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Convergence to IFRS in India: Opportunities and Challenges

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Abstract: ***International Financial Reporting standards (IFRS) refer to the global language of accounting standard. It is a single set of accounting standards issued by IASB (International Accounting Standard Board) so that corporate accounts are understandable and comparable across the world. Around 150 countries have converged IFRS. India also decided to converge to IFRS through implementation of 39 Indian Accounting Standards (Ind AS) that improves level of foreign investments. The main objectives of IFRS are to maintain uniformity in financial reporting, to prevent manipulation in financial statements, to ensure reliability and high quality financial reporting, to compare the performance of domestic companies with the international peers, to bring equality among the countries in respect of financial reporting. This paper focuses on the convergence of IFRS with Ind AS, its application, opportunities and challenges faced by various stakeholders. Considering this, secondary data is collected through articles, journals, published books, web sites etc.***

Keywords: IFRS, Ind AS, Uniform accounting Standard, Financial Reporting

1. Introduction

Financial Reporting is the process of disclosure of financial information regarding the performance of a company over a specific period of time. Generally Accepted Accounting Principles (GAAP) is a set of accounting standards that use by each country at the time of financial reporting as a version of their own accounting principles. There are many business firms that operate their activities in multiple countries and it is not possible to maintain multiple standards for these firms. In this context, a single set of accounting standards is require for all the countries across the world, known as International Financial Reporting Standards (IFRS), which is being developed and supported by the IASB (International Accounting Standard Board) and in India, it is converged as Ind AS.

IASC (International Accounting Standard Committee) was born on June 1973, it was the result of the agreement between 9 countries' accounting bodies – Australia, French, Netherlands, Mexico, Germany, Japan, UK, USA and Canada. During the period 1973 to 2000, IASC issued accounting standards, known as International Accounting Standards (IAS). In 1976, ICAI (Institute of Chartered Accountants of India) became a member of IASC. Then, ASB (Accounting Standard Board) was established by ICAI in April, 1977. In April 2001, IASC was replaced by IASB (International Accounting Standard Board) based on the recommendations of the report "Recommendations on Shaping IASC for the future".

The main objectives of IFRS are to maintain uniformity in financial reporting, to prevent manipulation in financial statements, to ensure reliability and high quality financial reporting, to compare the performance of domestic companies with the international peers, to bring equality among the countries in respect of financial reporting. In this paper, an effort has been framed to examine the application, opportunity and problems of convergence of IFRS with Ind AS.

The remainder part of this paper has been structured in 4 more sections. Section 2 deals with the review of the related literature. The objectives and methodology of the present study here are exhibited in section 3. Section 4 explains the findings in the present paper. In Section 5, conclusions and recommendations are presented.

2. Review of Literature

A good number of studies have been carried out on IFRS. The related literature in this context can be enumerated as under.

Kamath & Desai (2014) conducted a study on the impact of IFRS adoption on the financial activities of companies in India, who observed with the help of ratios that investment activities and operating activities showed improvement, but financial risk and debt showed no difference.

A study conducted by Choudary, Gupta & Chauhan (2012) revealed that the adoption of IFRS will reflect more appropriately the revenues of Indian Real Estate developers and ability to deliver projects.

Vinayagamoorthy (2012) in his study analyzed the information available on IFRS adoption process in India and the opportunity for India in adopting IFRS. Panchal (2012) conducted a study on opportunities and challenges faced by India due to convergence of IFRS. Another study has been made by Jain (2011) on the problems faced by the stakeholders due to adoption of IFRS in India.

Preethi, Deepti, & Rawat (2015) conducted a study on Challenges and Prospects of IFRS in Indian Accounting Systems and they argued that benefits of global accounting standards will change in respect of corporate financial statements. Govindarajan (2014) argued that convergence of IFRS with Indian Accounting Standards will benefit us.

Ray (2012) made a comparative study on Indian Accounting Standard and IFRS and also analyzed the impact of IFRS adoption on financial statements.

3. Research Objectives and Methodology

The present study has the following objectives:

a) To examine the needs of IFRS;
b) To identify the opportunities for convergence of IFRS in India and
c) To analyse the challenges faced by various stakeholders for convergence of IFRS with Ind AS.

The study blends descriptive research work. In this context, the secondary data have been collected from articles, journals, web sites, published books etc.

4. Findings

The findings of the study are categorized into different sub-sections such as:

- The needs of IFRS
- Opportunities for convergence of IFRS in India
- Challenges faced by various stakeholders for convergence of IFRS with Ind AS

4.1 The needs of IFRS

- To develop a single set of accounting standard across the world for better understanding,
- To make comparable, reliable and transparent financial statements;
- To improve industrial growth;
- To increase foreign investments
- To prevent information flow barriers.

4.2 Opportunities for convergence of IFRS in India

There are several benefits arise due to adopting IFRS for financial reporting purposes. The benefits to the Indian firms by convergence of IFRS are as follows.

- **Reduce time, effort and expense of preparing multiple reports:**
  The business firms that operate their activities within India as well as outside India prepare multiple reports for financial reporting based on Indian Accounting Standards as well as based on financial reporting standards of foreign countries. Convergence of IFRS eliminates preparation of multiple reports by these firms by preparing a single report based on International Financial Reporting Standards. Thus, require time, labor and money are less to do this.
- **More comparability of financial statements:**
  With the convergence of IFRS by the Indian firms the comparison becomes easier. Stakeholders can compare the financial statements easily.
- **Improve the rates of investment around the world:**
  The adoption to IFRS increases the level of foreign investments by ensuring the comparability of financial statements across the globe.
- **Procure capital from abroad:**
  Collection of funds from cheaper sources is an important aspect of growth and expansion of a business firm. Convergence to IFRS helps Indian firms to procure fund from abroad.
- **High quality of financial reporting:**
  IFRS are high quality, understandable and globally acceptable accounting standards. Adoption to IFRS will result in better quality of financial reporting and improves the reliability of the financial statements.

4.3 Challenges faced by various stakeholders for convergence of IFRS with Ind AS

Along with the opportunities there are some challenges faced by Indian stakeholders such as:

- **Training:**
  Lacks of training and minimum academic knowledge have a negative impact on Indian economy. Thus, adequate training should be required for the stakeholders to better access of financial reporting.
- **Awareness:**
  The adequate knowledge about IFRS is limited in India. Only few numbers of people have knowledge on IFRS. Even, most of the stakeholders have low amount of interest about the same. Thus, lack of awareness about IFRS is a major challenge for Indian Stakeholders.
- **Use of fair value accounting:**
  Application of fair value accounting ensures volatility and subjectivity in financial statements. Besides, it is very time consuming for shifting into fair value accounting from historical cost.
- **Cost implementation for small business:**
  Convergence to IFRS acts as a barrier for small business because time, effort and money are constraints in small business. Thus it acts as a challenge.

5. Conclusion and Recommendations

With the implementation of IFRS by developed and some developing nations, India also decided to implement it and converge it with Indian Accounting Standards to maintain uniformity in financial reporting, to prevent manipulation in financial statements, to ensure reliability and high quality financial reporting, to compare the performance of domestic companies with the international peers, to bring equality among the countries in respect of financial reporting. Convergence of IFRS with Ind AS ensures greater opportunity in world capital market. As the two side of a coin, along with opportunities it also consists of challenges faced by Indian firms.

For the purpose of successful conversion of IFRS with Indian corporate, the following recommendations are to be taken into consideration.

- Proper training and awareness program (conference, workshop etc.) about IFRS is required for the stakeholders of Indian firm;
- Necessary modification should be made in business and laws;
- Government shall provide assistance to promote it.

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