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THE FUTURE OF IFRS IN INDIA

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ABSTRACT

IFRS is used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, South Africa, Singapore and Turkey. As in December 2011 more than 110 countries around the world, including all of Europe, currently require or permit IFRS reporting. Approximately 85 of those countries require IFRS reporting for all domestic listed companies. In subsequent years, many other countries either adopted IFRS or converged to IFRS. An upcoming economy on world economic map, India, too, decided to converge to IFRS. IFRS convergence, in recent years, has gained momentum all over the world. As the capital markets become increasingly global in nature, more and more investors see the need for a common set of accounting standards. India being one of the key global players, migration to IFRS will enable Indian entities to have access to international capital markets without having to go though the cumbersome conversion and filing process. It will lower the cost of raising funds, reduce accountant's fees and enable faster access to all major capital markets. Furthermore, it will facilitate companies to set targets and milestones based on a global business environment rather than an inward perspective. Furthermore, convergence to IFRS by various group entities, will enable management to bring all components of the group into a single financial reporting platform. This ill eliminate the need for multiple reports and significant adjustment for preparing consolidated financial statements or filing financial statements in different stock exchanges. Historically, each country developed its own Generally Accepted Accounting Principles (GAAP) for financial accounting and reporting and there was no uniformity among the GAAPs of different countries. Comparison of financial statements issued by business firms from different countries has become difficult leading toward suboptimal capital allocation across countries in the world. Gradually, there emerged a global demand for convergence of GAAP of different countries into a single set uniform accounting standards applicable to all countries. As a result, the International Accounting Standards Committee (IASC) was established in 1973. The IASC formed International Accounting Standards Board (IASB) in 2001 which began issuing International Financial Accounting Standards (IFRS). This paper presents details of each of these suggested alternatives and future perspective of the convergence and adoption of IFRS into the Indian accounting and reporting system.

KEYWORDS: GAAP; IFRS; International Accounting Standards Board; Convergence; Adoption in India.

Introduction

International Financial Reporting Standards (IFRS) are designed as 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 important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external. IFRS began as an attempt to harmonies accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. They are sometimes still called by the original name of International Accounting Standards (IAS). In India, the Institute of Chartered Accountants of India (ICAI), as the accounting standards formulating body in our country, has always formulated accounting standards that have withstood the test of time. As we globalize, the significance of convergence with International Financial Reporting Standards (IFRS) increases. In today's scenario of global business village India cannot afford to insulate itself from the developments and modifications taking place worldwide.. In India, the accounting standards board set up an IFRS task force with the objective to explore the approach for achieving convergence with IFRS and laying down a road map for achieving convergence with IFRS with a view to make India IFRS complaint. In Feb, 2011, IFRS converged Indian Accounting Standards (Ind AS) came into existence. The implementation was postponed until April 2012 due to the practical challenges faced by Indian Regulators as well as corporates. Irrespective of the varying opinions convergence of IFRS with local standards is now not just a forum of discussion but a reality.

Need for universal GAAP

In recent times, capital markets have become global and continue to expand. Moreover, there has been significant globalization of production and trade. Investors can trade shares and securities worldwide. Entities are in a position to access the funds globally in the most advantageous markets. For this, investors from all over the world rely upon financial statements before taking decisions. They need to be convinced that the financial statements are true and fair and what they understand from the statements is what the person preparing them intends to convey. However, different countries adopt different accounting treatments and disclosure patterns with respect to the same economic event. This may create confusion among the users while interpreting the financial statements. Financial statements that are based on a single, universally accepted and used GAAP will enable the world to exchange financial information in a meaningful and trustworthy manner. This will accelerate the globalization of finance.

Why IFRS?

Conversion to IFRS offers companies a number of important benefits. Companies that operate in a global environment and comply with foreign reporting requirements can streamline their financial reporting. This will reduce related reporting costs by developing common reporting systems and will ensure consistency in statutory reporting. Furthermore, comparison and benchmarking of financial data with international competitors would be possible. Adoption of IFRS will make cross border acquisitions and joint venture possible, and also provide access to foreign capital. This is because majority of stock exchanges require financial information presented according to the IFRS. Early adoption of IFRS may offer an edge to the companies over their competitors as they can claim early adoption. This, in turn, will enhance the brand value of the company. The companies can trade their shares and securities on stock exchanges world-wide. For this, most of the stock exchanges require financial statements prepared under IFRS. Another major benefit of convergence is that the management of a company can view all the companies in a group on a common platform. This will reduce the time and efforts involved to adjust the accounts in order to comply with the requirements of the national GAAP. Business acquisition would be reflected at fair value in IFRS rather than the carrying values. This would ensure greater transparency in the financial statements. The implementation of IFRS in the corporates would require trained accountants, auditors, valuers and actuaries. This will boost the growth of the service sector also as India can emerge as an accounting services hub. Moreover, a single set of accounting standards worldwide would ensure that auditing firms standardize their training and quality of work is maintained globally.

What is IFRS/IAS?

IAS/IFRS is a single set of high quality, understandable and enforceable global accounting standards. It is a "principles based" set of standards which are drafted lucidly and are easy to understand and apply. Financial International Reporting Standards (IFRS) are Standards, Interpretations and the Framework for the Preparation and Presentation of Financial Statements set and adopted by the International Accounting Standards Board. IFRS has replaced the older term international accounting standard. Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IFRS are considered “principles based” set of standards in that they establish broad rules as well as dictating specific treatments.

International Financial Reporting Standards comprise:

- International Financial Reporting Standards (IFRS) - standards issued after 2001.
- International Accounting Standards (IAS) - standards issued before 2001.
- Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC) - issued after 2001.
- Standing Interpretations Committee (SIC) - issued before 2001.
- There is also a Framework for the Preparation and Presentation of Financial Statements which describes of the principles underlying IFRS.

Difference between IFRS and IAS

Majority of the standards which form part of IFRS were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). The standards issued by IASC were known as IAS. In 2000, IASC Member Bodies approved the restructuring of the IASC's foundation and in March 2001, the new IASB took over the responsibility of setting the International Accounting Standards from the IASC. IASB adopted the standards set by IASC and continued to develop new standards and called the new standards - IFRS. Thus, practically there is no difference between IFRS and IAS and both are equally enforceable.

What is IAS regulation and IFRS?

IAS is International Accounting Standards (IAS) which were issued between 1973 and 2001 by the International Accounting Standard Committee (IASC). On 1 April, 2001, IASC was replaced by International Accounting Standards Board (IASB). Since then International Accounting Standards Board (IASB)**,** based at London - UK is now responsible to issue International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS)**.** IASB is an independent body and consists of members from nine different countries develop standards calling the new around the globe having variety of functional backgrounds. During its first meeting the Board adopted existing IAS and SICs. The IASB has continued to

standards IFRS.

International Accounting Standards Committee (IASC)

To maintain uniformity in accounting principles and standards throughout the world, International Accounting Standards Committee (IASC) came into force from 29th June, 1973 when 16 accounting bodies from 9 nations (USA, Canada, UK, Australia, France, Germany, Japan, Mexico and Netherlands) signed the agreement and constitution for its formation. The basic objective of the committee is to formulate and publish the accounting standards in the public interest. The Board of International Accounting Standards Committee issued many of International Accounting Standards between 1973 and 2001. The development of International Accounting Standards facilitated to understand the international accounting system and a smooth flow of international investments.

International Accounting Standards Board (IASB)

The International Accounting Standards Board is made up of 15 members representing 9 countries, including China, Japan, Australia and the US in April, 2001. It is sponsored by variety of financial institutions, companies, banks and accounting firms. The International Accounting Standards Board (IASB) was founded to undertake the responsibilities of the IASC which was established in 1973.

Objectives of IFRS

Harmonization is the necessity of modern globalized era because various factors like cross border investments, interdependence on trade, increase of business complexities, global financial crisis, global slowdown and mobility of capital and people across the globe, are significantly influencing the world economy. Therefore, the main objective of IFRS development is harmonization in financial statements reporting. Some additional objectives are:

- To develop and introduce a single set of top quality global accounting standards.
- To produce transparent and top quality information in financial reporting statements.
- To make the financial reporting statements more comparable and comprehensive to the concerned users for taking appropriate decisions.
- To boost the confidence of the investors throughout the world.

Importance and Global Status of IFRS

The use of International Financial Reporting Standards (IFRS) as a universal financial reporting language is gaining momentum across the globe. Several countries have implemented IFRS and converged their national GAAP to IFRS. IFRS is used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, South Africa, Singapore and Turkey. As in December 2011 more than 110 countries around the world, including all of Europe, currently require or permit IFRS reporting. Approximately 85 of those countries require IFRS reporting for all domestic listed companies.

The IFRS are rapidly recognized in many parts of the world. Presently, 120 countries have introduced IFRS for domestic listed companies. Out of which, 90 countries have totally conformed with IFRS. China has decided to converge from 2008. Other countries are expected to transition to IFRS by 2011. However, Mexico and Japan plans to introduce IFRS for all listed companies by 2012 and 2016 respectively. It is also expected that all major countries including India will have adopted IFRS by 2014. The matter of convergence to IFRS has gained increasing importance in India as well. At present, accounting standards in India are formulated and issued by the Accounting Standards Board (ASB). The standards issued by the ASB 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. In May 2006, the Council of the Institute of Chartered Accountants of India (ICAI) expressed its opinion of adopting IFRS which was considered and supported by the ASB in a meeting held in August 2006. With a view to set up a road map for convergence and provide the necessary approach for convergence, ASB set up an IFRS Task Force. Based on the recommendations made by the IFRS Task Force, the council of the Institute decided to converge with IFRS from the accounting period commencing on or after 1 April 2011.

Convergence of Accounting Standards

The convergence of accounting standards refers to the goal of establishing a single set of accounting that will be used internationally, and in particular the effort to reduce the differences between the US Generally Accepted Accounting Principles (US GAAP), and the International Financial Reporting Standards (IFRS) Convergence in some form has been taking place for several decades, and efforts today include projects that aim to reduce the differences between accounting standards.

History

- **1950s to 1960s**

The idea of convergence has roots in the 1950s, and was a response to greater economic integration and international capital flows after the second world war. Before the 1990s, convergence took the form of *harmonization*, the reduction of differences between the various accounting standards used internationally. At the 8th International Congress of Accountants hosted by the American Institute of Certified Public Accountants in 1962, many participants expressed the need for the development of accounting standards on an international basis; in the same year the AICPA reactivated the Committee on International Relations, that aimed to improve cooperation among accountants globally.

- **1970s to 1990s**

The International Accounting Standards Committee (IASC), the predecessor to the International Accounting Standards Board (IASB)was established in 1973 with the goal of developing accounting standards and promoting them internationally; by 1987 the IASC had issued 25 standards, and by the late 1980s there was "worldwide interest" in the need for convergence. In 1991 the FASB formally set out the goal of developing an internationally-used set of accounting standards, and in subsequent years the FASB and IASC undertook various projects to lay the groundwork for convergence. In 1996, the National Securities Markets Improvement Act became law; the act expressed support for convergence efforts and required the SEC to report to congress on progress towards convergence.

- **2000s to present**

The IASC was reconstituted into the IASB in 2001, and the FASB and IASB began working towards convergence in 2002,expressing their commitment to convergence in the Norwalk agreement and pledging to make their respective standards "compatible as soon as is practicable" and to maintain compatibility by coordinating future programs. Their commitment to working towards convergence was reaffirmed at meetings in 2005. The IASB and FASB signed a memorandum of understanding in 2006 which laid guidelines on their convergence projects and set short-term goals such as to issue converged standards on business combinations by 2008. Work towards the goals were reviewed in 2008, and a progress report published that also set out subsequent steps for each convergence topic. The FASB and IASB met again in 2009 and agreed to "intensify their efforts" in working towards the goals of the memorandum of understanding, while laying down future plans and targets. However, these efforts have stalled recently, with IASB chairman Hans Hoogervorst suggesting that convergence is no longer a top priority for the IFRS standard-setter. As of May 2013, some changes have been occurring. A new accounting proposal on leasing equipment looks like it will bring about change in global accounting standards. This version of the proposal is not as controversial as its predecessor. The proposal was issued jointly by the FASB and IASB. As quoted by Hans Hoogervorst, chairman of the IASB, “This is going to be one of the least popular standards.” Under this proposal, companies will have to report having more assets and liabilities on their balance sheet than previously required. This could have extreme effects on the construction industry. More notably, as of May 10, 2013, the FASB and IASB have been under pressure to agree on the convergence of certain accounting standards. Fifteen of the largest banks in the United States have written a letter to the chairmen of these two boards. These banks include Bank of America Corporation, Capital One Financial Corporation, Citigroup Inc., JPMorgan Chase & Co., Morgan Stanley, and Wells Fargo & Company. They have asked that the two boards come to some kind of agreement on the standards for credit losses. This topic is covered in the two board’s financial instruments convergence project but has not seen much interest in some time. Convergence of accounting standards is also taking place in other jurisdictions; the IFRS Foundation has stated that "all major economies" have plans to either converge towards or adopt the IFRS "in the near future", and that the Group of 20 Leaders (G20) have encouraged accounting bodies globally to increase efforts to achieve convergence.

Benefits of Convergence with IFRS

It is sensible to make a careful preliminary assessment and a cost/benefit analysis of whether or not under the particular circumstances, an adoption of IFRS would be desirable and also examine different scenarios concerning timing of adopting IFRS. The number of companies which elect to adopt IFRS is growing and this is because IFRS reporting offers a wide scope of benefits. Examples of these benefits include the following:

- IFRS significantly improves the comparability of entities and provide more consistent financial information.
- IFRS are accepted as a financial reporting framework for companies seeking admission to almost all of the world’s stock exchanges (including US).

- The enhanced comparability of the companies' financial information and the improved quality of communication to their stockholders, decrease investor uncertainty, reduce risk, increases market efficiency and eventually minimizes the cost of capital.
- IFRS eliminates barriers to cross border trading in securities, by ensuring that financial statements are more transparent.
- Management reporting for internal purposes under IFRS, can improve the quality and consistency of information that management needs in order to make effective, efficient and timely decisions for the business.
- IFRS adoption may be used as a chance to make some strategic improvements to the finance systems and processes as well as to reduce costs in the longer term.
- IFRS financial statements that are universally understood and comparable can both improve and initiate new relationships with customers and suppliers across national borders.
- Because of the positive effect IFRS financial information has on credit ratings, a company's position strengthens in negotiations with credit institutions and cost of borrowings are reduced.
- IFRS can also result in more accurate risk evaluations by lenders and to a lower risk premium. It also helps companies to take advantage of alternative forms of finance.
- In the case of groups it removes the need for individual companies to prepare two set of financial statements, if all individual companies in the group apply IFRS. It also allows multinational groups to have a common accounting language, thereby improving management reporting and decision making.
- IFRS reporting makes easier to implement cross-border acquisitions, initiate partnerships & cooperation agreements with foreign entities, simplify the sale of the reporting entity and lower the costs of integration in post acquisition periods. As IFRS hit the market, analysts and investors will become more sophisticated very quickly and will be less forgiving towards companies which provide the market with the poor disclosures.

Indian Scenario

The history of accounting indicates the evolutionary pattern which reflects changing socio- economic conditions and the large purposes to which accounting is applied. Accounting information should be reliable in use so that users of accounting information may be able to rely on some basic assumptions about quality of accounting information produced by accountants. But in practice the accounting profession has failed to give reliable information to investors. The International Accounting Standards do not have any statutory authority. International Accounting Standards are being used as national standards in some developing countries. But India has formulating and publishing its own accounting standards on the basis of International Accounting Standards with a view to harmonize varying accounting policies and practices. The Institute of Chartered Accountants of India (ICAI) formed the Accounting Standards Board (ASB) in April 1977, which included representatives from Industry and Government.

At present ASB formulates the Accounting Standards in India. But as these accounting standards are sensitive to the local environment and, hence, depart from the corresponding IFRS in order to ensure consistency with legal, regulatory and economic environment in India. In the present scenario of LPG, the world has become an economic global village. The use of different accounting framework in different countries leads to inconsistent treatment and presentation of same underlying economic transaction creates confusion for users of financial statements. This confusion results in inefficiency in the capital market all over the world. Therefore, it is more essential to introduce the IFRS for Indian Accounting System. To achieve harmony with IFRS, the convergence of Indian Accounting Standards is obviously required. In India, IFRS are supposed to be introduced from 1st April, 2011 with Sensex and Nifty companies. However, it has been found that huge legislative changes are imperative in the field of Company Law, Income Tax Act and Rules, Securities and Exchange Board of India (Rules and Regulations), Foreign Exchange Management Act (FEMA) and other allied areas. IFRS give emphasis on fair value measurement practices. The Ministry of Company Affairs decided not to adopt IFRS in its original form. To adopt the IFRS in phased manner the Ministry of Company Affairs has notified convergence of 35 Indian Accounting Standards (Ind.AS) with IFRS on 25th February, 2011 (see Annexure-I). The Corporate India looks forward to clear road map for shifting IFRS for accounting. The convergence of the Indian Accounting Standards, currently used by domestic companies and IFRS is one of the major issues concerning India Inc. as this would lead to a revaluation of their assets and liabilities and in several cases the new accounting norms will also result in change in income recognition norms.

Convergence with IFRS: Indian Prospects

As per European Commission the requirement of compliance of IFRS by all listed companies in their CFS from 2005 (IAS Regulation) onwards will help eliminate barriers to cross boarder trading in securities by ensuring that company accounts throughout the European Union (EU) are more reliable and transparent. If the Indian companies prepare their accounts in accordance with IFRS, they can be more easily compared with their accounts with EU companies and other IFRS user countries. This will, in turn, increase market efficiency and reduce the cost of raising capital for companies, ultimately improving competitiveness and helping boost economy. According to Hindu Business Line "Indian Companies can now get listed on London Stock Exchange (LSE) by reporting their financial results based on Indian Accounting Standards. Until now, these companies had to report their financial data in accordance with the International Financial Reporting Standards (IFRS)." This is an indication of the growing convergence of Indian accounting standards to IFRS. In India, manipulations of accounts become a key factor in presentation of financial statements. The Financial Accounting Standards Board (FASB), USA, is having a convergence project with the IASB and is broadly adopting the principle-based approach instead of rulebased approach. IFRS are principle-based standards which have distinct advantage that the transactions cannot be manipulated easily to achieve a particular accounting. Examples are:

- IAS 17, Leases, distinguishes finance lease from operating lease based on principle of 'substance over form', whereas corresponding US GAAP lay down rules for making such distinction.
- IAS 27, Consolidated and Separate Financial Statements, lays down criteria of power to govern financial and operating policies for identification of subsidiaries. The corresponding US GAAP lay down requirement for majority ownership of shares only.

In India, the Companies Act definition is based on either majority ownership or board control. The advantages to investors are clear. IFRS make it easier to compare the accounts of companies in different countries. Today, India is one of the fastest growing economies in the world with a compounded average growth rate of 5.7 per cent over the past two decades. Comparability and transparency of financial statements would increase inflows of FDI and foreign capital which is urgently required by the Government of India to implement its plans to transform India into a developed nation by 2020. Substance over Form IFRS lay down treatments based on the economic substance of various events and transactions rather than their legal form. The application of this approach may result into events and transactions being presented in a manner different from their legal form. To illustrate, as per IAS 32, preference shares that provide for mandatory redemption by the issuer are presented as a liability. The dividend payable on cumulative redeemable preference shares is treated as expense and not as distribution of profits. Non-financial Disclosures As per the IASB Framework for the Preparation and Presentation of Financial Statements, the objective of financial statements is to provide information that is useful to a wide range of users in making economic decisions. The Framework recognizes financial statements do not provide all the information required for decisions. To achieve, the objective the financial reports may include additional information in the form of non-financial disclosures. In India, non-financial information played a significant role in making economic decisions. Non-financial disclosure may include information about:- · Nature of business, Objectives and Strategies, Key resources, Risks, Results Prospects, etc. Such disclosures are usually contained in Management Report. To deal with the aspect, the IASB is developing a separate IFRS on Management Commentary. Recently, a discussion paper on the subject has been issued. Issuing accounting standards interpretations on matters related to accounting standards. With a view to resolve various intricate interpretational issues arising in the implementation of new accounting standards that have already been issued, the ICAI has issued thirty accounting standards interpretations. Issuance of background materials on accounting standards: To facilitate discussion at seminars, workshops, etc.,ICAI has issued background material on newly issued accounting standards. The background material deals, inter alia, with the key requirements of the accounting standards with examples and Frequently Asked Questions (FAQs), which accountants and auditors may encounter in the application of accounting standards. Issuance of Guidance Notes on accounting matters: ICAI has issued various Guidance Notes in order to provide immediate guidance on accounting issues arising due to issuance of new accounting standards and to provide immediate guidance on new accounting issues arising due to changes in legal or economic environment and/or other developments,. These guidance notes form an important part of the generally accepted accounting principles in India and need to be referred to on a regular basis by people involved in the preparation and presentation of financial statements, as well as by people involved in auditing these statements.

Convergence with IFRS: Indian Perspective

Indian Accounting Standards (AS) is formulated on the basis of the IFRS. While formulating AS, the endeavor of the ICAI remains to converge with the IFRS. The ICAI has till date issued 29 AS corresponding to IFRS. Some recent AS, issued by the ICAI, are totally at par with the corresponding IFRS, e.g., the Standards on 'Impairment of Assets' and 'Construction Contracts'. While formulating Indian Accounting Standards, changes from the corresponding IAS/ IFRS are made only in those cases where these are unavoidable considering:-

- Legal and/ or regulatory framework prevailing in the country.
- To reduce or eliminate the alternatives so as to ensure comparability.
- State of economic environment in the country
- Level of preparedness of various interest groups involved in implementing the accounting standards.

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Level of preparedness Considering practical difficulties, the ASB has decided not to require mandatory adoption of the component approach prescribed in IAS 16, Property, Plant and Equipment. Under the 'components approach', fixed assets are segregated into various significant components for the purpose of accounting, for example, for depreciation.

IFRS Auditing Standards: Indian Perspective

A single set of accounting standards would enable international auditing firms to standardise training and ensure better quality of their work on a global scale. It would also permit international capital to flow more freely, enabling auditing firms and their clients to develop consistence global practices on accounting problems. It would be beneficial to regulators too, as the complexity associated with needing to understand various reporting regimes would be reduced. Auditing Standards are codification of existing best practices in the area of auditing. International Standards on Auditing (ISA) are issued by the IAASB of IFAC. In India, the ICAI formulates Auditing and Assurance Standards (AAS). Basic considerations behind AAS
formulation are:

- Harmonization with ISA, to the extent possible – a Membership obligation for ICAI
- Applicable laws in India.
- Customs, usages & business environment in India. These standards apply whenever independent audit carried out and irrespective of size, legal form or commercial motives of the client. It may appropriately apply to other functions of auditors.

Convergence with IFRS- Major Challenges

The problem of differences in accounting standards will continue to exist for some time**.** From a regulatory perspective, convergence to IFRS would require amendments to the Companies Act and the Income Tax Act, to mention the major ones. Currently industries such as banking and insurance are also regulated by specific acts that prescribe accounting norms. Today, IFRS does not provide industry specific standards so there would be additional transition challenges as and when progress is made. IFRS requires valuations and future forecasts, which will involve use of estimates, assumptions and management's judgements. The ICAI and the Ministry of Corporate Affairs have already made noteworthy progress in moving towards IFRS.

1. Legal and regulatory considerations In some cases, the legal and regulatory accounting requirements in India differ from the IFRS. In India, Companies Act of 1956, Banking Regulation Act of 1949, IRDA regulations and SEBI guidelines prescribe detailed formats for financial statements to be followed by respective enterprises in their financial reporting. In such cases, strict adherence to IFRS in India would result in various legal problems.

2. Economic Environment Some IFRS require fair value approach to be followed, for example:

- IAS 39, Financial Instruments: Recognition and Measurement
- IAS 41, Agriculture

The markets of many economies such as India normally do not have adequate depth and breadth for reliable determination of fair values. With a view to provide further guidance on the use of fair value approach, the IASB is developing a document. Till date, no viable solution of objective fair value measures is available.

3. **SME Concerns** In emerging economies like India, a significant part of the economic activities is carried on by small- and medium-sized entities (SMEs). Such entities face problems in implementing the accounting standards because of:

- Scarcity of resources and expertise with the SMEs to achieve compliance.

- Cost of compliance not commensurate with the expected benefits.

In India, exemptions/ relaxations have been provided to SMEs. These exemptions/ relaxations are primarily related to disclosure requirements, though some exemptions/ relaxations from measurement principles have also been provided, e.g., AS 28 - Impairment of Assets and AS 15 - Employee Benefits. Keeping in view the difficulties faced by the SMEs, the IASB is developing an IFRS for SMEs**.**

4. Training to Preparers Some IFRS are complex. There is lack of adequate skills amongst the preparers and users of Financial Statements to apply IFRS. Proper implementation of such IFRS requires extensive education of preparers.

5. Interpretation A large number of application issues rise while applying IFRS. There is a need to have a forum which may address the application issues in specific cases. In India, the Institute of Chartered Accountants of India has constituted the Expert Advisory Committee to provide guidance on enterprise specific issues.

Globalization and Financial Reporting in India

In recent past, India has seen a sea change in its way of financial reporting. The process of changes started in the late 1980s with the initiation of economic reforms and globalization process in India. Since independence in 1947 to mid-1980s, Indian industries were in complete control of the state. Price and quantity restrictions were in place and any entrepreneur interested in starting a new business venture (or, expansion of its existing capacity) had to take multiple permissions from various government departments. Rent seeking activity and excess capacity used to be the normal feature of the then Indian industries. Foreign Investment was negligible and funding for business was coming mainly in the form of loan from public sector commercial banks and financial institutions (e.g., IDBI). In the aftermath of liberalization program initiated in 1991, India faced severe Balance of Payments crisis and had to pledge its gold reserve to the Bank of England to overcome the crisis. The then Congress Government took some revolutionary steps with regard to opening up of Indian economy to foreign competition and inviting foreign investments in various industrial sectors. Both the industrial and financial sectors were deregulated and rupee was made convertible on Current Account.vi Capital Markets were made more accessible for Indian companies. Corporate houses were allowed to tap the foreign financial markets for their fund requirement. Insurance, banking, telecom, retail, and software, among many others were opened for foreign investments. These developments have encouraged foreign companies to invest in India. These increasing investment trends in India from abroad demand a corporate financial reporting system fully harmonized with the one being used worldwide. The demand is further supported by the Indian companies which were either buying foreign companies or entering into joint ventures with foreign companies. Goldman Sachs (2003) also supported this phenomenon through a study on BRIC (Brazil, Russia, India & China) in which it suggested that these countries will become among the four most dominant economies by the year 2050. Currently, Indian Companies are reporting their financial statements based on Indian Accounting Standards prepared by Institute of Chartered Accountants of India (ICAI).These Standards are quite similar to IFRS. Till date, ICAI has issued 32 Accounting Standards covering many areas.

India and IFRS

In India, there will be two set of accounting Standards-

1. The existing Indian accounting Standards (IAS) – will be applicable to all companies which are not required to adopt IFRS converged standards.

2. Indian Accounting Standards, as converged with IFRS (Ind-AS) – will be applicable to companies operating in India in phased manner. The date of implementation of the Ind-AS is yet to be notified.

There are conceptual differences between IAS and IFRS. Keeping in view the extent of gap between IAS, Ind-AS and the corresponding IFRS- conversion process would need careful handling. By introducing a new company law, the Indian Government has initiated the process to amend the legal and regulatory framework. The conversion would involve, Impact assessment, Revisiting Accounting Policies and thereafter changing the Accounting & Operational Systems (including ERP) in order to be carefully compliant with Ind-AS or IFRS.

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, 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.

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 globeviii. For this they need funds at cheaper cost which is available in American ,European and Japanese Capital Marketsix .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. Researches 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.

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 Financial 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.

Implementation of IFRS would thus ensure the following benefits:

i) Same language
ii) Cross border investments leading to economic growth
iii) Comparability of financial statements of any two companies anywhere in the world
iv) Globalisation of economy and world trade
v) For multinational companies:

- Consolidation of group financial statements made easier
- Accounting and audit functions made easier and cheaper
- Compliance with regulatory requirements of bodies such as stock exchanges
- Mergers and acquisitions made easier
- Access to multinational funds

vi) The job of governments and standard setters in the developing countries made easier
vii) The job of tax authorities made easier
viii) Time and money saved by international professional accounting firms in planning and execution of accounting and audits
ix) Administrative costs of accessing the capital markets around the world reduced.

IFRS implementation challenges in India

Inspite of the various benefits of adopting IFRS, implementation of IFRS is a herculean task in India. Following are a few challenges faced during adoption and implementation of IFRS:

- **Awareness about international practices**

Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. There are a number of differences between the two GAAP's (discussed below). This may cause the users of financial statements to look at them from a new perspective. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

- **Training**

Professional accountants are looked upon to ensure successful implementation of IFRS. The biggest hurdle for the professionals in implementing IFRS is the lack of training facilities and academic courses on IFRS in India. As the implementation date draws closer (2011), it is observed that there is acute shortage of trained IFRS staff. The solution to this problem is that all stakeholders in the organisation should be trained and IFRS should be introduced as a full time subject in the universities.

- **Amendments to the existing law**

It is observed that implementation of IFRS may result in a number of inconsistencies with the existing laws which include the Companies Act 1956, SEBI regulations, banking laws and regulations and the insurance laws and regulations. Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognise such overriding laws. Although steps to amend these laws have been initiated, the authorities need to ensure that the laws are amended well in time.

- **Taxation**

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. It is extremely important that the taxation laws recognise IFRScompliant financial statements otherwise it would duplicate administrative work for the organisations.

- **Fair value**

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 volatility and subjectivity 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. Moreover, adjustments to fair value result in gains or losses which are reflected in the income statements. Whether this can be included in computing distributable profit is also debated.

Transition to IFRS

The Institute of Chartered Accountants of India has proposed two options for convergence:

- All at once
- Stage-wise approach

It has been observed that there are certain implementation dangers and compliance problems with either AS or IFRS in adopting the all at once approach. Therefore, stage-wise approach would be preferable.

First time adoption

For first time adoption, two key terms need to be understood:

- **Reporting date**-It is the end of the latest period covered by the financial statements.
- **Transition date**- It is the beginning of the earliest period for which an entity presents its first full IFRS compliant financial statements. ICAI has proposed that in the case of Indian corporates, the first reporting date will be 31-03-2012 and transition date will be 01-04-2010. Therefore, the first set of financials will be for the period 01-04-2011 to 31-03-2012 with IFRS comparables which are to be provided for the period 01-04-2010 to 31-03-2011. It is mandatory for entities to include atleast one comparative period in IFRS compliant financial statements. After considering the current economic environment, ICAI has decided that IFRS should be adopted for public interest entities such as listed companies, banking companies, insurance companies and other large sized entities from the accounting periods commencing on or after 1st April, 2011.

Conclusion

The accounting principles are broad guidelines for general application, they permit a wide variety of methods and practices. The lack of uniformity of methods and practices makes it difficult to compare the financial reports of different companies. Moreover, the multiplicity of accounting practices makes it possible for management to conceal economic relatives by selecting those alternative presentations of financial results which allow earnings to be manipulated. The financial statements prepared under such conditions, therefore, may have limited usefulness for several users of information. This problem has been recognized all over the world and various professional bodies are engaged in the task of standardizing accounting practices. The financial reporting thus has to be competitive and based on global accounting standards. IFRS are the global standards and will change accounting practice for financial assets. IFRS has today become a universal financial reporting language through which all the global companies are communicating with its global investors rather than having a divergent set of standards applied differently in different countries. India has already announced the convergence of Ind. AS with IFRS. The Ind. AS will be implemented very soon. The Indian accounting professionals have to make them well equipped at the earliest possible time by acquiring adequate knowledge through training. The comparison of financial statement will be easier and more cost-effective through common financial reporting language of IFRS. Indian Government and Accounting Body are taking every possible step for a smooth transition process. With all these systems in places, the IFRS adoption in India will become very smooth and accurate. IFRS adoption in India is inevitable.

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