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STATEMENT OF THE PROBLEM

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RECOMMENDATIONS/SUGGESTIONS

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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CONVERGENCE OF IFRS

SHAILAJA D.KELSHIKAR
ASST. PROFESSOR
SMT. M. P. PATEL COLLEGE OF COMMERCE & CPC
KADI

DR. MANOJ D SHAH
ASSOCIATE PROFESSOR
DR. BABASAHEB AMBEDKAR UNIVERSITY
AHMEDABAD

ABSTRACT

Recent years have seen major changes in financial reporting worldwide. The major change which is observed is the continuing adoption of IFRS worldwide. India, being an upcoming economy in the world, too, decided to converge to International Financial Reporting Standards (IFRS). While regulators, standard setters and law makers sit together to rollout the road map for implementation of IFRS in India, a wide section of the industry is already debating about the impact that they are going to have on transitioning to IFRS. The author explores here in this paper the impact of adoption of IFRS, challenges that will come up and its adoption procedure in India. It also discusses the problems faced by the stakeholders in the process of adoption of IFRS in India. Paper concludes with the ways through which these problems can be addressed.

KEYWORDS

IFRS, convergence, Indian GAAP, stakeholders.

INTRODUCTION

In the near past, the world economy has witnessed financial crisis and that made us remember the downturn of 1920s. Stock markets which were considered as the indicators of financial health of any economy failed to predict what will be the future scenario accurately. It was difficult to justify the behavior of the stock market rationally. Globalization of business environment made companies to list on stock exchange worldwide. And as a result the need for consistent and uniform reporting standard worldwide was needed. International Financial Reporting Standards fulfills this need by creating comparable, reliable, and transparent financial statements. The adoption of IFRS has facilitated the raising of capital from cross boundaries economy, trade and better corporate governance practices. Thus, an acceptance of International Financial Reporting Standards is gaining thrust across the globe. The scope of the study is confined to India and the objective of the paper is to highlight the implications of adopting IFRS, challenges and suggestions to overcome such challenges.

IFRS – MEANING

"A single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions"[1]

International Financial Reporting Standards (IFRS) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB).

IFRS refers to International Financial Reporting Standards which are adopted while preparing the balance sheet and profitability statements of the company and are developed by International Accounting Standard Board. These are already been accepted in more than hundred countries and soon be across globe.

At present, Accounting Standards Board (ASB) formulates and issues accounting standards in India which are more or less in line with IFRS except for a few instances where departure is necessary to comply with the legal, regulatory and economic environment. Council of the Institute of Chartered Accountants of India (ICAI) opined in May 2006 that adopting IFRS was considered and supported by the ASB. IFRS task force was set up to provide a road map for convergence and it decided to converge with IFRS from the accounting period commencing on or after 1 April 2011. In India, Ministry of Corporate Affairs carried out the process of convergence of Indian Accounting Standards with IFRS after a wide range of consultative process with all the stakeholders in pursuance of G-20 commitment and as result thirty-five Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called IND AS).

WHAT DOES CONVERGENCE MEAN?

Adoption of IFRS and convergence of IFRS are two different things. In simple words, convergence of IFRS means that India would not be applying the IFRS as issued by international body but would try to get its own accounting standards in sync with the international financial reporting standards. These synced Indian accounting standards are known as Ind-AS.

DIFFERENCE BETWEEN ADOPTION AND CONVERGENCE

Adoption of IFRS means that the country applying IFRS would be implementing IFRS in the same manner as issued by the International Accounting Standard Board and would be 100% compliant with the guidelines issued by IASB.

On the other hand, convergence means that the Accounting Standard Board of the country applying IFRS would work together with IASB to develop high quality compatible accounting standards over time.

MEANING OF IND-AS

Indian Accounting Standards (abbreviated as **Ind** AS) are a set of accounting standards notified by the Ministry of Corporate Affairs which are converged with International Financial Reporting Standards (IFRS).

35 Indian Accounting Standards converged with IFRS henceforth Ind-AS with effect from 1st April, 2011. Indian Accounting Standards (Ind-AS) are placed b y Ministry of Corporate Affairs.

Various categories of companies are required to carry out the convergence of Indian Accounting Standards with IFRS with effect from 1 April' 2011 Following are the deadlines for companies other than banking, insurance and non banking financial companies:

[1] (S.Yadav, 2012)

Phase	Companies Covered	Opening Balance Sheet	First Financial Statement
Phase - I	Companies that are part of NSE – Nifty 50 Index	1st April, 2011	31st Mar, 2012
	Companies that are part of BSE – Sensex 30 Index		
	Companies that have shares or other securities listed in overseas stock exchanges		
	Listed and unlisted companies with net worth in excess of 1000 crores		
Phase - II	Listed and unlisted companies with networth in excess of Rs. 500 crores but not exceeding Rs. 1000 crores	1st April, 2013	31st Mar, 2014
Phase -III	Listed entities with networth of Rs.500 crores or less	1st April, 2014	31st Mar, 2015

Source: *The road to IFRS in India: A practical guide to IFRS 1 and first-time adoption by Grant Thornton*

Following are the deadlines for Insurance, Banking and Non Banking Financial Companies

Class of Companies	Criteria for Phased Implementation	Opening Balance Sheet	First Financial Statement
Insurance Companies	All insurance companies	1st April, 2012	31st Mar, 2013
Banking Companies	All Scheduled Commercial Banks	1st April, 2013	31st Mar, 2014
	Urban Co-operative Banks with networth in excess of 300 crores	1st April, 2013	31st Mar, 2014
	Urban Co-operative Banks with networth in excess of 200 crores but not exceeding 200 crores	1st April, 2014	31st Mar, 2015
Non Banking Financial Companies (NBFC)	NBFC that are part of NSE – Nifty 50 index	1st April, 2013	31st Mar, 2014
	NBFC that are part of BSE – Sensex 30 index		
	Listed and non listed NBFCs with networth in excess of Rs.1000 crores		
	All listed NBFCs that do not fall into the above categories	1st April, 2014	31st Mar, 2015
	Unlisted NBFCs that do not fall into the above categories and which have a networth in excess of Rs.500 crores	1st April, 2014	31st Mar, 2015

LITERATURE REVIEW

(Shah, 2014) International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are standards, interpretations and the framework for the preparation and presentation of financial statements. IFRS are issued by the International Accounting Standards Board (IASB) are increasingly being recognized as the Global Financial Reporting Standards. Convergence with IFRS has gained momentum in recent years all over the World. India being an important emerging global economy, the Government of India has committed to convergence of Indian Accounting Standards with IFRS from April 1, 2011. This paper discusses the IFRS adoption procedure in India, the utility for India in adopting IFRS, the problems and challenges faced on the way of IFRS convergence in Indian firm. Further the paper advises some Recommendations and Measures for IFRS implementation in India.

(Vinayagamoorthy) It is well known that companies all over the world have become more and more internationally oriented during last few decades. They create fusion, make investment, conduct trade and co-operate over country borders. International Financial Reporting Standards (IFRS) is becoming the global language of business with over 40% of the world having moved to IFRS in the past few years. By 2016, it is expected that all companies in major markets will be using IFRS. The globalization creates an increased need for communication in the terms of language, awareness of culture differences and domestic customs. Moreover, the financial communication such as accounting and financial results is just as important for business leaders and employees to master. Hence Proponents of International Financial Reporting Standards (IFRS) claim that mandating a uniform set of accounting standards improves financial statement comparability that in turn attracts greater cross-border investment.

(Kathiria) India is developing country and Small and medium sizes enterprises (SMEs) play vital role in economy of India, as it most support in employment aspect, GDP aspect and so on. But right now the phenomenon is changed each and every company want to go globally for more growth so there is required equality in accounting aspect to compare the real condition of the company in the global market for both company as well as external parties like investors, government and others. So IFRS play important role to make uniformity in accounting aspect at global level but still it is under study to prepare final standard for the SMEs. If any country wants to implement IFRS effectively then most three aspect considered people, process and technology as it is affected most and also required deep knowledge and time and initial implementation cost for SME, but in India near around 150000 population having knowledge regarding this aspect so it is very difficult for the Indian SMEs to adopt the IFRS. Generally, company which are working at national level then there is no need to maintain the records as per the IFRS so they will be denied to adopt the IFRS as it increases the cost and also Indian legislation expected some difference from it.

(**KUMAR, 2014**) Globalization has laid down a way for all the countries to adopt a single set of accounting standards. Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. More than 100 countries have converged or recognized the police of convergence with the IFRS. IFRS are the globally accepted accounting standards and interpretations adopted by the IASB. An upcoming economy on world economic map, India, too, decided to converge to International Financial Reporting Standards (IFRS). In India, ICAI has decided to adopt the IFRS by April 2011. This paper discusses the IFRS adoption procedure in India and the utility for India in adopting IFRS, the problems and challenges faced by the stakeholders and its impact on India. Lastly, paper concludes with the ways through which these problems can be addressed.

(Patil, 2012) IFRS stands for "International Financial Reporting Standards" and includes International Accounting Standards (IASs) until they are replaced by any IFRS and interpretations originated by the IFRIC or its predecessor, the former Standing Interpretations Committee (SIC). These are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organized in corporate or in other forms also includes mutual insurance companies, other mutual co-operative entities, etc.

NEED FOR IFRS

Different countries follow different accounting standards for computing the profits of the company. Profits computed as per different accounting laws of different countries always yield different figures of profits. So as to remove the discrepancy in accounting across the globe, companies' world over have decided to apply uniform standards of accounting to arrive the uniform profit across the globe.

It is expected that the adoption of IFRS will be beneficial to investors and other users of financial statements. The companies are also expected to benefit as investors will be more willing to provide finance.

Policy makers all over the world are focusing their attention towards the implementation of IFRS and are also looking for the answers to the question as to why they should implement it when they are successfully following GAAP for so many years. Major reasons advanced for implementing IFRS are enumerated as:

- **Globalization of finance:** The key benefit of implementing IFRS is a common accounting system and framework which is perceived as stable, transparent and fair to the local and foreign investors which in turn lead to increased compatibility and comparability among different financial statements across the globe. This will eliminate multiple reporting at the entity level and also at the consolidated level. Indian firms need to globalize, and for this they need funds at cheaper cost which is available in American, European and Japanese Capital Markets. To meet the regulatory requirements of these markets, Indian Companies are now mandated to report their financials as per IFRS. This will lead to cross border listing of shares and securities in other parts of the world and in turn cause globalization of finance.

- **Competitive advantage:** Indian entities will be able to initiate new relationships with investors, customers and suppliers internationally as IFRS provides a globally accepted reporting platform which will ultimately raise the reputation and relationship of the Indian corporate and give them competitive advantage. Companies are also in a race to gain an edge over their competitors by trying to adopt IFRS at the earliest and also listing securities on stock exchanges world-wide to build their Brand image. Convergence with IFRS improves the risk rating and makes the corporate world more competitive globally as their comparability with the international competitors' increases.
- **Professionalism:** Service sector will get a boost as the implementation of IFRS in the corporate would require trained accountants, auditors, values and actuaries. Moreover, a single set of accounting standards worldwide would ensure that auditing firms standardize their training and quality of work is maintained globally which will move India towards accounting services hub.
- **Statutory obligation:** After the opening up of countries and removal of tariff barriers, it has been made mandatory and obligatory to report using IFRS as majority of stock exchanges require financial information presented according to the IFRS. In case of joint ventures with a venture partner operating in countries requiring IFRS, they need to follow the same accounting standards as their venture partner. The multinationals seeking to enter new markets and expand operations to a foreign country may need to report using IFRS in order to obtain an operating license or to raise capital.
- **Economic growth:** It has been observed from the above literature review that the number of countries across the world where IFRS is a recognized reporting framework continues to grow by exploiting opportunities to generate process and cost efficiencies. It will potentially open up opportunities to standardize, simplify and centralize financial reporting processes and functions as the use of a single global standard enhances the efficiency of capital allocation on a global basis and help reduce the cost of capital.

CHALLENGES IN THE PROCESS OF ADOPTION OF IFRS IN INDIA

- **Awareness of international practices**: The entire set of financial reporting practices needs to undergo a drastic change after the adoption of IFRS to overcome the number of differences between the two GAAP's. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.
- **Training:** The biggest hurdle for the professionals in implementing IFRS is the lack of training facilities and academic courses on IFRS in India. IFRS has been implemented with effect from 2011; but it is observed that there is acute shortage of trained IFRS staff. The Institute of Chartered Accountants of India (ICAI) has started IFRS Training programmes for its members and other interested parties. Yet there exists a large gap between Trained Professionals required and trained professionals available.
- **Fair value:** IFRS which uses fair value as a measurement base for valuing most of the items of financial statements can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of hard work in arriving at the fair value and services of valuation experts have to be used. Moreover, adjustments to fair value result in gains or losses which are reflected in the income statements. Whether this can be included in computing distributable profit is also debated.
- **Management compensation plan:** This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP. The contracts would have to be re-negotiated by changing terms and conditions relating to management compensation plans.
- **Reporting systems:** The disclosure and reporting requirements under IFRS are completely different from the Indian reporting requirements. Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc. Existence of proper internal control and minimizing the risk of business disruption should be taken care of while modifying or changing the information systems.
- **Complexity in adoption:** The researchers feel that the biggest risk in converging Indian GAAP with IFRS is the fact that the accounting entities underestimate the complexity involved in the process. Instead it should be recognized well in advance that teething problems would definitely creep in. Converting to IFRS will increase the complexity with the introduction of concepts such as present value and fair value. In IFRS framework, treatment of expenses like premium payable on redemption of debentures, discount allowed on issue of debentures, underwriting commission paid on issue of debentures etc is different than the present method used. This would bring about a change in income statement leading to enormous confusion and complexities.
- **Risk in adoption:** Implementing IFRS has increased financial reporting risk due to technical complexities, manual workarounds and management time taken up with implementation. Another risk involved is that the IFRS do not recognize the adjustments that are prescribed through court schemes and consequently all such items will be recorded through income statement.
- **Time:** 95% of companies in Australia and in the European Union took more than a year to the complete IFRS transition, with 40% taking more than two years. Looking at the Indian scenario, we have already delayed the process from the very beginning. In other countries, regulators released final interpretations two to three years in advance of IFRS deadline and provided step-by-step transition road maps for companies. In India, ICAI took so long to finalize the standard—increasing the confusion around standard interpretation.
- **Cost:** The IFRS transition is expected to cost Indian firms between Rs. 30 lakh and 1 crore, with an average of 16 internal and three external full-time staff dedicated to the transition. Fifty percent of adopters had to implement entirely new IT systems to accommodate IFRS; only 20% of companies did not implement systems changes. Costs such as auditor fees, systems changes, and reporting costs tend to overrun at the last minute.

CURRENT SCENARIO

The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting.

- After the enactment of the Companies Act, 2013, the ministry of corporate affairs has now shifted its focus on rolling out international reporting standards for Indian companies which were to be implemented beginning April 1, 2011.
- According to the draft plan, the ministry wants to implement the international financial reporting standards (IFRS) beginning with companies that have a net worth of over Rs 1,000 crore from April 1, 2015.
- In the second phase, both listed and unlisted companies with a net worth of over Rs 500 crore but less than Rs 1,000 crores will have to converge with the international accounting standards from the financial year beginning April 1, 2016.
- IFRS had been put on the back burner by the government given issues raised by corporate and unresolved taxation issues. Industry bodies had sought postponement arguing the industry needed more time to prepare.
- The IFRS-converged accounting standards deal with mark-to-market projections and valuation of financial assets among other things.
- The implementation is expected to cause some upheaval in companies' finances in the initial stage as the standards call for projecting assets' real value. Various sectors, including banking and real estate would be hit, experts have argued.
- "The Institute of Chartered Accountants of India (ICAI) has been asked to conduct a sector-wise study, elaborating on the impact the implementation will have on the sectors
- As such, all Indian companies listed overseas or doing business on foreign land currently prepares financial statements as per the international standards.
- However, banking companies would be exempt from complying with the IFRS. In the third and fourth phase, beginning April 1, 2017, smaller companies would need to prepare their accounts as per the international standards.
- The main sectors which are likely to be impacted include oil and gas, finance, telecom and infrastructure companies.

Having an international standard is especially important for large companies that have subsidiaries in different countries. Adopting a single set of world-wide standards will simplify accounting procedures by allowing a company to use one reporting language throughout. A single standard will also provide investors and auditors with a cohesive view of finances.

Currently, over 100 countries permit or require IFRS for public companies, with more countries expected to transition to IFRS by 2015. Proponents of IFRS as an international standard maintain that the cost of implementing IFRS could be offset by the potential for compliance to improve credit ratings.

CONCLUSION

It is very much clear that transition from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended. We have also seen that this transition is not without difficulties as to the proper implementation process which would require a complete change in formats of accounts, accounting policies and more extensive disclosure requirements. Therefore, all parties concerned with financial reporting also need to share the responsibility of international harmonization and convergence. Keeping in mind the fact that IFRS is more a principle based approach with limited implementation and application guidance and moves away from prescribing specific accounting treatment, all accountants whether practicing or non-practicing have to participate and contribute effectively to the convergence process. This would lead to subsequent revisions from time to time arising from its global implementation and would help in formulation of future international accounting standards. A continuous research is in fact needed to harmonize and converge with the international standards and this in fact can be achieved only through mutual international understanding both of corporate objectives and rankings attached to it. Though difficult, it is not impossible for the Indian corporate to implement IFRS in the prevailing conditions since the fundamentals are strong and will feel the impact of the new rules the most as its operations involve multiple financial instruments that face the brunt of the changeover. Senior management at many companies views IFRS as a Finance priority because of the required changes in accounting practices. However, the impact of IFRS is truly cross-functional, spanning divisions and business units.

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