

## A STUDY ON IMPLEMENTATION OF IFRS IN INDIA

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### ABSTRACT

*International Financial Reporting Standards (IFRS) is becoming the global language of business . Globalization has laid down a way for all the countries to adopt a identical set of accounting standards. (IFRS) is closely related to the entire issue of globalization because it has changed close economy into open economy. The implementation process of International Financial Reporting Standards (IFRS) gained wide interest in the field of financial accounting research community in India. The International Financial Reporting Standards (IFRS) represents a essential change in accounting for transactions and reporting of financial statements. Financial reporting in India is undergoing a momentous transformation owing to the adoption of Indian Accounting Standards (Ind AS) that are converged with (IFRS). After several years in the making, this has now become a reality for Indian companies, with the notification of 39 Ind AS standards and the implementation roadmap by the Ministry of Corporate Affairs in February 2015. This will in turn improve India's place in global rankings on corporate governance and transparency in financial reporting. Around 150 countries have already adopted IFRS in their economy. But in India, MCA has decided to go for full convergence of IFRS by 2018 through IND AS.*

**KEY WORDS:** IFRS ,IND AS , US GAPP ,MCA,convergence with IFRS.

### INTRODUCTION

“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”. There are many accounting standards in the world, with each country using a version of their own generally accepted accounting principles, also known as GAAP. These allow firms to report their financial statements in accordance to the GAAP that applies to them. The complication lies within whether the firm does business in multiple countries. How

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can investors then deal with multiple standards, which ones are accurate, and how can corporations be compared based upon their financials? The answer to these questions lies within the adoption of the International Financial Reporting Standards, or IFRS, which is being developed and supported by the International Accounting Standards Board (IASB).

In June 1973, the International Accounting Standards Committee (IASC) came into existence, with the stated intent that the new international standards it released must “be capable of rapid acceptance and implementation world-wide”. The IASC survived for 27 years, until 2001 when the organization was restructured and the International Accounting Standards Board (IASB) came into existence.

IASB stated that they would adopt the body of standards issued by the Board of the International Accounting Standards Committee which would continue to be designated ‘International Accounting Standards’ but any new standards would be published in a series called International Financial Reporting Standards (IFRS).

On 2 January 2015, the Press Information Bureau, Government of India, Ministry of Corporate Affairs (MCA) issued a note outlining the various phases in which Indian Accounting Standards converged with IFRS (Ind AS) is proposed to be implemented in India, for Companies other than Banking Companies, Insurance Companies and NBFCs. The application of Ind AS is based on the listing status and net worth of a company. Ind AS will first apply to companies with a net worth equal to or exceeding 500 crore INR beginning 1 April 2016. Listed companies as well as others having a net worth equal to or exceeding 250 crore INR will follow 1 April 2017 onwards. From April 2015 companies impacted in the first phase will have to take a closer look at the details of the 39 new Ind AS currently notified. Ind AS will also apply to subsidiaries, joint ventures, associates as well as holding companies of the entities covered by the roadmap.

Adoption means process of adopting IFRS as issued by IASB with or without modifications. Convergences means harmonization of national GAAP with IFRS through design and maintenance of accounting standards in a way that financial statements prepared with national accounting standard are in compliance with IFRS .

Converging to global accounting standards i.e. IFRS facilitates comparability between enterprises operating in different jurisdictions. Thus, global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets. Convergence 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. Convergence with IFRSs means adoption of IFRSs with the aforesaid exceptions, where necessary. For a country to be IFRS-compliant, it is not necessary that IFRSs are applied to all entities of different sizes and of different public interests.

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.

The implementation of IFRS in the corporate would require trained accountants, auditors, values 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.

## **REVIEW OF LITERATURE**

Various studies have been done in the field of IFRS across the globe. Proponents of IFRS often claim that IFRS adoption leads to greater and higher-quality disclosures. When compared with local accounting standards in most countries, IFRS is considered as being more fair-value-oriented, reducing accounting flexibility allowed for the issuers of financial statements, and incorporating the effects of economic events on firm performance into financial statements in a timely manner.

- Kamath and Desai (2014) in their study *The Impact of IFRS Adoption on the Financial Activities of Companies in India An Empirical Study*, categorized the financial activities into financial risk, investment activities, operating activities and debt covenant. And with the help of ratios suggested that investment activities and operating activities showed improvement, whereas financial risk and debt covenant showed no difference.
- 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.
- Dr. U.V. Panchal (2012) in his article “IFRS – opportunities and challenges before India” focused on challenges in the convergence with IFRS faced by India.
- Dr. Bhuvender Choudhary, Rachit Gupta and Hemant Chauhan (2012) in their research article “Convergence of IFRS in India- Strategy, Benefits and Challenges for Infrastructure Industry” revealed that the adoption of IFRS will reflect more appropriately the revenues of Indian Real Estate developers and their ability to deliver projects. They also believe that IFRS deals with the market risks that are related to real estate projects more effectively than the percentage completion method.
- Ms. Archana Patro and Dr. V.K. Gupta (2012) in their article “Adoption of International Financial Reporting Standards (IFRS) in Accounting Curriculum in India- An Empirical Study” investigated the perceptions of IFRS among the Indian management students and assessed the level of planning for adoption of the standards and stated that it would assist the management schools and universities with decision regarding adoption of IFRS in Indian Accounting curriculum.
- Sarbapriya Ray (2012) in her article “Indian GAAP and its convergence to IFRS: Empirical Evidence from India” studied the rationale behind introducing IFRS, made a comparative analysis of the Indian Accounting Standards and IFRS, studied the

challenges involved in IFRS while adopting it in India, and analyzed the impact and consequences on financial statements due to IFRS adoption in Wipro Ltd.

- Goswami Suvaran and Sarkar Aniruddha (2011) I their paper “IFRS and its adoption in India: A Study” an Endeavour has been made by the authors to ascertain the extent of implementation of IFRS in India.
- Pawan Jain (2011) in his research article “IFRS implementation in India Opportunities and challenges ”’discuss the problems faced by the stakeholders in the process of adoption of IFRS in India.
- Lantto & Sahlstrom (2009) also undertook a study of key financial ratios of companies of Finland and later found that the adoption of IFRS changes the magnitude of the key accounting ratios and also showed that the adoption of Fair Value Accounting rules and stricter requirements on certain Accounting issues are the reasons for the changes observed in.
- 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.

## **RESEARCH OBJECTIVES**

- To study the Indian scenario of IFRS adoption.
- To know the adoption phases of IFRS in India.
- To understand the applicability of IFRS.
- To discuss about the issues and challenges relating to convergence.

## **RESEARCH METHODOLOGY**

The present study is a blend of primary and secondary data but the major source of data used for the study is secondary in nature. From different sources like ICAI website, MCA website, other websites, articles from reputed national and international journals. Primary data is collected through questionnaire method and data analysis is done by using MS-excel spread sheets & IBM SPSS Statistics 20.

## **SCOPE OF THE STUDY**

By adopting IFRS, there will be growth in the international business which leads to the economic development of a country. It encourages International Investment which will lead to more foreign capital inflow into the country. Investors would be provided with the information that is more relevant, reliable, timely, and comparable across the jurisdictions. IFRS would enhance the comparability between the Financial Statements of various companies across the globe. The industry would be able to raise capital from the foreign markets at lower cost if it can create confidence in the minds of the foreign investors that its Financial Statements comply with the globally accepted Accounting Standards. It would reduce different accounting requirements prevailing in various countries thereby enabling the enterprises to reduce the cost of compliances. It serves international clients by providing professional opportunities. It would increase their mobility to work in different parts of the world either in industry or practice. In this context, it becomes necessary to make an analysis of the adoption of IFRS in India.

## **NEED OF THE STUDY**

Whilst the impact of globalization and harmonization is currently being witnessed around the globe, and the need to embrace the adoption of International Financial Reporting Standards (IFRSs) is becoming increasingly evident, certain jurisdictions have been much quicker in their embrace, adoption and adaptation of International Financial Reporting Standards, than others. As well as highlighting the need for the adoption of International Financial Reporting Standards,

## **LIMITATIONS OF THE STUDY**

- In various practices of Accounting Reporting, this study is limited towards IFRS practice only.

- Primary data collected through questionnaire from the professors, lecturers and students in accounting background and only 36 member responses was taken for the study .The respondents are limited to Hyderabad . It cannot be treated as totally free from errors as IFRS is in starting stage . Every possible attempt was made to get the information as accurate as possible.
- Questionnaire respondents can't be considered totally unbiased.
- Research period consists limited time, so it cannot use for a longer period.

## DATA ANALYSIS AND INTERPRETATION

Data Analysis and Interpretation is done on the basis of primary data collected through questionnaire.

### What do you understand by one accounting in the world?

	Frequency	Percent	Valid Percent	Cumulative Percent
Dont'know	8	22.2	22.2	22.2
IFRS	23	63.9	63.9	86.1
US GAAP	5	13.9	13.9	100.0
Total	36	100.0	100.0	

**Interpretation:** 63.9% of the respondents are understood IFRS as one accounting in the world &13.9% of respondents are understood as US GAAP .

### From where did you got information about IFRS?

	Frequency	Percent	Valid Percent	Cumulative Percent
ICAI	13	36.1	36.1	36.1
Newspapers	8	22.2	22.2	58.3
Others	6	16.7	16.7	75.0
Textbooks	9	25.0	25.0	100.0
Total	36	100.0	100.0	

**Interpretation :** Analysis shows that most of the respondents are aware of IFRS from ICAI , through textbooks 25.0%of respondents are aware of this ,22.2% of people know about IFRS from newspapers , rest of them are aware of IFRS from various sources .

**Had you taken any training on IFRS?**

	Frequency	Percent	Valid Percent	Cumulative Percent
No	35	97.2	97.2	97.2
Yes	1	2.8	2.8	100.0
Total	36	100.0	100.0	

**Interpretation :** Out of the 36 participants ,only 1 respondent had taken training on IFRS ,rest of them had not taken any kind of IFRS training as it is an upcoming topic .

**Are you interested to take training on IFRS in the near future?**

	Frequency	Percent	Valid Percent	Cumulative Percent
No	12	33.3	33.3	33.3
Yes	24	66.7	66.7	100.0
Total	36	100.0	100.0	

**Interpretation:** 66.7%of the respondents replied positively as they are supporting the changes in accounting field while 33.3% showed no interest ,it may say that they are unaware of IFRS .

**Should educational institutes adopt IFRS in their curriculum?**

	Frequency	Percent	Valid Percent	Cumulative Percent
No	4	11.1	11.1	11.1
Valid Yes	32	88.9	88.9	100.0
Total	36	100.0	100.0	



**Interpretation:** Most of the respondents( i.e 88.9%)are eagerly waiting for the adoption of IFRS in their course curriculum. Few of them (i.e 11.1%)are not interested.

### **Will the knowledge of IFRS be helpful in your career?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Maybe	9	25.0	25.0	25.0
No	2	5.6	5.6	30.6
Yes	25	69.4	69.4	100.0
Total	36	100.0	100.0	

**Interpretation :** From the above table researcher came to know that most of the responses are positive in nature ,few of them are replied negatively as they may opt any other career apart from IFRS .

### **SUMMARY OF FINDINGS**

Some interesting finding exposed through the survey It was found that there is an urgent need for IFRS to be introduced to Accounting curriculum. Most of the respondents are aware of the term IFRS, but not the actual contents of IFRS. There is no difference in knowledge about IFRS between male and female respondents. Most of the Respondents are interested in taking the course in their study curriculum.

### **CONCLUSION**

With the implementation of IFRS by developed and some developing nations, India has no option than to implement it and converge it with the Indian Accounting standards. Though there may be implementation challenges, but with proper planning, implementation and control, the financial reports can easily be aligned with the international standards.

Therefore India needs to develop its conference regarding to IFRS convergence. Also need to

develop some training programs for IFRS policies. For the purpose of successful conversion of IFRS with Indian Corporate, India needs to have efficient professionals to operate in this field. Apart from this, IFRS require the fair market value applications in financial reporting this may create significant differences in financial information currently presented in financial reports. This may result in the reduction in earnings of the company. Therefore Indian companies will have to create awareness amongst its customers, investors and stakeholders as well as they need to make clear themselves to explain the reason for this changes and maintain understanding, transparency and reliability of their financial statements.

## **SUGGESTIONS**

- Government of India and the Institute of chartered Accountants of India (ICAI) should take proper steps to organize conference, workshops, and other awareness programs in order to create awareness among the accounting professionals and concerns regarding the IFRS standards.
- ICAI should give proper training to the accounting professional.
- Taxation laws should address the treatment of tax liabilities arising on convergence from India.

## **DIRECTIONS OF FUTURE RESEARCH**

Further research may be conducted among different sections of populations with large sample size. The impact of adoption and implementation of IFRS on various business entities is to be surveyed for including in Accounting curriculum.

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