A Study of IFRS in INDIA

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Abstract: In 1991, the Narasimha Rao government was announced liberalization, privatization and globalization (LPG) in India. The Introduction of International Financial Reporting 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 and it is one of the recent Developments in the field of accounting, with the aim of making accounts more consistent, In India the date of implementation has been postponed from April 2011 to April 2015. Hear after India has no further escape route and the mind set has to change for IFRS. But the process of convergence with IFRS has been making a slow but steady progress till now.

Keywords: IFRS, Convergence, IASB, Regulatory Board and Business environment.

Objective of Study:

1. To examine the significance of IFRS in Indian business environment.
2. To analyze the similarities and distinction between IFRS and AS.

I. INTRODUCTION

The IFRS is a common global financial language for business affairs that is understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade. The IFRS is particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The IFRS began as an attempt to harmonize accounting across the European Union, but the value of harmonization quickly made the concept attractive around the world. They are occasionally called by the original name of International Accounting Standards (IAS). The IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On April 1, 2001, the new IASB took over the responsibility for setting International Accounting Standards from the IASC. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards the IFRS.

The following are the general features in IFRS:

- Fair presentation and compliance with IFRS: Fair presentation requires the faithful representation of the effects of the transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework of IFRS
- Going concern: Financial statements are present on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.
- Accrual basis of accounting: An entity shall recognise items as assets, liabilities, equity, income and expenses when they satisfy the definition and recognition criteria for those elements in the Framework of IFRS.
- Materiality and aggregation: Every material class of similar items has to be presented separately. Items that are of a dissimilar nature or function shall be presented separately unless they are immaterial.
- Offsetting: Offsetting is generally forbidden in IFRS. However certain standards require offsetting when specific conditions are satisfied (such as in case of the accounting for defined benefit liabilities in IAS and the net presentation of deferred tax liabilities and deferred tax assets in IAS
- Frequency of reporting: IFRS requires that at least annually a complete set of financial statements is presented. However listed companies generally also publish interim financial statements (for which the accounting is fully IFRS compliant) for which the presentation is in accordance with IAS 34 Interim Financing Reporting.
- Comparative information: IFRS requires entities to present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. In addition comparative information shall also be provided for narrative and descriptive information if it is relevant to understanding the current period's financial statements. The standard IAS 1 also requires an additional statement of financial position (also called a third balance sheet) when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. This for example occurred with the adoption of the revised standard IAS 19 (as of 1 January 2013) or when the new consolidation standards IFRS 10-11-12 were adopted (as of 1 January 2013 or 2014 for companies in the European Union)
- Consistency of presentation: IFRS requires that the presentation and classification of items in the financial statements is retained from one period to the next unless:

1. It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for

the selection and application of accounting policies in IAS 8; or

2. An IFRS standard requires a change in presentation.

II. SIGNIFICANCE OF IFRS

There are likely to be several benefits to corporate in the Indian context as well. These are:

Improvement in comparability of financial information and financial performance with global peers and industry standards. This will result in more transparent financial reporting of a company's activities which will benefit investors, customers and other key stakeholders in India and overseas; The 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. This, in turn, will lead to increased trust and reliance placed by investors, analysts and other stakeholders in a company financial statements; and Better access to and reduction in the cost of capital raised from global capital markets since IFRS are now accepted as a financial reporting framework for companies seeking to raise funds from most capital markets across the globe. A recent decision by the US Securities and Exchange Commission (SEC) permits foreign companies listed in the US to present financial statements in accordance with IFRS. This means that such companies will not be required to prepare separate financial statements

Listing on foreign stock exchange: The Companies following local accounting standard are facing problems in getting its stock listed on cross- border stock exchange. With adoption of IFRS, the Companies will no longer required to prepare its financial statement under different GAAP and make the task of listing shares on foreign stock exchange easier.

Comparison: Following different set of accounting standard, comparing financial statement of companies operating in same industry in different country difficult, as the same transaction may be treated in different way. With IFRS, MNCs and analyst community would experience ease in comparing financial statement of companies located and functioning in different geography. However, the perceived benefits from IFRS adoption are based on the experience of IFRS compliant countries in a period of mild economic conditions. The current decline in market confidence in India and overseas coupled with tougher economic conditions may present significant challenges to Indian companies.

IFRS requires application of fair value principles in certain situations and this would result in significant differences from financial information currently presented, especially relating to financial instruments and business combinations. Given the current economic scenario, this could result in significant volatility in reported earnings and key performance measures like EPS and P/E ratios. Indian companies will have to build awareness amongst investors and analysts to explain the reasons for this volatility in order to improve understanding, and increase transparency and reliability of their financial statements.

This situation is worsened by the lack of availability of professionals with adequate valuation skills, to assist Indian corporates in arriving at reliable fair value estimates. This is a significant resource constraint that could impact comparability of financial statements and render some of the benefits of IFRS adoption ineffective.

Although IFRS are principles-based standards, they offer certain accounting policy choices to preparers of financial statements. For example, the use of a cost-based model or a revaluation model in accounting for investment properties. This could reduce consistency and comparability of financial information to a certain extent and therefore reduce some of the benefits from IFRS adoption. IFRS are formulated by the International Accounting Standards Board (IASB) which is an international standard.

However, the responsibility for enforcement and providing guidance on implementation vests with local government and accounting and regulatory bodies, such as the ICAI in India. Consequently, there may be differences in interpretation or practical application of IFRS provisions, which could further reduce consistency in financial reporting and comparability with global peers. The ICAI will have to make adequate investments and build infrastructure to ensure compliance with IFRS.

In addition to the above, there are several impediments and practical challenges to adoption and full compliance with IFRS in India. These are:

The need for a change in several laws and regulations governing financial accounting and reporting in India. In addition to accounting standards, there are legal and regulatory requirements that determine the manner in which financial information is reported or presented in financial statements. For example, the Companies Act, 1956 determines the classification and accounting treatment for redeemable preference shares as equity instruments of a company, whereas these may be considered to be a financial liability under IFRS. The Companies Act (Schedule VI) also prescribes the format for presentation of financial statements for Indian companies, whereas w the presentation requirements are significantly different under IFRS. Similarly, the Reserve Bank of India regulates the financial reporting for banks and other financial institutions, including the presentation format and accounting treatment for certain types of transactions. There is a lack of adequate professionals with practical IFRS conversion experience and therefore many companies will have to rely on external advisers and their auditors. This is magnified by a lack of preparedness amongst Indian corporates as this project may be viewed simply as a project management or an accounting issue which can be left to the finance function and auditors.

However, it should be noted that IFRS conversion will involve a fundamental change to an entitys financial reporting systems and processes. It will require a detailed knowledge of the standards and the ability to consider their impact on business transactions and performance measures. Further, the conversion process will need to disseminate and embed IFRS

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Comparison between IFRS and GAAP principles:

Particulars	International Financial Reporting Standards	Indian GenerallyAccepted Accounting Principles
Stands For	International Financial Reporting Standards	Generally Accepted Accounting Principles
Leading Authority	International Accounting Standards Board (IASB)	Ministry of Corporate Affairs (MCA
Used in	Over 110 countries, and more are planning to shift to it	India
Functional and presentation currency	Assets and liabilities are translated at the exchange rate at the balance sheet date when the financial statements are presented in a currency other than the functional currency.	No concept of functional or presentation currency.
Historical Cost	Generally, uses historical cost, but intangible assets, property plant and equipment (PPE) and investment property may be revalued to fair value	Uses historical cost, but property, plant and equipment may be revalued to fair value.
Cash Flow Statements	No Exemption	Exemption for SMEs
Acquired intangible assets	Intangible assets assigned an indefinite useful life are not amortized	All intangible assets are amortized over useful life with a rebuttable presumption of not exceeding 10 years.
Presentation of joint ventures	Both proportional consolidation and equity method permitted	Proportional consolidation method used
Major repairs and overhaul expenditure	Major repairs and overhaul expenditure are capitalized as replacement under certain conditions.	Major repair and overhaul expenditure are treated as expenses.
Revenue	Revenue should be measured at the fair value of the consideration received or receivable	Revenue is measured by the charges made to the customers or clients for goods supplied or services rendered by them and by the charges and rewards arising from the use of resources by them.

III. RECENT TRENDS OF IFRS IN INDIA

After the enactment of the Companies Act, 2013, the ministry of corporate affairs has now shifted its focus on rolling out international reporting standards for Indian companies which were to be implemented beginning April 1, 2011. According to the draft plan, the ministry wants to implement the international financial reporting standards (IFRS) beginning with companies that have a net worth of over Rs 1,000 crore from April 1, 2015, an official told The Indian Express. In the second phase, both listed and unlisted companies with a net worth of over Rs 500 crore but less than Rs 1,000 crore will have to converge with the international accounting standards from the financial year beginning April 1, 2016. IFRS had been put on the back burner by the government given issues raised by corporates, and unresolved taxation issues. Industry bodies had sought postponement arguing the industry needed more time to prepare.

The IFRS converged accounting standards deal with mark-to-market projections and valuation of financial assets among other things. The implementation is expected to cause some upheaval in companies' finances in the initial stage as the standards call for projecting assets' real value. Various sectors, including banking and real estate would be hit, experts have argued. "The Institute of Chartered Accountants of India (ICAI) has been asked to conduct a sector-wise study, elaborating on the impact the implementation will have on the sectors," the official said. As such, all Indian companies listed overseas or doing business on foreign land currently prepare financial statements as per the international standards. However, banking companies would be exempt from complying with the IFRS. In the third and fourth phase, beginning April 1, 2017, smaller companies would need to prepare their accounts as per the international standards.

The main sectors which are likely to be impacted include oil and gas, finance, telecom and infrastructure companies. Over 100 countries have accepted IFRS while India has converged its accounting standards with the international reporting standards. Currently, the US, Japan and India are the three main economies that have not adopted IFRS while Canada, Brazil and Russia switched to IFRS last year.

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