

# **A Study on Challenges and Prospects of IFRS in Indian Accounting System**

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## **Abstract**

*IFRS are International Financial Reporting Standards, which are issued by the International Accounting Standards Board (IASB), a committee comprising of 14 members, from nine different countries, which work together to develop global accounting standards . Presently, there are two sets of accounting standards that are accepted for international use namely, the U.S., Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS) issued by the London-based International Accounting Standards Board (IASB). Generally, accepted accounting principles (GAAP) are diverse in nature but based on a few basic principles as advocated by all GAAP rules. The attempt to achieve congruence with IAS appears to be more a by-product of the country's rapid economic growth rather than its catalyst. However, continued growth and the attraction of foreign capital to domestic ventures will depend on the transparency of the financial dealings. The global financial crisis surfaced the lack of transparency about the risks to which investors were exposed from their involvement with 'off balance sheet vehicles' (such as securitization vehicles) , as a result of which the G20 leaders and the Financial Stability Board asked the International Accounting Standards Board (IASB) to review the accounting and disclosure requirements for such 'off balance sheet vehicles' The focus of the study will be whether by*

*following the converged IFRSs the primary objective of uniformity and comparability of the financial statements prepared in India with the rest of the countries of globe will be achieved.*

## **I. 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 needs to communicate across the borders has increased with the increase in global trade, consequently there is globalization of capital markets. Company in one country is borrowing in the capital market of another country. Therefore, financial statements produced in one country are used in other country more and more frequently; this has raised the issue of harmonization of accounting policies, presentation, disclosure, etc. To achieve complete harmonization, may not be possible because of difference in the economic, political, legal and cultural environment in countries. However the much deviation can be eliminated by standardization of accounting practices, which will result in issuance of accounting standards. The Accounting Standards not only prescribe appropriate accounting treatment of complex business transactions but also foster greater transparency and market discipline. Accounting Standards also helps the regulatory agencies in benchmarking the accounting accuracy. Accounting standards are being established both at national and international levels. However, the diversity of accounting standards among the nations of the world has been a problem for the globalization of the business environment. In India, the Accounting Standards Board (ASB) was constituted by the Institute of Chartered Accountants of India (ICAI) on 21st April 1977, which performs the function of formulating accounting standards. Presently, there are two sets of accounting standards that are accepted for international use namely, the U.S., Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS) issued by the London-based International Accounting Standards Board (IASB). Generally, accepted accounting principles (GAAP) are diverse in nature but based on a few basic principles as advocated by all GAAP rules. These principles include consistency, relevance, reliability and comparability. Generally Accepted Accounting Principles (GAAP) ensures that all companies are on a level playing field and that the information they present is consistent, relevant, reliable and comparable. Thus, these moves by India will harmonize its accounting standards with the internationally accepted accounting standards, which will lead to a globally accepted accounting system for the companies in India.

## **II. Literature review**

- Kaushik datta did study entitled of “similarities and differences a comparison of IFRS, US GAAP and India GAAP” in the year of May 2009. The main objective of this study recognizes that there are indeed many advantages arising from convergences to various stakeholders.
- Santanu Kumar Das, did study entitled of “Indian Accounting Standards and IFRS” in the year of 2014. The main aim of this study is to thus; global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets with IFRS is also in the interest of the industry since compliance with them would be able to create greater confidence in the mind of investors and reduce the cost of raising foreign capital.
- Chunhui Liu, did work with entitle of “Are IFRS and US-GAAP already comparable?” in the year of 2009. The main purpose of this study is to the literature on changes in the difference between IFRS and US-GAAP and their value relevance. This study founded to value differently to the market (Harris and Muller, 1999).
- Dr. Mahender k. Sharma, did work in the field of “IFRS and India –Its problems and challenges in 2013. The main objective of this study is to analyze the information available on IFRS adoption process in India. It also focuses on the IFRS adoption procedure in India and the utility for India in adopting IFRS.
- Rong-Ruey Duh, did study entitled of “Adopting IFRS: Implications for Accounting Educators”, in the year of 2009. The main outcome of this study is to Approach to a Single Set of Financial Reporting Standards in the World. In determining the cost of the acquisition, marketable securities issued by the acquirer are measured at their fair value which is their market price as at the date of the exchange transaction, provided that undue fluctuations or the narrowness of the market do not make the market price an unreliable indicator.
- Bhattacharjee, did study entitle of “Problems of Adoption and Application of International Financial Reporting Standards (IFRS) in Bangladesh in the year of 2009. The main objective of this study to prospects of IFRS adoption and their impact on the

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financial reporting environment of Bangladesh considering the underlying institutional and economic factors.

- Srivastava, Anubha; Bhutani, Prerna, did study entitled of “IFRS in India: Challenges and Opportunities” in the year of 2012. The main aim of this study to this paper is an attempt to find out up to what extent IFRS has been adopted by the organizations, what challenges and opportunities companies are facing regarding IFRS, and what are the measures that can be taken to make the process smooth and flawless. The paper focuses on the awareness and adoption of IFRS in India.

### **III. Objective of the study**

- To study the implications of importance of IFRS in the present situation and the process in adopting IFRS.
- To study the prospect of International Financial Reporting Standards will affect the Indian corporate.

### **IV. Research Methodology**

The present work is blends of descriptive and exploratory research work where the reasons and challenges will be find out to follow the IFRS procedures. The research work will also provide an insight on the future prospects by following the convergence process. The data will be purely secondary and will be collected through various websites and journals, as well as published books.

### **V. Challenges For International Financial Reporting Standard**

The challenges in implementation of IFRS in India are being discussed here under:

- **Fair Value Accounting**

The use of fair value accounting can bring volatility and subjectively to the financial statements it is very difficult to arrive at the fair value and valuation experts also feel difficulty to shift from

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historical method to fair value method. Moreover, adjustments to fair value results in gains or losses which are reflected in the income statements. Whether this can be included in computing distributable profit is also debatable issue. The fair value financial reporting under International Financial Reporting Standards (IFRSs) got scrambled in the current economic turmoil in the US that rocked global financial markets and institutions. As per fair value accounting banks and other entities would require to adopt mark to market valuation of financial assets and investment property.

- **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. A complete renovation in Tax Laws is the major challenge faced by the Indian Law Makers. It involves great changes in the Tax Laws in order to make tax authorities to recognize IFRS-Compliant financial statements. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS, this is another challenge resulting from implementation of IFRS, it is extremely important that the taxation laws recognize IFRS complaint financial statements otherwise it would duplicate administrative work for the companies.

- **Training**

One of the biggest hurdles in implementing IFRS is that lack of training facilities and academic courses on IFRS in India. IFRS foundation already offering Online IFRS program, diploma and certificate courses and also The Institute of Chartered Accountants of India (ICAI) has started IFRS Training programs for its members, Chartered Accountants and other interested parties. Still, there exists a large gap between Trained Professionals required and trained professionals available.

- **Auditing**

Another affected sector is the audit firms in India who have to audit the fair value accounting as per the IFRS without adequate guidance at present these audit firms are doing the audit as per the cost concept accounting. IFRS are implemented without adequate audit guidance by the ICAI, it will not be justified to expect from the auditors to discharge their responsibility as per the new Companies Act, 2013. This may be particularly challenging for less globally oriented audit firms,

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which typically may have fewer resources available through affiliated or network firms located in jurisdictions in which issuers already report in accordance with IFRS. Audit firms would need to consider elements of their systems of quality control, such as their practices related to hiring, assigning personnel to engagements, professional development and advancement activities. Indian audit firms may encounter challenges in establishing policies and procedures, and hiring and training personnel, to provide themselves with reasonable assurance that their personnel would possess knowledge appropriate to perform audits of IFRS.

- **Other regulatory changes**

In addition to the direct tax implications covered by the ICDS, the regulators would also need to make conforming changes to other regulations such as indirect taxes particularly when India is moving towards Goods and Service Tax (GST). International experience shows that companies would require adequate preparation time to plan a smooth transition and to communicate the impact of the transition to key stakeholders such as the Board, lenders, investors and analysts. This is particularly relevant since the impact on sales, earnings and net worth for several companies may not be insignificant. While the regulators need to do their bit, there is a need for an active debate amongst companies, industry associations, lenders, investors and analysts on the impact and challenges relating to the transition.

## **VI. Prospects For International Financial Reporting Standards In India And Globe As A Whole**

- Implementation of IFRS-converged Indian Accounting Standards would help in bringing excellence in financial reporting, as these standards are based on the premise that the financial statements should be transparent and should faithfully represent the actual financial position and performance of the entity.
- IFRS Standards would enable comparability of financial information, which will boost investor confidence, thereby enabling companies to raise capital at lower costs. It will provide better access to global capital markets and reduction in the cost of capital leading to overall economic growth.
- Fair value approach, historical costs will be replaced by fair values in several balance sheet items, which will enable the entities to know its true worth. By providing transparent and comparable financial information, reporting as per these Standards will

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provide an impetus to cross-border acquisitions, will enable partnerships and alliances with foreign entities, and lower the cost of integration in post-acquisition periods.

- Accounting professionals having expertise in these Standards would also get global recognition.
- Indian Accounting Standards, which would bring financial reporting in India at par with the international financial reporting. While India is moving towards convergence at present, in future the Indian accountancy profession is expected to play a significant role not only in Indian financial reporting system, but also in international financial reporting by playing an influential role in the formulation of IFRSs before their finalization.
- SEC has allowed foreign firms to report under IFRS only, without requiring any U.S. GAAP adjustments, a move estimated to have saved affected firms as much as 2.5 billion Euros over time.
- The prospect of gaining access to large U.S. capital markets a carrot that has been implicitly dangled in front of them based on U.S. involvement in the process over the years. Even in the markets' current weakened state, convergence remains a substantial benefit to foreign firms. However, the U.S. is likely to act based on its own self-interest in this key economic decision.
- IFRS has resulted in improvements to the quality and consistency of financial reporting across the European Union.

## **VII. Conclusion**

Accounting Standards (AS) at par with IFRS so that the Indian corporate and the accounting professional reap the benefits of global accounting standard Irrespective of various challenges, adoption of converged IFRS in India will significantly change the contents of corporate financial statements as a result of more refined measurements of performance and state of affairs, and enhanced disclosures leading to greater transparency and comparability. Overall, the results are consistent with the view that mandatory IFRS adoption improves information comparability across countries. In particular, results indicate a significant increase in the similarity facet of cross-country comparability in the post-IFRS period.



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