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IFRS in India: Over view and impact

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Abstract
Globalization has changed the close economy into open economy. Now a day's national economy is integrating in international market with other countries by spreading their trade and business outside their own country. Foreign Direct Investment, Foreign Institutional Investors, Mergers and Acquisition, Franchising and Business Outsourcing are some example of international transaction in global business. For the integrity of different country's business together in the word market it was necessary for the business to adopt a common set of accounting standard since accounting is the language of a business. It is well known that companies all over the world have become more and more internationally oriented during last few decades. They create fusion, make investment, conduct trade and co-operate over country borders. International financial reporting standards (IFRS) are becoming the global language of business with over 40% of the world having moved to IFRS in the past few years. By 2018, it is expected that all companies in major markets will be using IFRS. The globalization creates an increase need for communication in the terms of language, awareness of culture differences and domestic customs. More over the financial communication such as accounting and financial results are just as important for business leaders and employees to master. An upcoming economy on world economic map, India too, decided to converge to IFRS. In India ICAI has decided to adopt the IFRS by April 2011. This paper discusses the IFRS adoption procedure in India and the utility for India in adopting IFRS and its impact on India.

Keywords: IFRS, close economy, open economy, foreign direct investment

Introduction

Back drop: Globalization has changed the close economy into open economy. Now a day's national economy is integrating in international market with other countries by spreading their trade and business outside their own country. Foreign Direct Investment, Foreign Institutional Investors, Mergers and Acquisition, Franchising and Business Outsourcing are some examples of International transactions in global business. For the integrity of different country's business together in the world market it was necessary for the business to adopt a common set of accounting standards, since accounting is the language a business. Therefore in 1973, international professionals from different countries established the international accounting standard committee. Main objective of this committee was to issue international accounting standards. At this present time ministry of corporate affairs notified 35 accounting standards. In 2001 international accounting standard committee was superseded as international accounting standard board. Now the board issues international financial reporting standards formerly known as international accounting standards. Accounting standards were prepared for some benefits in global market which are compelling. The use of common set of accounting standards throughout the world provides an easy way of financial statements. A constant use of accounting standards provide higher quality information which enables the investors to make a better decision, indirectly fund will be allocated in more efficient manner in the market and the company can reduce its overall cost of capital.

Understanding IFRS

A single set of high quality, simple and enforceable global accounting standards that abstract. Globalization has laid down a way for all the countries to adopt a single set of accounting standards. Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. More than 100 countries have converged or recognized the policy of convergence with the IFRS. IFRS are globally accepted accounting standards & interpretations adopted by IASB.

An upcoming economy on world economic map, India, too, decided to converge to IFRS. In India, ICAI has decided to adopt the IFRS by April 2017. This paper discusses the IFRS adoption procedure in India & the utility for India in adopting IFRS, the problems & challenges faced by the stakeholders & its impact on India.

Objectives of IFRS
The objectives of IFRS development are:
1. Harmonization in financial statements reporting
2. To create the global financial reporting infrastructure
3. To generate sound business sense among the beneficiaries.
4. To generate the dimensions of fair presentation of financial statements.

Road Map to Ind-As
April 1, 2015:
- Voluntary adoption

April 1, 2016:
- Mandatory adoption by companies whose net worth is Rs.500 core or more.
- Applicable to holding, subsidiary, joint venture or associate companies of above companies

April 1, 2017:
- Mandatory adoption for unlisted companies having net worth of Rs.250 core or more
- Applicable to companies with net worth of less than 500 cores, whose equity or debt securities are listed in India or outside India.

IFRS adoption procedure in India
To rationalize accounting practices in the country, the Indian government in 1949, established institute of chartered accountants of India by passing ISAI Act, 1949. Accounting Standard Board was constituted by ICAI in 1977 in order to create harmony among the diversified accounting policies and practices in India. Three steps process was laid down by the accounting professionals in India which are summarized as follows:

Step 1: IFRS Impact Assessment
In this step the firm will assess the impact of IFRS adoption on accounting and reporting issues, on procedures and systems, and on core business of the entities. Then the firm will find the key conversion dates according to IFRS training plan has laid down. As and when the training plan is in place, the firm will have to identify the important financial reporting standards which will apply to the firm and also the variations among the present financial reporting standards being followed by the firm and IFRS both.

Step 2: Preparations for IFRS Implementation
This is the second step of the process, which will carry out such activities required for IFRS implementation process. Then the firm will reform the internal reporting systems & processes. IFRS first deals with the adoption & implementation of first time adoption process.

Step 3: Implementation
This is the final step of the process which deals with the actual implementation of IFRS. The initial phase of this step is to prepare an opening Balance Sheet at the date of the transition from the Indian Accounting Standards to IFRS is to be developed. This will follow the full application of IFRS as and when it is required.

Beneficiaries of Convergence with IFRS
Some of benefits are discussed below:
1. The Investors
Convergence of Indian accounting standards with IFRS makes accounting information more reliable, relevant, timely and comparable across different legal & economic frameworks & requirements since it would then be prepared by using a common set of accounting standards which will facilitate the investors who are willing to invest in the countries apart from India. It will also develop better understanding of financial statements worldwide which will increase the confidence among the people as investors.

2. The industry
The other important is the industry which in the event of convergence with IFRS will be benefited because of some basic reasons. It will enhance confidence in the mind of foreign investors it will also decrease the burden of financial reporting. Then it would make the process of preparing the individual & group financial statements easier and simplest. This will also reduce cost of preparing the financial statement using different sets of accounting standards.

3. Accounting professionals
There would be initially many problems but convergence with IFRS would surely benefit the accounting professionals and it would be helpful to them to sell their talent and expertise across the globe.

4. The economy
Convergence with IFRS would help industry grow and is beneficial to cooperate entities in the country as this would make the internal and external highly consistent, & it will report improvement in the risk rating among the foreign investors. Moreover, the International comparability is also benefiting the Industrial and capital markets in the country which leads to better economy across the country.

Problems and Challenges
IFRS are formulated by International Accounting Standards Board. However, the responsibility of convergence with IFRS vests with local government & accounting &IFRS regulatory bodies such as the ICAI in India. Thus ICAI need to invest in infrastructure to ensure compliance with IFRS. India has several constraints & practical challenges to adoption & compliance with IFRS. So there is a need to change some laws and regulations governing financial accounting and reporting in India.

Therefore there are several challenges that will be faced on the way of IFRS convergence. These are
1. Difference in GAAP and IFRS
Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS& its impact among the users of financial statements.

2. Training & Education
Lack of training facilities & academic courses on IFRS will also pose challenge in India. There is a need to impart education and training on IFRS and its application.

3. Legal Consideration
Currently, the reporting requirements are governed by various regulators in India & their provisions override other laws. The regulatory & legal requirements in India will pose A challenge unless the same is been addressed by respective regulatory.

4. Taxation effect
IFRS convergence would affect most of the items in the financial statements & 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.

5. Fair value and Measurement
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 financial statements. It also involves a lot of hard work in arriving at the fair value & valuation experts have to be used.

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