International Financial Reporting Standards- An Overview

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Abstract

This paper mainly focused on the need for implementing IFRS in India, benefits of IFRS, procedure to implement IFRS in India. It also discusses about the problems related to its implementation. The government initiatives that has led to smooth convergence of IFRS and prevalent Indian accounting standards. It also gives an idea about the difference in reporting mechanism under GAAP and IFRS. Finally it ends with the suggestion about what else that could be done for smooth convergence of IFRS in line with the Indian accounting standards.

Key words- IFRS, overview of IFRS in India, government initiative, suggestions

Introduction

In this 20th century we find that many multinational companies have started its operation throughout the world. This companies face immense problems while preparing their financial statements because they have to comply with the Generally Accepted Accounting Principles of the country in which they have opened their branch. Here comes the need to standardise the accounting standards. The need for this standardised rules for the preparation of financial statements led to the drafting of International Accounting Standard. Its' loopholes led to the development and implementation of IFRS. IFRS is a set of accounting standards developed by International Accounting Standards Board (IASB). The main aim of IFRS is to provide a guideline to multinational companies to prepare and disclose their financial statements. A single set of worldwide standard will simplify the preparation and presentation of financial statements globally. Preparation and presentation of financial statements by following IFRS principles puts all the organisations in the same platform which in turn helps the stakeholders of the organisation to assess how fruitfully their money has been utilised by the organisation. As the main objective of an organisation is to maximise the profit of the stakeholders, this even allow the investors to plan their investment decisions. As IFRS puts the organisations on the same platform, it helps the top management to analyse the performance of the organisation with its competitors.

Objective

- To understand the procedure for implementation of IFRS.
- To understand the India's need to implement IFRS and its benefits.
- To understand the challenges to be faced for its implementation.

Limitations

The study suffers from some limitations which are not so prominently visible in the study but they can be listed as follows:-

- The issues discussed in the paper are mainly taken from the secondary sources i.e. journal, articles etc.
- The study involves no quantitative tool for analysis as the study is qualitative in nature.

- The IFRS has no yet been widely used in India, so the impact of its implementation could not be discussed in this paper.

Why IFRS?

The following reasons try to put emphasis on the use of IFRS worldwide. They are as follows:-

- ***Unification of business transactions: -*** The adoption of IFRS helps multinational corporations with various subsidiaries in other parts of the world to consolidate and prepare their financial statement in a common accounting language which is accepted globally. The adoption of uniform reporting standards will eliminate the difference in results of financial statements.
- ***Improved transparency of financial statements***:-Transparency regarding preparation and presentation of financial statements would be possible due to the fact that IFRS has allowed firms with subsidiaries in the regional market to harmonise their training, auditing, operation and reporting standards. Thus, IFRS helps standardised presentation of financial statement whether the subsidiary is located within the country or abroad.
- ***International comparability: -***While preparing financial statements by abiding by the provisions of IFRS, it provides a platform for the organisations for enhanced comparability. With the increase in transparency, IFRS also helps in cross border investment not only with low cost of capital but also with greater liquidity. This helps the foreign investors to assess and compare the performance of organisations and thus make their investment decisions very effectively. This would not have been possible if the organisations prepare their financial statement by abiding by the country's GAAP.

- ***Market efficiency*: -**Following a single set of accounting standard globally will lead to savings in time as well as cost of preparation and presentation of financial statements. Further this will lead to achievement of capital savings in the long run. This in turn will provide accurate and timely information to the investors, so that they can make effective investment decisions. Thus, accurate and timely availability of information in the market will lead to enhancement of market efficiency. Therefore, if the global accounting standard (IFRS) is not implemented then it will not only increase the cost of reporting the financial statement through auditing fees. Moreover this will also lead to increased probability of reporting errors. Hence, the efficiency of the market will be reduced due to high probability of reporting errors and increased transaction cost.
- ***Performance of local firms can be compared with global organisations: -*** having a global financial reporting standard enables the local firms to compare their performance with other organisations in the same sector or business in foreign markets. The ability of the firms operating in the same industry to compare their financial statement and this will provide opportunity for merger and acquisition. If the global preparation and presentation of accounting standard is not followed for reporting the financial statement, this will discourage cross border merger and acquisition. This is because use of different reporting standard will lead to increase in cost of acquisition and merger.

IFRS adoption procedure in India

For rationalisation of accounting practices in India, the government of India established The Institute of Chartered Accountant of India by passing ICAI Act in 1949. To harmonize the diversified accounting policies and practices, the accounting standard board was constituted by ICAI in 1977. The procedure is

- ***Impact assessment: -*** the adoption process starts with impact assessment. Here the companies try to assess the impact of implementation of IFRS on accounting and reporting issues and also on the business of the firm. They will then find the key conversion dates and accordingly an IFRS plan will be laid down. After this they will have to find out which IFRS provisions can be implemented and also assess the difference between the current reporting standard followed by the firm and IFRS. Finally they will also have to find out the loopholes in the existing reporting standard followed by them.
- ***Preparation for implementation of IFRS:*** - this process begin with the documentation of IFRS Accounting Manual. The organisation then try to prepare for implementation by going through IFRS1 which deals with first time implementation of IFRS will be followed. In order to simplify and smoothen the convergence procedure, some exceptions are provided under IFRS1. The exemptions are identified and applied and control systems are put in place to ensure its correct and consistent implementation.
- ***Implementation: -***this process starts with the preparation of opening balance sheet at the date of transition from present accounting practices to IFRS. The impact of transition from Indian Accounting Standard to IFRS should be understood properly. For ensuring smooth and hustle free implementation of IFRS continuous training of employees and addressing the difficulties are a must for the organisation.

Why should India adopt IFRS?

India is still a developing nation, and it requires financial as well as technical support from various international organisations. The organisations such as IMF, OCED, and DFID provide support to the developing nations by analysing their credibility. To measure the credibility, they demand the financial statement to be globally standardised. Further by following the IFRS for preparation and presentation of its books of accounts, it would lead to development of Indian economy by increasing its international business. Other benefits of IFRS are as follows:-

- ***Better access to global capital markets: -***presently Indian Economy is growing at a faster pace. Indian firms are expanding their operations in foreign countries. These firms are not only setting up new plants abroad but also acquiring other firms worldwide. For this they require funds at a cheaper rate which are available in foreign capital markets. In order to raise funds from these capital markets, they are required to prepare their financial statement by complying with IFRS.
- ***Helps in cross border listing: -*****as** the Indian firms are no more limited within the political and economic boundaries of India and they are expanding their business by acquisition of firms abroad, they get listed in the foreign stock markets. One of the pre-requisite to get listed in the foreign stock exchange (say European market) is that the financial statements should be prepared by complying with IFRS principles.
- ***Better quality of financial reporting: -*** adoption of IFRS for preparation of financial statement will probably lead to better quality of financial statement because of more reliability in the financial statement as the statements are prepared by complying with latest trend based concepts. Such as IFRS takes into account fair value of the assets and not the historical cost. Thus, it provides a better quality of financial reporting.

- ***Helps in elimination of multiple reporting:*** -a large number of Indian companies are multinational. Thus, they have their registered firms both abroad and in India as well. So, they had to prepare financial statement complying with the respective country's accounting policy. Using IFRS for preparing their financial statement would put an end to this problem.
- ***Encourage more foreign investment:*** -foreign investors get interested for investment as they can compare the performance of the firms operating in India with the firms operating around the globe and hence make their decision suitably. Thus, foreign currency flows into Indian economy and hence revive the economic condition of India.
- ***Increase in opportunities for serving foreign clients:*** -the reliability of the organisation also depends on the standards used for preparation of financial statement. In order to attract more foreign clients , statements should be standardised and prepared by complying with the global standard which is another important reason for implementation IFRS in the preparation of financial statement of Indian companies.

How do IFRS differ from INDIAN GAAP?

The main aim of IFRS is preparation and presentation of financial statement with complete disclosure of all the financial transactions of the organisation. Some of the points of difference regarding presentation of financial statement through IFRS and INDIAN GAAP are as follows:-

SL. NO.	POINT OF DIFFERENCE	INDIAN GAAP	IFRS
1)	Title of financial statement	It comprises of the following financial statement:- • Balance sheet. • Profit and loss account • Cash flow statement	It comprises of the following financial statement:- • Balance sheet. • Statement of comprehensive income. • Statement of cash flow. • Statement of changes in equity.
2)	Fixed Assets(depreciation)	Under this change in the method of depreciation is considered as change in accounting policy and as a result the depreciation has to be computed by giving it a retrospective effect.	Under this change in useful life and depreciation method of fixed asset is taken as change in accounting estimates and as a result applied to the fixed asset prospectively.
3)	Revenue	Under this method of reporting revenue from interest income is recognized on a time proportion basis.	Under this method of reporting revenue from interest income is recognized at effective interest rate.
4)	Extraordinary item	Under this method the companies are required to report the extraordinary items in the profit and loss statement which is	IFRS does not allow the presentation of extraordinary items neither in the statement of comprehensive income nor in the notes.

		completely distinct from ordinary income and expenses.	
5)	Hedge accounting	No provision related to hedge accounting is given by Indian GAAP. Not even the documentation.	Hedge transactions are to be classified as fair value hedge or cash flow hedge. Specific guidelines for hedge accounting and its documentation are provided by IFRS.

List of prevalent IFRS

The following chart gives a brief idea about some of the IFRS, title that has been used by IASB, the year of its original issue and the date from which it was supposed to be implemented worldwide so that uniformity in preparationand presentation of financial statement by the organisations are maintained.

NO.	TITLE	ORIGINALLY ISSUED	EFFECTIVE FROM
IFRS1	First-time Adoption of International Financial Reporting Standards.	2003	January 1,2004
IFRS2	Share-based Payment	2004	January 1, 2005
IFRS3	Business Combinations	2004	April 1,2004
IFRS4	Insurance Contracts	2004	January 1, 2005
IFRS5	Non-current Assets Held for Sale and Discontinued Operations	2004	January 1, 2005
IFRS6	Exploration for and Evaluation of Mineral Resources	2004	January 1, 2006
IFRS7	Disclosure of Financial Instruments.	2006	January 1, 2007
IFRS8	Operating Segments	2006	January 1, 2009
IFRS9	Financial Instruments	2009	January 1 , 2015
IFRS10	Consolidated Financial Statements	2011	January 1, 2013
IFRS11	Joint Arrangements	2011	January 1, 2013
IFRS12	Disclosure of Interests in Other Entities	2011	January 1, 2013
IFRS13	Fair Value Measurement	2011	January 1, 2013
IFRS14	Regulatory Deferral Accounts	2014	January 1, 2016

Problems for implementation of IFRS in India

The main problem that lead to the hindrance of implementation of IFRS in India are listed as follows:-

- Till full convergence of INDIAN GAAP to IFRS, it requires huge cost to maintain books of accounts through dual reporting of financial statement. So, the corporates are not ready to implement it as they can't afford that huge cost of dual reporting.
- Current accounting framework in India is affected by the prevalent laws and regulations. Thus, implementation of IFRS in India requires some changes in the laws and regulations. This led to the delay in implementation of IFRS in India.
- Most importantly the stakeholders, auditors, regulators, tax authorities and concerned parties to whom the financial statements are a concern should be well versed with the provisions of IFRS. This requires training which is time consuming. This leads to delay in implementation of IFRS in India.
- Difference in preparation and presentation of financial statement through IFRS and INDIAN GAAP will affect the business decision or the financial performance of the organisation.
- Lack of awareness regarding implementation of IFRS among the organisations.
- Benefits of using IFRS for preparation and presentation of financial statement has not been properly conveyed to the users.
- Training of accountants for maintaining books of accounts through IFRS requires a huge cost and moreover training facilities and academic programmes on IFRS are lacking in India.
- For preparation of financial statements by abiding by the provisions of IFRS, requires fair value as a base for measuring the value of most of the items of the financial statements. For the purpose of fair value it requires a lot of hard work as well as the use of valuation expert.
- The terms and conditions relating to management compensation plan will have to be changed by the organisation while implementing IFRS for preparation and presentation of financial statement.
- Reporting and disclosure pattern are different for both. So, adoption of new standard is a challenge to the organisations operating in India.
- Indian companies follow historical cost based accounting. Shifting from historical cost based accounting to fair value based accounting is not only cumbersome but also requires huge cost. The Indian companies are unwilling to bear that huge cost.

Government initiative to implement IFRS

In order to enforce IFRS in India, the government of India has taken some positive steps towards its implementation. The convergence plan was made to bridge the gap between the requirements of INDIAN GAAP and IFRS. The Ministry Of Corporate Affairs had announced a multi phased plan for the convergence of INDIAN GAAP and IFRS. The convergence plan that has been carved out that distinguishes it from IFRS has been termed as **"*Ind AS*".** The M inistry Of Corporate Affairs (MCA) has accepted the recommendations given by The National Advisory Committee on Accounting Standardsand has finalised that the new the recommendations will be implemented initially on large companies who can start adopting from the fiscal year starting from April 1, 2015. These recommendations will soon be implemented for all the organisations registered under the Companies Act. The government will issue a notification making the use of new accounting standard, **"*Ind AS*"**compulsory for preparation and presentation of financial statement. The issue of notification for implementation of ***Ind AS*** for preparation and presentation of financial statement will help to speed up the transition process. Further this will sensitise the companies about the seriousness and urgency of the financial reform required for the preparation and presentation of financial statement. The approach of Indian Government is phase based. The phased approach would ensure that the large companies implement it in the first phase so that the remaining companies would have the benefit of learning from the adoption of new standard and can utilise those while they implement it in the subsequent years. Further MCA has taken into account the recommendations made by The Institute of Chartered Accountants of India (ICAI) regarding the financial instruments. Most importantly, The Ministry of Corporate Affairs (MCA) which implements the Companies Act in India, has constituted a committee to advise the central government for the formulation of accounting policies and accounting standards. This committee will remain in place until The National Financial Reporting Authority which was proposed under the Companies Act, 2013 comes into force or is set up to function towards formulation of accounting policies and standards in India. Further the union finance minister. Mr.ArunJaitley has clearly declared in his budget 2014-15 speech that the converged accounting standards will have to be mandatorily implemented by the business houses from financial year 2016-17. He further added that the converged accounting standards can be voluntarily adopted by the business houses from the financial year 2015-16. This shows the positive intent of the government towards quick implementation of converged accounting standards for preparation and presentation of financial statements by the Indian companies so that they can avail the benefits of preparing their financial statements through new accounting standards.

Suggestions

- Very are aware about IFRS. So, the government will have to take initiative to make people aware about the IFRS and also about its benefits to the Indian economy.
- The big corporate houses will have to take the lead role to implement the new accounting standard for preparing their financial statement. This will encourage other business to start using IFRS for the preparation of their financial statement.
- Lack of skilled professionals should also be taken care. The government should try to educate the professionals and make them comfortable to prepare the financial statement by complying with the latest accounting standard.
- Academicians are also a part of the convergence process so government should take the initiative to include IFRS in the curriculum as this will increase the number of persons having knowledge about IFRS.
- The government might take some guidelines from the countries who have similar political, economic and social conditions and who have successfully implemented IFRS for financial reporting.
- Stringent policies should be formulated by the government so that organisations are forced to prepare their financial statement by complying with the new accounting standard.
- The lawmakers and policymakers will have to take steps to bring about a change in the Companies Act, Income Tax Act and other prevalent regulations to facilitate easy and smooth convergence of IFRS in line with the Indian accounting standards.

Conclusion

The convergence of INDIAN GAAP and IFRS which led to the rise of a new accounting standard named as ***Ind AS***would be very much practicablefor the preparation of financial statement by the Indian companies. This is because it will help the companies to compare their performance on a global basis and will help in attracting foreign investment which will help them to expand their business. But the convergence procedure has a lot of hindrance to its implementation. At the same time when we look at the advantages that the Indian companies will be able to enjoy due to the convergence, the convergence is strongly recommended. Further the steps that have been taken by the ICAI and other regulatory bodies for facilitating the smooth convergence to IFRS gives a very positive idea about the urgency of implementing IFRS in India and it also shows the active participation of the government for its implementation. In order to make the convergence more effective, a systematic approach should be followed by the government so as to make the organisations and the investors ready for the change due to convergence. The implementation will be difficult because there are wide difference between INDIAN GAAP and IFRS. So, the corporate houses will have to struggle a lot for the preparation and presentation of their financial statement through new accounting standards. The main problem which they are probably going to face is the valuation of assets. Under the old system assets were valued under historical cost method but IFRS demands that assets should be valued as per the fair value. For the computation of fair value of an asset they will have to hire an expert which will incur additional cost as well as time consuming. A high quality corporate financial reporting can only be ensured with effective control and enforcement of the reporting system. All the beneficiaries of the financial statement will have to work as a team for its smooth implementation. Further a strong monitoring system should be in place so that the proper implementation of the new accounting standard can be assessed. So, gaining knowledge about the importance of the convergence of IFRS, I feel that the accounting standard should be put to practice in India so that a uniformity in reporting system is maintained and the firms can be put in the same platform so that it becomes easier for the investors to assess the credibility of the organisation. Thus, they can make effective investment decisions and can earn better return on their investment.

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