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Convergence to IFRS–Change for a Better Future

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Abstract—*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. International Financial Reporting Standards (IFRS) is a new accounting language for business affairs and a set of globally accepted accounting standards which helps the companies to communicate financial information and help stakeholders to understand and compare corporate financial information across boundaries.*

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.

In India, Ministry of Corporate Affairs (MCA) also carried out the process of convergence of Indian Accounting Standards with IFRS as result shows thirty five accounting standards (AS-35) converged with International Financial Reporting Standards.

Present paper attempts to discuss objectives of IFRS, IFRS and Indian current scenario, recent roadmap for convergence, Need, Benefits, Challenges and suggestions.

Finally it's concluded looking to the convergence strategy hopefully we will achieve the target of expanding our businesses worldwide with efficiency. It will also serve the purpose of providing financial information to interested parties in efficient manner across and within the country.

Keywords: *Convergence, Globalization, Comparability, Transparency, IFRS, Roadmap.*

1. INTRODUCTION

In the present era of globalization and liberalization, the world has become an economic village. Today, the worlds capital markets, know no borders and participants in those markets should have no barriers to high quality, transparent and comparable financial information they need to make sound economic decisions. Physical distances and barriers have been removed by massive developments in transport, communication and e-communication and e-commerce. 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 understandable, reliable, relevance and comparable.

2. THE FOLLOWINGS ARE THE MAIN OBJECTIVES OF IFRS.

i. To standardize accounting methods and procedures
ii. To lay down principles for preparation and presentation of financial reporting systems.
iii. To establish a benchmark for evaluating the quality of financial statements prepared by the enterprises.
iv. To ensure the users of financial statements get creditable financial information.
v. To attain international levels in the related areas.
vi. 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.

vii. International Financial Reporting Standards would minimize the cost of preparing different version of financial statements where an organization is a multi-national

3. IFRS AND INDIAN CURRENT SCENARIO

India is one of the largest jurisdictions in the world and also going through the process of convergence with 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. 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. Now a day's the world continuously to globalize, discussion on convergence of various national accounting standards with International Financial Reporting Standards (IFRS) has increased significantly. The Council of ICAI had decided that public interest entities such as listed companies, banks, insurance companies and large-size organizations to converge with IFRS.

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.

In India, 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.

The Indian Ministry of Corporate Affairs (MCA) has released a revised road map for the adoption of Indian Accounting Standards (Ind AS), which are largely converged with International Financial Reporting Standards (IFRSs). The roadmap will become effective once the notification has been issued.

India originally intended to converge with IFRSs in a phased approach beginning in 2011, but transition to Ind AS was postponed. In April 2014, the Institute of Chartered Accountants of India (ICAI) publicly released a summary of its recommendations to the MCA on the timetable for the adoption of Ind AS, which proposed that listed and large entities should mandatorily apply Ind AS in consolidated financial statements for accounting periods beginning on or after 1 April 2016. This was picked up by the Indian Finance minister Arun Jaitley who said in his maiden budget speech in July 2014 that there was an urgent need to converge the current Indian accounting standards with IFRS.

4. ROADMAP FOR APPLICATION OF IFRS CONVERGED STANDARDS IN INDIA

The MCA has now released a revised roadmap that has been drawn up after "wide consultations with various stakeholders and regulators". In essence, companies with a net worth of Rs. 500 crore or more will have to mandatorily follow Ind AS from 1 April 2016. Corporates having a net worth of less than Rs. 500 crore but are listed, or in the process of getting listed, and companies with a net worth of Rs. 250 crore or more will have to follow the new norms from 1 April 2017. However, the new road map exempts banking, insurance and non-banking finance companies. The exact details for companies coming under the road map are quoted below from the MCA press release:

The Indian Accounting Standards (Ind AS) shall be applicable to the companies as follows: On voluntary basis for financial statements for accounting periods beginning on or after April 1, 2015, with the comparatives for the periods ending 31st March, 2015 or thereafter;

On mandatory basis for the accounting periods beginning on or after April 1, 2016, with comparatives for the periods ending 31st March, 2016, or thereafter, for the companies specified – Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of Rs. 500 Crore or more. Companies other than those having net worth of Rs. 500 Crore or more. Holding, subsidiary, joint venture or associate companies of companies.

On mandatory basis for the accounting periods beginning on or after April 1, 2017, with comparatives for the periods ending 31st March, 2017, or thereafter, for the companies specified - Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees 500 Crore.

However, Companies whose securities are listed or in the process of listing on SME exchanges shall not be required to apply Ind AS. Such companies shall continue to comply with the existing Accounting Standards unless they choose otherwise.

Once a company opts to follow the Indian Accounting Standards (Ind AS), it shall be required to follow the Ind AS for all the subsequent financial statements.

Companies not covered by the above roadmap shall continue to apply existing prescribed Accounting Standards in Annexure to the Companies rules.

5. NEEDS OF IFRS IN INDIA

Due to globalization the world has become more and more dependent with all other countries because it helps to open the countries doors for trade and businesses expansion across the borders and to make foreign investment. 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 different countries follow 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, there is an essential requirement for create a single set of similar high quality accounting standards across the world ,to meet business transaction globally which leads to India to go for convergence of Indian Accounting Standards (IAS)with IFRS.

By adhering to convergence with IFRS India could achieve the following benefits for the country as a whole:

1. **Increases global transparency**: Stakeholders can compare their financial performance with those of their foreign countries, thereby enhances a sense of competition to perform better.
2. **Increases accessibility to foreign capital market** as by following the converged accounting standards, the books of accounts will become eligible to raise cheaper foreign funds via ADRs or GDRs. Thus, again enhances sense of competition in the Indian funds providers to reduce the cost of the capital.
3. **Elimination of duplication of work** as foreign capital raiser will not required to prepare two sets of books of accounts, one for Indian regulators and another for foreign fund provider. Thus, this will considerably reduce the cost of maintaining books of accounts.
4. **Economic Growth***:* Higher cross-border capital flows, increase in global business/investment, increase in competition and increase in transparency will certainly bring fruits for the economy in the form of positive growth figures.

Therefore there are several **challenges** that will be faced on the way of IFRS convergence. These are:

1. **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 routed. It would be a Challenge to bring about awareness of IFRS and its impact among the users of financial statements.
2. **Issue of GAAP Reconciliation**: The Securities Exchange Commission(SEC) laid out two options in its proposal-one calling for the traditional IFRS first-time adoption reconciliation, the other requiring that step plus an on-going unaudited reconciliation of the financial statements from IFRS to U.S. GAAP which is clearly more costly approach for companies and for investors.
3. **Training and Education**: Lack of training facilities and academic courses on IFRS will also pose challenge in India. There is a need to impart education and training on IFRS and its application.
4. **Legal and Regulatory considerations:** Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.
5. **Taxation**: IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.
6. **Fair value Measurement:** IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of instability and prejudice to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.
7. **Re-negotiation of Contract:** The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP.
8. **Reporting systems**: Companies would have to ensure that the existing business reporting model is amended to suite reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc.

6. 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. an 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

7. CONCLUSION

IFRS is the new accounting concept 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. All the debates in against and with the IFRS are based on perception because there is lack of impact study in India.

Conversion is much more than a technical accounting issue. IFRS in India may significantly affect a company's day-to-day operations and may even impact the reported profitability of the business itself. Conversion brings a one-time opportunity to comprehensively reassess financial reporting and take 'a clean sheet of paper' approach to financial policies and processes.

It is imperative for companies which have already performed a diagnostic study for IFRS to revisit their diagnostic study, as IFRS itself is a moving target and gets regularly updated. Companies also need to consider that some IFRS may not be applicable when the diagnostic study in process, but their applicability in future may result in material changes to the financials. Understanding IFRS and its implications is a business imperative for Indian companies.

Looking to the convergence strategy hopefully we will achieve the target of expanding our businesses worldwide with efficiency. It will also serve the purpose of providing financial information to interested parties in efficient manner across and within the country.

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