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CONVERGENCE TO IAS/IFRS: AN OPPORTUNITIES AND CHALLENGES FOR INDIA

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Abstract

Accounting is considered the language of business and to convey same to all people, accountants all over the world have developed certain rules, procedures and conventions. To maintain the uniformity throughout the world, International Standard Committee (IASC) has been set up. At present, Accounting Standards Board (ASB) formulates and issues accounting standards in India which are more or less in line with IFRS apart from a few instances wherever departure is necessary to comply with the legal, regulatory and economic environment.

This paper is an attempted to evaluate the Indian Accounting Standards with the International Accounting Standards and Convergence to IAS/IFRS and to remove the variations in the treatment of several accounting aspects. It also throws light on the challenges in adoption of IFRS in India.

Key Words: ASB, IFRS, IASC, IAS.

Introduction

Accounting is considered the language of business. The main purpose of accounting is to determine profit or loss during a specified period to point out financial position of the business on a specified date and to possess control over the firm's property. The affairs of a business unit are communicated to others as well as to those who own or manage it through accounting information which has to be suitably recorded, classified, summarized and presented. To make language convey the same meaning to all people, as far as practicable and to make if full of meaning, accountants all over the world developed GAAP(Generally Accepted Accounting Principle). It encompasses the conventions, rule and procedures necessary to define accepted accounting practices at a specific time. While preparing accounting statements, the conformity of these principles is needed in order to reliance on them. To maintain the uniformity in accounting principles throughout the world, International Accounting Standards Committee (IASC) has been set up on 29th June,1973.The objectives of the Committee(IASC) is to formulate and publish within the public interest , standards to be observed in presentation of audited financial statements and to promote their world-wide acceptance and observance. In India, the Institute of Chartered Accountants of India is the body which has tried to formulate accounting standards so that such standards will be established by the Council of the Institute of Chartered Accountants. It has constituted an Accounting Standards Board (ASB) on 21 April 1977 to formulate and issue accounting standards. With the aim of forming one uniform accounting standard, a London based board known as the International Accounting Standards Board (IASB) issued International Financial Reporting Standards (IFRS). They are principle-based standards that outline the broad rules and regulations for financial reporting. The ultimate goal of the IFRS is to provide a uniform global language for global business via standardized accounting. So if an organization has dealings in several countries it only publishes one set of financial statements that fulfill the statutory requirements of all the countries it operates in. Also if there is a global standard then it becomes much easier for users of these financial statements to compare them.

Objectives of Accounting Standards

Accounting standards play an important role in the preparation of accounting records and financial reports. These are more reliable, uniform, consistent and comparable. Followings are the main objectives of framing accounting standards:

(1) **To provide direction**: Accounting Standards provide guidance and direction for maintaining records.

(2) **To provide uniformity**: Accounting Standards provide universality to accounting procedures by making uniformity of assumptions, rules and policies adopted in financial reporting.

(3) **To improve comparability**: It ensures consistency, creditability and comparability in the data published\presented by the business firms.

(4) **To improve understandability**: To be useful, an accounting standard must be capable of being well understood and it must be able to reduce significantly the degree of manipulation of the reported data.

(5) **To provide information to the users**: Its helps to provide information to the users as the basis on which the accounts have been prepared. In the absence of accounting standards comparison of different financial statements may lead to misleading conclusions.

Functions of Accounting Standards Board

The main function of the ASB is to develop AS in India and to ensure their applicability In brief, the following are the main functions of ASB:

(1) **To formulate AS:** The main function of the ASB is to formulate AS so that such standards may be established by the ICAI in India.

(2) **To consider the applicable law:** While formulating AS, the ASB will take into consideration the applicable laws, customs, usages and business environment prevailing in India.

(3) **To integrate IAS:** The ASB will give due to consideration to integrate the International AS to the extent possible while formulating standard in India so as to support the objectives of IAS.

(4) **To review the AS:** One of the function of ASB is to review the AS issued previously at periodic intervals.

Objective of the Study

The aim of the present study is to evaluate the Indian Accounting Standards with the International Accounting Standards and Convergence to IAS/IFRS. The main objectives of this paper are outlined as under:

(1) To study the concept of AS.

(2) To study the concept of Convergence to IAS/IFRS

(3) To remove the variations in the treatment of several accounting aspects.

Research Methodology

The present study covers the comparison of Indian Accounting Standards and International Accounting Standards. Data are mainly collected from secondary sources particularly from scholarly article, annual report of the ICWAI, newsletters and various websites.

International Financial Reporting Standards (IFRS)

With the aim of forming one uniform accounting standard, a London based board referred to as the International Accounting Standards Board (IASB) issued International Financial Reporting Standards (IFRS). They're principle-based standards that outline the broad rules and regulations for financial reporting. The ultimate goal of the IFRS is to provide a common global language for global business via standardized accounting.

International Financial Reporting Standards (IFRS) set common rules in order that financial statements are often consistent, transparent and comparable around the world. IFRS are issued by the International Accounting Standards Board (IASB). They specify how companies must maintain and report their accounts, defining varieties of transactions and other events with financial impact. IFRS were established to form a common accounting language, so that businesses and their financial statements are often consistent and reliable from company to company and country to country. IFRS covers a huge range of accounting activities. There are certain aspects of business practice for which IFRS set mandatory rules.

- **Statement of Financial Position**: This is also referred as a balance sheet. IFRS influences the ways in which the components of a balance sheet are reported.
- **Statement of Comprehensive Income**: This can take the form of one statement, or it can be separated into a profit and loss statement and a statement of other income, including property and equipment.
- **Statement of Changes in Equity**: Also referred as a statement of retained earnings, this documents the company's change in earnings or profit for the given financial period.
- **Statement of Cash Flow**: This report summarizes the company's financial transactions in the given period, separating cash flow into Operations, Investing, and Financing.

In addition to these basic reports, a company must also give a summary of its accounting policies. The full report is often seen side by side with the previous report, to show the changes in profit and loss. A parent company must create separate account reports for each of its subsidiary companies.

List of Reporting Standards and International Accounting Standards

The following is the list of IFRS and IAS that issued by International Accounting Standard Board (IASB) in 2019. In 2019, there are 16 IFRS and 29 IAS. IAS will be replacing IFRS once it is finalized and issue by IASB.

IAS	**International Accounting Standards(IAS)**	**IFRS**	**International Financial Reporting Standard(IFRS)**
IAS 1	Presentation of financial statements	IFRS 1	First-time adoption of International Financial Reporting Standards
IAS 2	Inventories	IFRS 2	Share-based payment
IAS 7	Statement of cash flows	IFRS 3	Business combinations
IAS 8	Accounting policies, changes	IFRS 4	Insurance contracts

	in accounting estimates and errors		
IAS 10	Events after the reporting period	IFRS 5	Non-current assets held for sale and discontinued operations
IAS 11	Construction contracts	IFRS 6	Exploration for and evaluation of mineral resources
IAS 12	Income taxes	IFRS 7	Financial instruments: disclosures
IAS 16	Property, plant and equipment	IFRS 8	Operating segments
IAS 17	Leases	IFRS 9	Financial instruments
IAS 18	Revenue	IFRS 10	Consolidated financial statements
IAS 19	Employee benefits	IFRS 11	Joint arrangements
IAS 20	Accounting for government grants and disclosure of government assistance	IFRS 12	Disclosure of interests in other entities
IAS 21	The effects of changes in foreign exchange rates	IFRS 13	Fair value measurement
IAS 23	Borrowing costs	IFRS 14	Regulatory deferral accounts
IAS 24	Related party disclosures	IFRS 15	Revenues from contracts with customers
IAS 26	Accounting and reporting by retirement benefit plans	IFRS 16	Leases
IAS 27	Consolidated and separate financial statements		
IAS 28	Investments in associates and joint ventures		

IAS 29	Financial reporting in hyperinflationary economies		
IAS 31	Interest in joint ventures		
IAS 32	Financial instruments: presentation		
IAS 33	Earnings per share		
IAS 34	Interim financial reporting		
IAS 36	Impairment of assets		
IAS 37	Provisions, contingent liabilities and contingent assets		
IAS 38	Intangible assets		
IAS 39	Financial instruments: recognition and measurement		
IAS 40	Investment property		
IAS 41	Agriculture		

IFRS in India

At present, Accounting Standards Board (ASB) formulates and issues accounting standards in India which are more or less in line with IFRS apart from a few instances wherever departure is necessary to comply with the legal, regulatory and economic environment. Council of the Institute of Chartered Accountants of India (ICAI) opined in May 2006 that adopting IFRS was considered and supported by the ASB. IFRS task force was established to provide a road map for convergence and it set to converge with IFRS from the accounting period commencing on or after 1 April 2011. In India, Ministry of Corporate Affairs carried out the process of convergence of Indian Accounting Standards with IFRS after a wide range of consultative process with all the stakeholders in pursuance of G-20 commitment and as result thirty five Indian

Accounting Standards converged with International Financial Reporting Standards (henceforth called IND AS). In India, Accounting standards are formulated by council of Institute of Chartered Accountants of India (ICAI). In July 2007, ICAI set a target of adopting

IFRS for all listed, public interest and large sized entities from April 2011. In 2007 India decided to converge to IFRS. The accounting standards that are converged with IFRS are referred to as Indian AS. Thus in India Indian Accounting Standard Board and IASB continue to collaborate together to develop high quality, compatible accounting standards instead of adopting IFRS by itself. In India Ministry of Corporate affairs has announced the implementation of new standards effective from 1st April 2016 during a phased manner. Existing standards will cease to apply after that dates. The Ministry of Corporate Affairs notified the implementation plan in a phased manner over a period of four years. i.e. from 1st April 2016 to 1st April 2019. This leads to the requirement of learning new standards at the earliest. As per the notification of the Ministry the mandatory implementation dates are:

- For listed companies with net worth of Rs. 500 crores or more – from 1st April 2016;
- For listed companies with net worth of Rs. 250 crores or more – from 1st April 2017;
- For Banks and Insurance Companies – from 1st April 2019.

Need of IFRS:

1. to form a standard platform for better understanding of accounting;
2. to create comparable, reliable and transparent financial statements;
3. to synchronize the accounting standards across the globe;
4. to extent and improve foreign investments;
5. to increase the industrial growth;
6. to get rid of information flow barriers.

Benefits of IFRS Convergence

The convergence with IFRS has the following benefits:

(1) Its increases economic growth through increase in capital formation, international investments and foreign capital inflows.

(2) Its increases investors' confidence.

(3) Its result in lower cost of capital and avoidance of reporting under multiple frameworks for business.

(4) It provides a global market for accounting professionals.

(5) It provides competitive advantage and makes the corporate world more competitive globally as their comparability with the international competitors' increases.

Challenges in Adoption of IFRS in India

The aim behind to adopt IFRS is to make sure that every financial centers of the world connected with each another which use a global financial reporting framework which helps to control the working of financial markets. The foremost important challenges in adoption of IFRS by Indian firms or companies are as follows:

1. Awareness Towards International Business:

The entire set of financial reporting practices must undergo a drastic change after the adoption of IFRS. The adequate knowledge about IFRS remains limited to a few numbers of individuals in India. . Most of the stakeholders like firms, banks, shareholders, exchanges etc. aren't aware about the same. Such lack of awareness about these standards is one among the major challenges faced by Indians. It might be a challenge to bring forth the awareness of IFRS and its impact among the users of financial statements.

2. Lack of Training and Academic Facilities :

The biggest hurdle for the professionals in implementing IFRS is the lack of training facilities and academic courses on IFRS in India. IFRS has been implemented with effect from 2011; but it is observed that there's acute shortage of trained IFRS staff. The Institute of Chartered Accountants of India (ICAI) has started IFRS Training programs for its members and other interested parties. Yet there exists an outsized gap between Trained Professionals required and trained professionals available. Thus adequate training should be given to the stakeholders such as Chief Financial Officers (CFO), auditors, tax authorities. Then only it can be uniformly understood and consistently applied.

3. Use of fair value measurement base:

IFRS which uses fair value as a measurement base for valuing most of the items of financial statements can bring a lot of volatility and subjectivity to the financial statements e.g. it would increase volatility in reported earnings and related performance measures such as EPS (Earnings per Share), PE (Price Earnings) Ratio etc.. It also involves a lot of hard work in arriving at the fair value and services of 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. Indian corporate entities which prepare financial statements on historical costs will need to have enough time for shifting into fair value accounting.

4. Amendments to the existing rules and Regulations:

In order to adapt to IFRS, we need to amend our existing rules and regulations. As Indian accounting practices are governed by the Companies Act, 1956, Income Tax Act 1961, Reserve Bank of India Act, Insurance and Regulatory Authority of India Act, GAAP etc. which are different from IFRS, adequate changes must be made in order to follow IFRS. IFRS does not recognize such overriding laws. Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. Thus legal constraints are major challenges would be faced.

5. Changes in Process of Taxation:

Currently, Indian Tax Laws do not recognize the Accounting Standards. Therefore, a complete overhaul of Tax laws is the major challenge faced by the Indian Law Makers immediately. In July 2009, a committee was formed by Ministry of Corporate Affairs of Government of India, with a view to identify the various legal and regulatory changes required for convergence and to prepare a roadmap for achieving the same. Thus a major challenge has to faced by law makers regarding change in the process of taxation as it required various legal and regulatory changes while preparing financial statements.

6. Preparation of Financial Reporting:

The disclosure and reporting system under IFRS are completely different from the Indian reporting system. In India financial reporting is done according to standards issued by ICAI (Institute of Chartered Accountants of India). Companies would have to ensure that the existing business reporting model is amended to suit the reporting system of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc. Existence of proper internal control and minimizing the risk of business disruption should be taken care of while modifying or changing the information systems.

7. **Complexity in adoption IFRS:**

The researchers feel that the biggest risk in converging Indian GAAP with IFRS is the fact that the accounting entities underestimate the complexity involved in the process. Instead it should be recognized well in advance that adoption of IFRS will be great problem. Converting to IFRS will increase the complexity with the introduction of concepts such as present value and fair value. In IFRS framework, treatment of expenses like premium payable on redemption of debentures, discount allowed on issue of debentures, underwriting commission paid on issue of debentures etc is different than the present method used. This would bring about a change in income statement leading to enormous confusion and complexities.

7. Delay in Adopting IFRS:

In India IFRS came very late as compared to the others countries of the world.95% of companies in Australia and in the European Union took more than a year to the complete IFRS transition, with 40% taking more than two years. Looking at the Indian scenario, we have already delayed the process from the very beginning. In other countries, regulators released final interpretations two to three years in advance of IFRS deadline and provided step-by-step transition road maps for companies. In India, ICAI took so long to finalize the standard—increasing the confusion around standard interpretation.

8. Risk in adoption IFRS:

There is a risk in adoption of IFRS as there are changes in accounting policies in preparing financial statements. Implementing IFRS has increased financial reporting risk due to technical complexities, manual workarounds and management time taken up with implementation. Another risk involved is that the IFRS do not recognize the adjustments that are prescribed through court schemes and consequently all such items will be recorded through income statement.

Conclusion

From the above discussion it is very much clear that transition from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended. We have also seen that this transition is not without difficulties as to the proper implementation process which would require a complete change in formats of accounts, accounting policies and more extensive disclosure requirements. Therefore, all parties concerned with financial reporting also need to share the responsibility of international harmonization and convergence. Keeping in mind the fact that IFRS is more a principle based approach with limited implementation and application guidance and moves away from prescribing specific accounting treatment, all accountants whether practicing or non-practicing have to participate and contribute effectively to the convergence process. This would lead to subsequent revisions from time to time arising from its global implementation and would help in formulation of future international accounting standards. A continuous research is in fact needed to harmonize and converge with the international standards and this in fact can be achieved only through mutual international understanding both of corporate objectives and rankings attached to it. Though difficult, it is not impossible for the Indian corporate to implement IFRS in the prevailing conditions since the fundamentals are strong and will feel the impact of the new rules the most as its operations involve multiple financial instruments that face the brunt of the changeover.

Based on research findings we suggest following:

1. Proper awareness should be given about IFRS and the need to converge the same to stakeholders.
2. More number of trainers should be engaged.
3. Adequate training should be given to develop a suitable system.
4. Necessary modification should be made in governing business and laws.
5. Government shall provide assistance as well as incentives to promote the same.

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