IFRS acquaintance and applicability in India: Some Issues and challenges

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Abstract
This paper explores the impact of applicability of IFRS (International financial reporting standards), challenges that will come up and its adoption procedure in India. It also discusses the problems faced by the regulators, Accountants, and Firms etc in the process of adoption of IFRS in India. Paper concludes with the ways through which these problems can be addressed. Standards are a set of rules that are aimed at making accounts more consistent, comparable and thereby bringing in a harmonisation of accounting policies and principles and practices that, in turn, are expected to enhance corporate governance and responsibility. The present paper mainly attempts to focus on the steps applicable in India and problems being faced in the convergence of IFRS with Indian Accounting Standards and there by to throw light on the convergence issue by highlighting the convergence attempts taken by the IASB and the FASB on the international basis.

Keywords: IFRS, Accounting Standards, Corporate Governance, Economic Growth, Financial Instruments, convergence issue

Introduction
Accounting Standards are certain procedures that direct the manner of proper application of a particular accounting principle in the preparation and presentation of the accounts of an concern. A single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions”. International financial reporting standard (IFRS) Keeping this into view, standardization of accounts has now become a routine work and a matter of serious concern to the various professional accounting bodies. This is also because, standards are known to be a set of rules that aim at making accounts more consistent, comparable and thereby bringing in a reliable of accounting policies and principles.
2 Review of literature

Lantto (2007) undertook a study to examine whether IFRS improved the usefulness of accounting information in a code law country that has a strong system of legal enforcement and high quality domestic accounting standards and it was found out that IFRS have improved the relevance of accounting information in Finland but they also highlighted the concern about reliability of those financial statement items that are prepared using judgment. Joseph (2000) seen that consistency in reporting enables to attract global entrepreneurs and investors by increasing the rate of investment and also lead to the integration of the individual economy to the International economy.

Epstein (2009) undertook to study Economic Effects of IFRS adoption by emphasizing on the fact that universal financial reporting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital and facilitate international capital formation and flows.

Yadav s, Sharma Deependra (2012) suggested that it is very much clear that transition from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended.

Dangwal and Singh (2005) made certain valuable observations concerning quality of financial reporting which enables the banks to capitalize their underlying strengths, disclosure practices and social viability after undertaking a study of certain interesting issues with regard to the financial reporting of banking companies in India.

3 Objectives of the study

This paper mainly focuses on the applicability of IFRS in India according to the Indian accounting standard. Second main thing which clearly demonstrates in this study about the convergence of IFRS at the national base.

4 Historical Background

The origin of IFRs can be traced back to the early 1970s, when the International Accounting Standards Committee developed a single set of international standards. These well-publicized amendments to International Accounting Standards (IAS) 39: Financial Instruments: Recognition and Measurement have gained acceptance and traction in all major regions of the world.

International accounting standard committee IASC formed – 1973
First financial statements comparability project- 1987
European commission supports use of international accounting standards by European multination - 1995
Network agreement FASB and IASB agree to remove differences between IFRS and US GAAP-2002
IFRS in effect for European and Australian companies -2005
SEC allows foreign companies to file in IFRS without GAAP reconciliation -2007
SEC release IFRS road map proposal -2008
Canada, Russia, China, India and other countries plan to complete their IFRS transition -2011
United states adoption of IFRS-2014
Source: www.ifrportals.in

5 Rational behind adopting IFRS

1. Professionalism.
2. Competitive advantage.
5. Economic growth.

6 IFRS in India

Accounting Standards Board (ASB) formulates and issues accounting standards in India which are more or less in line with IFRS except for a few instances where departure is necessary to comply with the legal, regulatory and economic environment. Council of the Institute of Chartered Accountants of India opined in May 2006 that adopting IFRS was considered and supported by the ASB. IFRS task force was set up to provide a road map for convergence and it decided to converge with IFRS from the accounting period commencing on or after 1 April 2011. In India, Ministry of Corporate Affairs carried out the process of convergence of Indian Accounting Standards with IFRS after a wide range of consultative process with all the stakeholders in pursuance of G-20 commitment and as result thirty five Indian Accounting Standards converged with International Financial Reporting Standards. Various categories of companies are required to carry out the convergence of Indian Accounting Standards with IFRS with effect from 1 April’ 2011.

7 Challenges for IFRS

IFRS differs from GAAP Adoption of IFRS means that the entire set of financial statements will be required to undergo a severe change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements. GAAP Reconciliation have very important difference the Securities Exchange Commission (SEC) laid out two options in its proposal-one calling for the traditional IFRS first-time adoption reconciliation, the other requiring that step plus an on-going unaudited reconciliation. Lack of training facilities and academic courses on IFRS will also pose challenge in India. There is a need to impart education and training on IFRS and its application. Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS. IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of instability and prejudice to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used. The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP. Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc.

8 Conclusions and suggestions

In the application process of IFRS the difficulties created between the old standard and IFRS norms. The India and IFRS particularly needs to be made keeping these difficulties in front. The process of convergence is very slow but growth have been made continuously. It can be expected to have a common set of IFRS converged standard with a short period of time.
Moreover, corporate need to gear themselves for constant up ration and not only for the first Time adoption. 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. If we discussing about the convergence of IFRS there is many problems still needed to sort out at India and rest of world front.

9 Suggestions
The idea of convergence of IFRS with other national standards should be publicized through Seminars, Workshops and Symposiums, etc so the more and more corporate, industries, join the IFRS. Standard should be carefully maintained by the preparers because these are the particularly norms for the accounting standard. The users must be well educated so they can understood the language of the IFRS. Modifications are needed at time to time so that the minimum problems are faced to apply IFRS converged standard.

10 Bibliography