** determined that unexpected success has been attained in increasing an inclusive set of 'high quality' IFRS standards, in influencing almost 100 countries to approve them, and in gaining convergence in standards with significant non-adopters on the 'disadvantages' side, He visualized problems with the present interest of the IASB (and the FASB) with 'fair value measurement'.

- b) **(Zeff, 2007)** commented in his commentary that The more rigorous the enforcement mechanism - that is, the more ascendancy and the more astronomically immense budget a country gives to its securities market regulator to fortify the effort to secure compliance with IFRS - the more lobbying pressure that will be brought on the IASB, because companies in such countries will ken that they have no 'escape valve', no way of side-stepping the adverse consequences, as they visually perceive them, of a proposed IASB standard or interpretation. If the auditor is rigorous and the regulator is rigorous, political lobbying of the standard setter, the IASB, may become more excruciating.
- c) **(McGee, 2003)** Has identified certain issues predicated on his study such as whether the financial verbalizations are transparent and whether the verbalizations were prepared utilizing either international standards or GAAP. Peregrine investors are not at all intrigued with reading verbalizations prepared utilizing Russian Accounting Standards (RAS), not only because they are not well versed in RAS, but additionally because they do not believe that the Russian statutory accounting rules provide good accounting information. Applying the international standards or GAAP to a company's books will not solve this issue if some paramount transactions are never included in the books.
- d) **(Shankari, 2008)** In a study on "Globalization of Diverse Accounting Standards" opined that in India research and development in the field of accounting and adoption of accounting standards is very slow when compared to other nations. Integration of diverse accounting standards is very arduous to achieve. Globalization has laid all the nations to adopt a single set of accounting standard. More than 100

countries have apperceived the policy of convergence with the IFRS India She suggested that all the countries must cooperate with the International Accounting Standard Board (IASB) in the process of harmonization of accounting standards which will enable the MNCs to engage in financial reporting in a much more facile manner.

- e) **(Ramesha, 2016)**The Paper brings light upon new opportunities that The convergence can open to the economy and widen the expanse of the professional capabilities as Indian CAs can take their expert capacities and profound learning anyplace around the globe. According to the IFRSs resources and liabilities are to be recognized at Fair value. This reasonable valuation will require valuers. This is one new territory that can be investigated by CAs.
- f) **(Ernst and Young, 2016)**The published Article focuses on Banking Sector Being one of the most affected sector by the IFRS convergence while joining the league of many global nations. The survey Conducted by EY. It highlights about the preparedness for IND-AS the converged accounting standards for India and reveals that the organizations set aside greater opportunity to present their Ind AS money related outcomes. The way that 37% of the organizations present just independent money related explanation recommends that organizations require more opportunity to get prepared for distributing merged monetary outcome. The above study indicates that there hasn't been many studies conducted on 'the importance of the Convergence of Accounting Standards with IFRS and it's impacts on the banking industry. It also touches upon how to actually make comparisons on a global platform with International companies and global peers. It interlinks major frauds and their harmony with convergence in addition to how it can be improved through Corporate Governance and Convergence of ideas.

B. Conceptual Framework



C. Statement of Problem

The Objective of the study is to study the challenges and risks specific to India in adoption of IFRS and to think about the conceivable recipients of adoption. Diverse nations implement different accounting treatments and disclosure patterns with respect to the same financial event. This may create misunderstanding among the users while interpreting the financial statements. Financial statements that are acknowledged all around the world and utilize GAAP will enable the world to exchange financial data in an expressive and trustworthy manner. This will become a big task for India in the convergence process. Therefore, there is necessity to study which shows the challenges and benefits in the direction of IFRS Convergence by India.

D. Sources of Data

The essential secondary data comprises the main source of information, appropriate for the purpose of the current study. In this study an effort has been made to understand the constant accounting principles of International Financial Reporting Standards (IFRS). The secondary sources consist of the articles from numerous periodicals, books, reports of nationwide and global, website of International Accounting Standards, International Financial Reporting Standards, Generally Accepted Accounting Principles, International Accounting Standards Board.

E. Objectives of the Study:

- The paper is aimed to discuss the following objectives:
1. To evaluate the convergence of International Financial Report Standards with the Indian perspectives.
 2. To demonstrate the comparative statement of International Financial Reporting Standards and Indian Accounting Standards.
 3. To feature the challenges in the process of convergence to adoption of IFRS in India.
 4. To determine the beneficiaries and opportunities through convergence.

F. Expected outcome

Accounting Standards (AS) at standard with IFRS so that the Indian commercial and the accounting professional reap

3. Research Design

A. Theoretical Framework



the reimbursements of global accounting standard irrespective of various challenges, adoption of converged IFRS in India will expressively change the contents of corporate financial statements as a result of more distinguished dimensions of performance and state of affairs, and improved disclosures resulting in greater transparency and consistency. Overall, the results are constant with the view that mandatory IFRS adoption improves information consistency across nations. In particular, results show a significant rise in the likeness facet of cross-border comparability in the post-IFRS period.

G. Limitations of the study

1. The study of deviations in reporting will be restricted to ongoing convergence of Ind ASs and whatever details acquired for research, that will be considered according to the objectives of research. The analysis and results will be based on such details.
2. In India, ASB of ICAI has issued 32 standards till this date and Indian Accounting Standards are issued to be compatible with the Indian Business Environment, Statutes of the Land and the procedures practiced. Proper understanding of all the accounting standards are to be taken formerly confirming the annual results of any corporate establishments. Any non-compliance or nonconformity is also to be revealed in the financial statements.
3. The Ministry of Corporate Affairs have given out the road map for transition to IFRS. In the first stage, companies comprised Nifty 50 or BSE Sensex, and companies whose securities are listed on stock exchanges outdoor India and all other companies having net worth of Rs. 1,000 Crore will arrange and present financial statements using Indian Accounting Standards converged with IFRS. The Finance Minister in his Budget announcement in July, 2014 projected the implementation of the new Indian Accounting Standards by Indian companies willingly from FY 2015-16 and obligatory from FY 2016-17.
4. In recent history, 35 Indian Accounting Standards have been converged by the means of IFRS but the date of application of the same is yet to be informed by the Government pending essential changes in corporate regulations, Tax laws and other relevant code of practice.
5. It is also sensed that the aforesaid time is adequate to device Ind AS for all listed companies and unlisted companies having net worth in addition of Rupees 500 crore at once, instead of applying Ind AS in stages, as was mentioned in the previous roadmap.

4. Data Analysis

Standard	Percentage of companies impacted
Financial instruments	83%
Income Taxes	87%
Property, plant and equipment	27%
Share based payments	22%
Business combination	15%
Operating segments	38%

(Source: EY Observations on implementation of Ind AS)

The key trepidations of all participants about the changeover to Ind AS are whether it will expressively influence key performance indicators of corporations and whether it will carry important instability in the financial statements.

Challenges

Convergence with IFRS is not just a technical exercise but also involves an overall change in not only the perspective but also the very objective of accounting in India. This research paper points out certain key areas that require close attention while dealing with convergence from Indian GAAP to IFRS. Scarcity of resources and lack of expertise with SME act as a barrier for the process of convergence to IFRS. In order to habituate to IFRS, we require to amend our subsisting rules and regulations. As Indian accounting practices are governed by the Companies Act, 1956, Income Tax Act 1961, Reserve Bank of India Act, Indemnification and Regulatory Ascendancy of India Act, GAAP etc. which are different from IFRS, adequate changes must be made in order to follow IFRS. Thus illicit constraints are major challenges would be faced. IFRS uses fair value base to quantify majority of items in the financial verbal expressions. The utilization of fair value accounting can bring an abundance of volatility and subjectivity in financial verbalizations. The adequate cognizance about IFRS is still circumscribed to few numbers of people in India. Lack of training and academic erudition in IFRS is a challenge as far as Indian economy is concerned. Thus adequate training should be given to the stakeholders.

Changes in the Net Profit of various industries after Convergence

Automotive sectors	Percentage of Companies
Less than 10%	88%
More than 20%	12%

Technology sectors	Percentage of companies
Less than 10%	60%
10%-20%	40%

Telecom sector	Percentage of Companies
Less than 10%	67%
More than 20%	33%

Consumer/Industrial products and retail sector	Percentage of Companies
Less than 10%	89%
More than 20%	11%

(Source: EY Observations on implementation of Ind-AS)

Beneficiaries of Convergence

The investor will be profited as the material made available to him is more dependable, pertinent, appropriate and most prominently the information will be comparable across different legal framework. The professionals, both in training and in service will get assistances as they will be capable to afford their facilities worldwide. The Indian business standing and associations with international business community will uplift because of accomplishment of greater level of uniformity amongst reporting structure and necessities and better access to international markets.

Opportunities from the Convergence

According to the IFRSs, assets and liabilities are to be documented at fair values. This fair valuation will entail valuers. This is an initiative that can be discovered by CAs. Indian CAs can take their expertise and knowledge across the world. Businesses would be functioning along the teams of specialists

and professionals. CAs would be expected for understanding the various multifaceted issues and making financial statements according to the standards. The banking business in India which is most impacted by the execution of IFRSs will also need these professionals as this sector will have to make its financial statements according to the new standards.

S.I. No.	Subject	IFRS	Indian GAAP
1	Financial Statement	Contains of Statement of Financial Position, Statement of Comprehensive Income Statement of Cash flow, Notes to Accounts, Statement of Changes in Equity.	Consist of Balance sheet ,Profit and Loss A/c, Cash flow statement and Notes to Accounts.
2	Income Statement	IAS 1 recommends the presentation of income statement.	According to the format arranged in Schedule VI to the Companies Act 1956, Banking Regulation Act for Banks etc.
3	Cash Flows	Obligatory for all entities.	Relieved for Level 3 entities as prescribed by ICAI.

Impact on Indian Banking Industry

Other than the compliances of the principles and directions endorsed by the Reserve bank of India, the compliances of different laws will likewise influence the Indian Banking industry. The compliances trouble will improve the non-working expenses of the banks.

The expense contemplations related with a change to IFRS, similar to alternate parts of a transformation, are mind boggling.

For banks, impose bookkeeping contrasts are of incredible hugeness. Be that as it may, the impacts of a transformation go past these perplexing duty matters and furthermore incorporate issues, for example, pre-charge bookkeeping changes on expense techniques, worldwide arranging techniques, and duty data frameworks. On the off chance that a transformation to IFRS is drawn closer legitimately and well in advance of transformation. it can possibly reinforce a substance's duty work by giving a chance to a definite audit of assessment matters and procedures.

5. Findings and Suggestions

Around 58% of the respondents are prepared for the modifications in accounting practices after the convergence with IFRS. About 97% of the respondents think IFRS is more beneficial than prior GAAP and also believe IFRS is important for MNCs than Indian companies. Implementation of

sophisticated standards for financial disclosure and upgradation of the income tax rates are the main advantages to National supervisory bodies due to convergence with IFRS. Better compatibility, extra well-timed financial report, saves time in evaluating financial reports, healthier understanding of threat and benefits and assurance in data presented are the major assistances to Shareholders because of convergence with IFRS. Fluctuations in Companies Act, Tax Act, IRDA, SEBI rules and regulations, absence of training amenities, fair value measurement, higher complexity, higher tax burden and inadequate preparatory time period are the vital issues included in convergence with IFRS.

6. Conclusion

The aforesaid all argument shows that the execution of IFRS shall have the main impact over the loans, financial instruments, investments and but not restricted to substantial investment on updation of information technology system. Nevertheless, the business necessitates a comprehensive examination and assessment of prevailing loans and all additional instruments in agreements with the IFRS. The tax authorities have not yet explained the allowability of the loss arises owing to revaluation in such loans and instruments. Reserve Bank of India has also not elucidated the agreements of the SLR and maintenance of the other reserve through the investments in the Governments securities and their valuation in inconsistency or compliances with IFRS.

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