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A Mordern Accounting Concept: Ifrs in India

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ABSTRACT: International finance reporting standard set a common rules for financial statement. So statement consists transparent and comparable around the world. Financial Reporting Standards to high quality solutions. Consistent, comparable and understandable financial information is the lifeblood of commerce and making investment. This resulted in international initiative of convergence of Accounting Standards to a common standard viz. the International Accounting Standards/ International Financial Reporting Standards (IFRS). In order to resolve this problem, the ICAI has given a roadmap through which, IFRS can be adopted in India in a phased manner. This Paper deals with concept, objective and benefits of convergence with IFRS and explores the way how we converge the Indian GAAP with IFRS. Problems and challenges faced in the process of convergence in Indian perspective have been thoroughly discussed. This paper also focuses on IFRS prospects in Indian scenario. 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) is becoming the global language of business with over 40% of the world having moved to IFRS in the past few years. The globalization creates an increased need for communication in the terms of language, awareness of culture differences and domestic customs.

Key Words: IFRS, Financial Statement, Globalization.

I. INTRODUCTION

The International Financial Reporting Standards (IFRS) and their evolvement into one of the most common accounting standards used in the world. IFRS is international accountings frame work within which to property organize and report financial information. IFRS is short for International Financial Reporting Standards. IFRS is the international accounting framework within which to properly organize and report financial information. It is derived from the pronouncements of the London-based International Accounting Standards Board (IASB). It is currently the required accounting framework in

Than 120 countries. Simply, IFRS is like a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. IFRS requires businesses to report their financial results and financial position using the same rules; this means that, barring any fraudulent manipulation, there is considerable uniformity in the financial reporting of all businesses using IFRS, which makes it easier to compare and contrast their financial results.

1.2 Objectives of IFRS

The main objective of IFRS development is harmonization in financial statements reporting. Some additional objectives are:

a) To develop, in the public interest, 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;

(b) To promote the use and rigorous application of those standards;

(c) In fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and (d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions

1.3 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 ICAI 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

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steps process was laid down by the accounting professionals in India which are Summarized as follows.

Step 1 IFRS Impact Assessment:

This is the first step. 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 and processes. IFRS first deals with the adoption and implementation of first time adoption process.

Step 3Implementation:

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 transition to IFRS. To understand the actual impact 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.

1.4 IFRS in India

In India, Accounting standards are formulated by council of Institute of Chartered Accounts of India (ICAI).In July 2007, the Council of the Institute of Chartered Accountants of India set a target of adopting International Financial Reporting Standards (IFRS) for all listed, public interest and large-sized entities from accounting periods beginning on or after 1 April 2011.

- ❖ In 2007 ,India has decided to converge with IFRS in 2007.ICAI started the process of developing a complete set of accounting standard that are "converged with" IFRS- which will be known as Indian AS .There is a difference between adoption and convergence to IFRS. Adoption means using IFRS as issued by IASB. Convergence means that the Indian Accounting standard board and IASB would continue working together to develop high quality, compatible accounting standard over time.
- ❖ With an objective to ensure smooth transition to IFRS from 1 April, 2011, ICAI is taking up the matter of convergence with IFRS with National Advisory Committee on Accounting Standards (NACAS) established by the Ministry of Corporate Affairs, Government of India and other regulators including Re-serve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI).

1.5 Challenges of Adopting IFRS

Accounting Professionals across the world have listed various benefits of adopting IFRS. In spite of these benefits, adoption of IFRS is a difficult task and has many challenges.

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 and its impact among the users of financial statements. While IGAAP has been converging with IFRS as much as possible in recent years, differences still remain, and some of these were viewed as significant challenge to overcome. Participants noted concerns in the following areas.

- ❖ IFRS is more principles based, and therefore more 'liberal' than Indian GAAP. More choice under IFRS will mean the increased need to use professional judgment, and this will require a fundamental change in mindset for Indian accountants.
- ❖ Initial transition will be a challenge given differing recognition and measurement criteria for assets and liabilities. These will not only impact earnings, but it is important to be able to capture those differences through appropriate information systems.
- ❖ Specific accounting areas that will be more complex included business combinations and financial instruments. Many of the problems associated with them arise from the greater use of fair value accounting under IFRS.

Interaction between Legislation and Accounting

There are concerns about the compatibility of Indian laws with IFRS in certain matters pertaining to accounting, such as formats and presentation requirements. Similarly, there is uncertainty over tax treatments of items arising from convergence such as unrealized gains and losses and the move from a tax basis for depreciation (IGAAP) to one of useful economic life (IFRS).

Training and Education

Lack of training facilities and academic courses on IFRS will also pose challenge in India. A key challenge is to ensure companies, auditors, regulators and the investment community is appropriately skilled to apply and interpret IFRS.

Fair Value 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 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.

Re-negotiation of Contract

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.

Reporting Systems

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.

Efficient Financial Reporting Processes

Although many Indian companies have still not thought about the impact on their information systems. These will require a fundamental review and initial costs could be significant. At the same time, it is important to have in place sound systems in order to ensure that subsequent generation of reporting information is efficient.

Legal and Regulatory Considerations

Currently, the reporting requirements are governed by various regulators in India and their pro- visions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.

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.

1.6 The Benefits of IFRS Adoption

- ❖ Adoption of IFRS will result in high quality, transparent and comparable financial statements that are based on modern accounting principles and concepts that are being applied in global markets.
- ❖ If a business adopts IFRS, the business will be able to present its financial statement on a single set of high quality and global standards.
- ❖ Comparison is made easier with a foreign competitor if a company presents its financial statement according to IFRS.
- ❖ If a company uses IFRS, the company could enjoy the benefit of raising capital from abroad. The adoption of IFRS will improve cross border investment by enhancing comparability of financial statements prepared anywhere in the world

II. RECOMMENDATIONS AND CONCLUDING REMARKS

Ensuring high-quality corporate financial reporting environment depends on effective enforcement mechanisms. Merely adopting international accounting and auditing standards is not enough. Three important links exist in the enforcement sequence:

- ❖ Auditors must act independently and judiciously to ensure that financial statements comply with applicable accounting standards and represent a true and fair position of the enterprise's financial condition.
- ❖ Directors and top management must ensure that financial statements are prepared in compliance with established standards.
- ❖ Regulators, both self-regulatory organizations and statutory regulators, must implement arrangements for efficient monitoring of regulatory compliance and consistently take appropriate actions against violators.

Establishment of Financial Monitoring Board

The government is under the process of establishing an independent oversight body named "Financial Reporting Council" to shoulder the responsibility of setting accounting and auditing standards, monitoring compliance with accounting standards, reviewing auditors' practice and

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reviewing reporting practices and enforcing sanctions for violations. The government should ensure capacity and effectiveness of this regulatory regime to provide a real sense of security to stakeholders.

The board should focus on technically qualified personnel, practical training of inspectors/reviewers, administrative support, and necessary logistics arrangements. The IFRS enforcement bodies should immediately enhance their expertise.

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