



## A study on the convergence of IFRS in India - benefits and challenges

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### Abstract

International Financial Reporting Standards (IFRS) is a set of high quality and globally acceptable financial reporting standards developed by the International Accounting Standards Board (IASB) in 2001. At present, Indian companies are preparing their financial statements as per generally accepted accounting principles which are based on IFRS. However these principles were modified substantially as per Indian laws and practices. This study provide an overview of the role and current status of IFRS in India and the benefits and challenges of convergence of IFRS in India.

**Keywords:** IFRS, globalization, GAAP, convergence, challenges

### Introduction

India is one of the emerging economics in the world. For the economic development, Foreign Direct Investment (FDI) is needed, to facilitate the investment climate, it wants to integrate its financial reporting with rest of the economies of the globe so that investors from outside will understand the financial results and financial positions of the companies. The globalization of business firms and entities, attendant structures and the regulations, which support it and with development of the concept of e-commerce made a single globally accepted financial reporting system.

The IFRS are being followed in more than 114 countries of the world. The objective of the following the IFRS is to speak one accounting language all over the world. The use of common set of accounting standards throughout the world provides an easy way of comparability of financial statements with the other financial statements prepared in other countries and transparency of financial information. Before IFRS, we had IAS (International Accounting Standards) issued by IASC (International Accounting Standards Committee). In India, Accounting Standard Board (ASB) of India constituted under the ICAI (Institute of Chartered Accountants of India) sets and publishes the standards in tune with IAS. Since India has its own accounting standards that are different on many counts, following a set of common standards that are altogether different in practice will require some compromise between prevailing standard norms and new provisions.

Thus at present, as we cannot adapt to IFRS due to our legal constraints, we have prepared our own standards for application for a limited period known as IndAS (Indian Accounting Standards). Actually these are IFRS converged Indian Accounting Standards.

### Objectives of the study

- To explore the current status of IFRS convergence in India.
- To examine the benefits and challenges of convergence of IFRSs

- To examine the application of international financial reporting standards in the Indian context
- To analyze the impact on Indian corporate.

### IFRS in India

A company having presence in different countries has to prepare financial reports as per Generally Accepted Accounting Principles (GAAP) of the country of operations which is then required to reconcile for the purpose of consolidation as per the Accounting Standards of the country to which the parent company belongs. This has raised the issue of harmonization of accounting policies, presentation, disclosure etc. Harmonization of accounting standards has become a highly demanded issue of discussion and debate among accounting professionals around the globe. The use of International Financial Reporting Standards (IFRS) as a universal financial reporting language is gaining thrust across the globe. Adopting IFRS by Indian corporate is going to be very challenging but at the same time could also be rewarding. Indian corporate is likely to reap significant benefits from adopting IFRS. Overall, most investors, financial statement preparers and auditors were in agreement that IFRS improved the quality of financial statements and that IFRS implementation was a positive development for financial reporting. There are likely to be several benefits to corporate in the Indian context. 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's financial statements. 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. 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 corporate 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. IFRS are formulated by the International Accounting Standards Board (IASB) which is an international standard setting body. However, the responsibility for enforcement and providing guidance on implementation vests with local government and accounting 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.

### Objectives of IFRS

The main objective of IFRS development is harmonization in financial statements reporting.

Some additional objectives are:

1. To create the global financial reporting infrastructure.
2. To generate sound business sense among the beneficiaries.
3. To generate the dimensions of fair presentation of financial statement.

### Benefits of convergence of IFRS

Beneficiaries of convergence with IFRS are:

- **The Economy:** When the market expand globally the need for convergence increases since the convergence benefits the economy by increasing growth of its international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby economic growth. It encourages international investment and thereby leads to more foreign capital flows to the country.
- **Investors:** A strong case for convergence can be made from the viewpoint of the investors who wish to invest outside their own country, Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions. Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. Investors' confidence is strong when accounting standards used are globally accepted. Convergence with IFRS contributes to investors' understanding and confidence in high quality financial statements.

- **The Industry:** A major force in the movement towards convergence has been the interest of the Industry. The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with Globally Accepted Accounting Standards. With the diversity in accounting standards from country to country, enterprises which operate in different countries face a multitude of accounting requirements prevailing in the countries. The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the individual and group financial statements and thereby reduces the cost of preparing the financial statements using different sets of accounting standards.
- **Accounting Professionals:** However, there would be initially many problems but convergence with IFRS would surely benefit the accounting professionals and it will be helpful them to sell their talent and expertise across the globe.

### Challenges

As in the case of two sides of a coin, along with utilities it also consists of challenges for the Indian firms. They are following:

- **Difference in GAAP and IFRS:** Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep rooted. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.
- **Training and Development:** Lack of training and academic knowledge in IFRS is a challenge as far as Indian economy is concerned. There is a need to impart education and training on IFRS and its application. Thus adequate training should be given to the stakeholders. Then only it can be uniformly understood and consistently applied.
- **Legal and Regulatory Considerations:** Presently, the financial reporting requirements are authorized by various regulatory authorities in India and their provisions override other laws and regulators. IFRS does not recognize such overriding laws. So, such laws and regulatory in India will create challenges to IFRS and its application.
- **Fair value measurement:** IFRS uses fair value base to measure majority of items in the financial statements. The use of fair value accounting can bring a lot of volatility and subjectivity in financial statements.
- **Financial reporting system:** In India financial reporting is done according to standards issued by ICAI (Institute of Chartered Accountants of India). We need to amend the same to suit the requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions etc.
- **Taxation:** Present scenario, Indian Tax laws do not recognize the Accounting Standards. To entertain immediate change in the Indian Tax Law is the major challenge faced by the Indian Law makers.

- **Change in it systems:** Financial accounting and reporting systems must be able to produce robust and consistent data for reporting. The system must be capable of capturing new information required for disclosure such as fair values of financial instruments, related party transactions, segment information etc.

## Conclusion

IFRS has become the financial reporting standard for a significant amount of countries around the world. However, out of all the countries, only a particular handful actually fully adopts IFRS as issued by the IASB. Most importantly, we all need to remember that convergence to a single set of globally accepted high quality standards is ultimately in the best interests of the public, contributing to efficient capital flows within countries and across borders. In the views of the majority of participants, international convergence is vital to economic growth. Thus, while the challenges are great, the rewards are potentially even greater. India has several constraints and practical challenges to adoption and compliance with IFRS. But at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended because the measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS are creditable and give the positive idea that the country is ready for convergence. The ICAI has issued interpretations and guidance note on accounting standards with a view to resolve various interpretational issues arising in the implementation of new accounting standards. Further to resolve the issues, it is required to employ adequate IFRS skills professionals by investing training processes for Indian accounting professionals to manage the conversion projects for Indian corporate.

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