

A study of International Financial Reporting Standards in India – Challenges and Opportunities

Krishna Kulin Trivedi

M.Com (Gold Medalist), Research Scholar, School Of Commerce, Gujarat University, Ahmedabad (India)

ARTICLE DETAILS

Article History

Published Online: 15 June 2020

Keywords

International Financial Reporting Standards.

*Corresponding Author

Email: [trivedikrishna\[at\]gmail.com](mailto:trivedikrishna[at]gmail.com)

ABSTRACT

The world is transforming into a global village and this requires the harmonization and uniformity of procedures and practices. One such attempt is the introduction of International Financial Reporting Standards (IFRS). International Financial Reporting Standards usually called IFRS, are accounting standards issued by the IFRS Foundation and the International Accounting Standards Board to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly relevant for companies with shares or securities listed on a public stock exchange. This paper focuses on the challenges and opportunities of IFRS in India. It is important to adopt IFRS to compete with other countries, secure FDI and to improve accounting system. 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. India also faces challenges in adoption of IFRS which has also been discussed in this paper.

1. Introduction

Accounting or **accountancy** is the measurement, processing, and communication of financial and non financial information about economic entities such as businesses and corporations. Accounting, which has been called the "language of business", measures the results of an organization's economic activities and conveys this information to a variety of users, including investors, creditors, management, and regulators. The terms "accounting" and "financial reporting" are often used as synonyms. Accounting is facilitated by accounting organizations such as standard-setters, accounting firms and professional bodies. Financial statements are usually audited by accounting firms, and are prepared in accordance with generally accepted accounting principles (GAAP). GAAP is set by various standard-setting organizations such as the Financial Accounting Standards Board (FASB) in the United States and the Financial Reporting Council in the United Kingdom. As of 2012, "all major economies" have plans to converge towards or adopt the International Financial Reporting Standards (IFRS).

Financial statements prepared and presented by a company typically follow an external standard that specifically guides their preparation. These standards vary across the globe and are typically overseen by some combination of the private accounting profession in that specific nation and the various government regulators. Variations across countries may be considerable, making cross-country evaluation of financial data challenging.

Publicly traded companies typically are subject to the most rigorous standards. Small and mid-sized businesses often follow more simplified standards, plus any specific disclosures required by their specific lenders and shareholders. Some firms operate on the cash method of accounting which can often be

simple and straight forward. Larger firms most often operate on an accrual basis. **Accounting standards** prescribe in considerable detail what accruals must be made, how the financial statements are to be presented, and what additional disclosures are required.

Some important elements that accounting standards cover include: identifying the exact entity which is reporting, discussing any "going concern" questions, specifying monetary units, and reporting time frames.

The common accounting standards around the globe are International Financial Reporting Standards. **International Financial Reporting Standards**, usually called **IFRS**, are accounting standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly relevant for companies with shares or securities listed on a public stock exchange. They are progressively replacing the many different national accounting standards.

The International Accounting Standards Committee (IASC) was established in June 1973 by accountancy bodies representing ten countries. It devised and published International Accounting Standards (IAS), interpretations and a conceptual framework. These were looked to by many national accounting standard-setters in developing national standards.

In 2001 the International Accounting Standards Board (IASB) replaced the IASC with a remit to bring about convergence between national accounting standards through

the development of global accounting standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards "International Financial Reporting Standards" (IFRS).

In 2002 the European Union (EU) agreed that, from 1 January 2005, International Financial Reporting Standards would apply for the consolidated accounts of the EU listed companies, bringing about the introduction of IFRS to many large entities. Other countries have since followed the lead of the EU.

Modern economies rely on cross-border transactions and the free flow of international capital. More than a third of all financial transactions occur across borders, and that number is expected to grow.

Investors seek diversification and investment opportunities across the world, while companies raise capital, undertake transactions or have international operations and subsidiaries in multiple countries.

In the past, such cross-border activities were complicated by different countries maintaining their own sets of national accounting standards. This patchwork of accounting requirements often added cost, complexity and ultimately risk both to companies preparing financial statements and investors and others using those financial statements to make economic decisions.

Applying national accounting standards meant amounts reported in financial statements might be calculated on a different basis. Unpicking this complexity involved studying the minutiae of national accounting standards, because even a small difference in requirements could have a major impact on a company's reported financial performance and financial position—for example, a company may recognise profits under one set of national accounting standards and losses under another. And that is why global standards are required for global markets.

IFRS Standards address this challenge by providing a high quality, internationally recognised set of accounting standards that bring transparency, accountability and efficiency to financial markets around the world.

IFRS Standards bring **transparency** by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.

IFRS Standards strengthen **accountability** by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide information that is needed to hold management to account. As a source of globally comparable information, IFRS Standards are also of vital importance to regulators around the world.

And IFRS Standards contribute to economic **efficiency** by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs.

2. Literature Review

Ball (2006) stated that many developing countries where the quality of local governance institutions is low, the decision to adopt IFRS will be beneficial.

P. A. Isenmila (2013) reveals IFRS introduction will facilitate better investment decision making in the capital Market. The new standards will lead to an enhanced or favorable financial measure, such as profitability, growth, leverage, liquidity, and size, Good Corporate Practices, quality and timeliness of management information and transparency.

Santanu Kumar Das, "Indian Accounting Standards and IFRS"(2014) studied the global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets with IFRS is also in the interest of the industry since compliance with them would be able to create greater confidence in the mind of investors and reduce the cost of raising foreign capital.

Paramashivaiah, & Puttaswamy (2014) highlighted various factors that delayed IFRS adoption in India. He suggested about the legal and regulatory frame work to be amended soon and aggressive academic input and training shall be provided rapidly to overcome the talent crunch in this new accounting and reporting regime.

Dr. Mahender k. Sharma, did work in the field of "IFRS and India –Its problems and challenges in 2013. The main objective of this study is to analyze the information available on IFRS adoption process in India. It also focuses on the IFRS adoption procedure in India and the utility for India in adopting IFRS.

Rong-Ruey Duh, did study entitled of "Adopting IFRS: Implications for Accounting Educators", in the year of 2009. The main outcome of this study is to Approach to a Single Set of Financial Reporting Standards in the World. In determining the cost of the acquisition, marketable securities issued by the acquirer are measured at their fair value which is their market price as at the date of the exchange transaction, provided that undue fluctuations or the narrowness of the market do not make the market price an unreliable indicator.

Bhattacharjee, did study entitle of "Problems of Adoption and Application of International Financial Reporting Standards (IFRS) in Bangladesh in the year of 2009. The main objective of this study to prospects of IFRS adoption and their impact on the financial reporting environment of Bangladesh considering the underlying institutional and economic factors.

Srivastava, Anubha; Bhutani, Prerna, did study entitled of "IFRS in India: Challenges and Opportunities" in the year of 2012. The main aim of this study to this paper is an attempt to find out up to what extent IFRS has been adopted by the organizations, what challenges and opportunities companies

are facing regarding IFRS, and what are the measures that can be taken to make the process smooth and flawless. The paper focuses on the awareness and adoption of IFRS in India.

3. Objective of the study

- To examine opportunities in adopting International Financial Reporting Standards in India.
- To embrace the challenges faced in adopting International Financial Reporting Standards in India.

4. Research Methodology

The present work is a blend of descriptive and exploratory research work. The research is purely secondary and the information is collected through various websites, journals, and books.

5. Challenges for International Financial Reporting Standards in India

- **Training** : One of the biggest hurdles in implementing of IFRS in India is lack of adequate training and knowledge regarding IFRS. thus, proper training programmes must be provided to educate the professionals to implement IFRS.
- **Taxation** : Another issue is taxation, due to IFRS convergence most of the items would be affected in the financial statements and thus the tax liabilities would also undergo a change. Thus, the taxation laws should address the treatment of tax liabilities arising on implementation of IFRS.
- **Fair Value Financial Reporting** : The fair value financial reporting under IFRS is also a challenge. Although it brings volatility and subjectivity, but it is difficult to arrive at fair value. the experts for valuation also feels difficulty in arriving the fair value measurement.
- **Auditing** : The Indian audit firms may encounter challenges to audit the financial statements prepared under IFRS. Thus, it would be challenging for the audit firms to perform audit without adequate guidance.
- **Awareness** : Implementation of IFRS will lead to a drastic change in financial statements. As the adequate knowledge of IFRS is limited to very few persons, such lack of awareness about IFRS is one of the major challenge.
- **Difference in GAAP and IFRS** : There are wide differences in the financial statements prepared under Indian GAAP and IFRS. This differences may produce certain hurdles in implementation of IFRS. It also has an impact on the users in understanding the financial statements.
- **Scarcity of resources** : Implementation of IFRS, would result in significant demand for IFRS resources. There will be scarcity of resources on account of lack of expertise, inadequate guidance, training, knowledge regarding IFRS.
- **Financial Reporting System** :In India, the financial reporting is done according to the standards issued by

ICAI (Institute of Chartered Accountants of India). We need to amend the same to suit the requirements of IFRS. The information systems should be designed to capture new requirements related to fair value of financial instruments, fixed assets, segment information, related party transactions.

- **Legal and Regulatory Considerations** : The legal and regulatory accounting requirements in India differ from that of IFRS. Implementation of IFRS in India, would result in various legal problems.

6. Utility for International Financial Reporting Standards in India

- IFRS Standards are high quality, internationally recognised set of accounting standards that bring transparency, accountability and efficiency to financial markets around the world.
- Convergence to IFRS helps in better access to global capital market, thus beneficial to Indian firms to procure capital at cheaper rate from abroad.
- Adopting IFRS will lead to better cross border listing of Indian companies abroad, which helps the Indian firms to acquire funds from outside the boundaries of India.
- Investors, bankers, analysts, lenders and other stakeholders find it easier to compare the financial statements following the same reporting procedures, thereby increasing it's reliability.
- Convergence to IFRS ensures elimination of multiple financial reporting for the multinational company by following internationally recognised set of accounting standards.
- One of the benefits by convergence to IFRS in India is improved cross border investments, leading to economic growth in India.
- The accounting professionals having expertise in IFRS standards would also get global recognition, which will increase the scope of accounting professionals.
- Implementation of IFRS would benefit the Indian economy by increasing the growth of international business.
- The presence of the International financial reporting standards globally would improve the rates of foreign direct investment around the world.

7. Conclusion

IFRS Standards are high quality, internationally recognised set of accounting standards that bring transparency, accountability and efficiency to financial markets around the world. Different people opines differently for convergence to IFRS. The switching over to IFRS is a major challenge, but the benefits from the convergence are worthier than that of its challenges. Like any major shift, the changeover will not be easy, but proper planning will improve cross country comparability. Thus, to implement IFRS successfully proper awareness regarding IFRS, adequate training and necessary modification should be made in governing business and laws.

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