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# *A STUDY OF INDIA'S PREPAREDNESS ON IMPLEMENTATION OF IFRS*

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**Abstract**

In 1991 Indian government announced new industrial policy which opened Indian market to foreign competition. The government announced policy of liberalization, privatization and globalization (LPG) in India. The adoption of International Financial Reporting standards (IFRS) is closely related to the entire gamete of globalization as it has changed close economy into open economy. The International Financial Reporting Standards (IFRS) represents an 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. It is a common language of accounting used for financial reporting. 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**: liberalization, privatization and globalization (LPG), convergence with IFRS, India

## Introduction

In 1991, government announced new industrial policy which laid the foundation for globalisation in the form of liberalization, privatization and globalization (LPG) in India. The Introduction of International Financial Reporting Standards (IFRS) is adoption of common language of financial reporting in 140 countries worldwide. Due to globalization now a day's Indian economy is integrating in international market with other countries by spreading trade and business outside the boarders. The international transactions (Cross boarder capital investment, merger and Acquisition, franchising and business outsourcing etc.,) of global business needs to a common set of accounting standards, since accounting is the language of a business. Adopting a common set of global accounting standards will make sure relevance, completeness, reliability, verifiability, consistency, comparability, and transparency of financial statement which will helps to strengthen the confidence and empower foreign institutional investors and other user of accounting information around the world. To fulfill the gap between accounting standards among the countries, in 1973 the International Accounting Standard Committee (IASC) was formulated by a group of international accounting professionals from different countries with an aim to formulate a uniform global accounting standards for the purpose of reducing the discrepancies in international accounting principles and reporting methods.

International Financial Reporting Standards (IFRS) is a new accounting language for business affairs and a set of globally accepted accounting standards to helps the companies to communicate financial information and to help stakeholders to understand and compare corporate financial information across boundaries. The standards are issued by International Accounting Standards Board (IASB), an independent accounting standard setting body of the IFRS.

The IFRS are principle based accounting standards rather than rules based. It aims to ensure the financial statements are understandable, reliable, relevant and comparable. The followings are the main objectives of IFRS.

i. To bring standardization in adoption and implementation of accounting methods and procedures.

ii. To lay down principles for preparation and presentation of financial reports.
iii. To establish a benchmark for evaluating the quality of financial information disclosed by the enterprises.
iv. To ensure the users of the credibility of financial information.
v. To be at the same pace in global accounting practices as with other countries.

The implementation of IFRS would reduce various types of errors in preparation of financial statements, to reduce information irregularity and strengthens the communication link between all stakeholders (Bushman and Smith, 2001). International Financial Reporting Standards would minimize the cost of preparing different version of financial statements where an organization is a multi-national (Healy and Palepu, 2001).

**IFRS and India's preparedness to converge from Accounting Standard to IFRS**

India is one of the largest jurisdictions in the world and also under the process of convergence from Accounting Standard to IFRS. In India, the Institute of Chartered Accountants of India (ICAI), being a premier accounting body in the country, took upon itself the leadership role by establishing Accounting Standard Board (ASB) in April 1977 and came up with the common principles to be followed by Indian entities known as Accounting Standard. The ICAI act as the accounting standard setting body in the country has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. Increase in Inter- country business, i.e. increase in globalisation it became necessary to converge from AS to IFRS known as IND AS in India. Pressure from other countries to adopt IFRS, ICAI at its 269 meeting the Council of ICAI has decided that public interest entities such as listed companies, banks, insurance companies and large-size organizations to converge with IFRS for accounting period commencing on or after 1 April, 2011. At present, the Accounting Standard Board (ASB) of the Institute of Chartered Accountants of India (ICAI) formulates the Accounting Standards based on IFRS. This will be done by modifying the existing Indian accounting standards to make them compatible with IFRS.

Ministry of Corporate Affairs (MCA) also carried out the process of convergence of Indian Accounting Standards with IFRS after various broad discussions with all the stakeholders and in pursuance of G-20 commitment and as result shows thirty five accounting standards (AS-35) converged with International Financial Reporting Standards.

On 1st April, 2011, The Ministry of Corporate Affairs (MCA) has designed a roadmap for companies to start following IFRS converged IAS (Indian Accounting Standards) in a phased manner.

**Roadmaps for companies for the transition towards IFRS are as follows:**

- **Phase-1 (has been implemented from 1stApril 2011)**
- Companies listed in BSE Sensex-30
- Companies listed in NSE Sensex-50
- Companies whose shares are listed outside India
- Companies whether listed or not, but having Net worth in excess of Rs.1000 crore

- **Phase-2 (will be implemented from 1st April 2013)**
- Companies whether listed or not, but having Net worth between Rs.500 crore and 1000 crore .
- **Phase-3 (will be implemented from 1st April 2014)**
- Companies which are listed in any stock exchange and having net worth below the mark of Rs.500 Crore.

Globalization made countries dependent on each other for trade, business opportunities in foreign countries and for foreign investments. A large number of multi-national companies are establishing their business in various countries especially in developing countries as the result shows that Indian companies are also being listed on overseas stock exchange, but every country has their own their own Accounting Standards (AS) framework, which create a great confusion for users of financial statements it leads to inefficiency in capital market around the world.

Therefore, it became the need of an hour to create a single set of similar high quality accounting standards across the world. Thus IFRS was a child of open trade and investment of the country which also lead India to go for convergence of Indian Accounting Standards (IAS) with IFRS.

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| **IFRS: 1** | First time adoption of International Reporting Standards |
| **IFRS: 2** | Share-based Payment |
| **IFRS: 3** | Business Combinations |
| **IFRS: 4** | Insurance Contracts |
| **IFRS: 5** | Non-current Assets held for sale and discontinued operations |
| **IFRS: 6** | Exploration for and Evaluation of mineral Resources |
| **IFRS: 7** | Financial Instruments: Disclosure |
| **IFRS: 8** | Operating Segments |
| **IFRS: 9** | Financial Instruments |
| **IFRS: 10** | Consolidated Financial Statements |
| **IFRS: 11** | Joint Arrangements |
| **IFRS: 12** | Disclosures of Interests in other Entities |
| **IFRS: 13** | Fair values Measurement |

**Challenges Faced by India for Convergence with IFRS**

The following challenges are faced by India for convergence Indian Accounting Standards (IAS) with IFRS

i. Lack of awareness about international accounting practices

ii. Proper Training to the accounting professionals

iii. Amendments to existing taxation laws

iv. Complexity in adoption of IFRS

v. High cost for adoption of IFRS

vi. Long time required for adopting IFRS in India

vii. Lack of responsiveness to International Financial Reporting Practices

viii. Difficult to make adjustment with Indian Taxation law

ix. Unlike several other countries, the accounting framework in India is deeply affected by laws and regulations. Changes may be required to various regulatory requirements under The Companies Act, 1956, Income Tax Act, 1961, SEBI, RBI, etc. so that IFRS financial statements are accepted generally

**Benefits of adopting IFRS**

- IFRS would increase the comparability between financial statement viz., Balance Sheet and Profit and Loss Account of various companies across the nation. It gives better understanding of finances globally as compare to IND AS and GAAP. Indian industry would be able to raise capital from foreign markets at reasonable cost when they create confidence among foreign investors that their financial statement comply with globally accepted accounting Standard.
- Adoption of IFRS in India would help people to get an opportunity to work as global clients and increase their work mobility in and around the world.
- 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 company uses IFRS, the company could enjoy the benefit of raising capital from abroad. Comparison is made easier with a foreign competitor if a company presents its financial statement according to IFRS.
- The adoption of IFRS will improve cross border investment by enhancing comparability of financial statements prepared anywhere in the world.
- Indian Accounting standard Board will be alert to the best international accounting practice (IFRS) to guide them in the establishment of highly improved reporting practices in India
- It also brings about better ability to attract and monitor listings by foreign companies.

**Suggestions**

I. 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.
II. Institute of chartered account of India want to introduce the IFRS course for students.
III. ICAI should give proper training to the accounting professional.
IV. Auditors should work closely throughout the implementation process documentation is updated.

V. In order to ensure a minimum quality standard in teaching accounting and auditing courses in all Indian universities, workshop, seminars etc. and initiative is necessary for curriculum development and training- the-trainers activities.

VI. Taxation laws should address the treatment of tax liabilities arising on convergence from India

**Conclusion**

IFRS is the new accounting language of financial reporting and communicating to the existing and prospective investors. But it is not fully familiar the Indian corporate entities. It is clear that convergence of IND AS (Indian Accounting Standards) with IFRS has entire changes in accounting transition as well as reporting system. India has already announced the convergence of Indian Accounting Standards with IFRS in a phased manner it is mentioned already. The applicability of IFRS in India in particular needs be made keeping such difficulties in sight. The process of convergence has been making a slow but steady progress till now. But the adoption of IFRS or convergence of accounting practices will be helpful to the entity and the country as well. All the debates in against and with the IFRS are based on perception because there is lack of impact study in India. It is not easy to properly study the impact of adoption of IFRS before implementation. The impact might differ across countries because the gap between the accounting practices before adopting of the IFRS varies widely across countries. Therefore, the assessment of the impact of IFRS should be country specific. Presentation of financial reporting coverage with the IFRS, the corporate sectors will get benefit in the long term because it is a global accounting language. Hence, preparation of IFRS-converged standards is a challenge for the accountants both in India and outside.

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