Abstract:

India adopting the International Financial Reporting Standards (IFRS) can not only ensure justice to investors but also bring huge opportunity for the country to emerge as a dominating force in the new accounting standard, experts today claimed. IFRS are standards and interpretations adopted by International Accounting Standards Board (IASB). Regulators in India have set a 2011 deadline to adopt the system. The new accounting standard, adopted by more than 100 countries, replaced the International Accounting Standards (IAS) after 2001. It is
based on understandability, relevance, reliability and comparability. 'IFRS: The roadmap to Transition' it can bring great benefits similar to the BPO revolution to the country as India could dominate the world to become its accounting back office by championing the new system. "IFRS also enables companies become more transparent in disclosure. In Indian system, though somewhat similar to IFRS,' disclosures is recommendatory, IFRS is more forthcoming. "This is the least we could do to the investors. We owe them this much as they are responsible for our existence,"

Introduction

Accounting union of 10 countries formed International Accounting Standards Committee (IASC) in 1973 and it issued International Accounting Standards. In 2001, the responsibility got transferred to IASB whereby standards were restructured and are now known as IFRS. International Accounting Reporting Standards is a provider of information aiding in economic decisions, giving importance to preference and changes in the financial position of an entity. India needs major improvements in Accounting Standards. More than 100 countries now require changing and many are in the way of replacing and accepting it. It is mainly based on two concepts and are principle based on-

- Accrual
- Going concern.

Its framework is qualitative and characteristics are-

- Understandability
- Relevance
- Reliability
- Comparability.

Indian Accounting Standards (abbreviated as India AS) are a set of accounting standards notified by the Ministry of Corporate Affairs, which are converged with International Financial Reporting Standards (IFRS). These accounting standards are formulated by the Accounting Standards Board of Institute of Chartered Accountants of India. Now India will have two sets of accounting standards viz. existing accounting standards under Companies (Accounting Standard) Rules, 2006 and IFRS converged Indian Accounting Standards (Indian AS). The Indian AS are named and numbered in the same way as the corresponding IFRS NACAS recommend these standards to the Ministry of Corporate Affairs. The Ministry of Corporate Affairs has to spell out the accounting standards applicable for companies in India. As on date the Ministry of Corporate Affairs notified 35 Indian Accounting Standards (Indian AS). But it has not notified the date of implementation of the same.

Adoption of IFRS in India
Increasingly, Indian accountants and businessmen feel the need for convergence with IFRS. Capital markets provide an important explanation for this change. Some Indian companies are already listed on overseas stock exchanges and many more will list in the future. Internationally acceptable accounting standards are becoming the language of communication for Indian companies. To bring the Indian Standards at par with IAS/IFRS, some of the earlier Accounting Standards and Guidance Notes have been revised or are under the process of revision. However, at present, the Accounting Standard Board in consultation with the core group, constituted by the Ministry of Corporate Affairs (MICA) for convergence of Indian Accounting Standards (IFRS), has decided that there will be two separate sets of Accounting Standards.

- **Indian Accounting Standards converged with the IFRS (known as Ind AS)**
  The MCA has hosted 35 converged Indian Accounting Standards (Ind ‘AS’) without announcing the applicability date. These are the standards which are being converged by eliminating the differences of the Indian Accounting Standards.

- **Existing Accounting Standards**
  The entities not falling within the threshold limits prescribed for IFRS compliance in the respective phases shall continue to use these standards in the preparation and presentation of financial statements

### LIST OF EFFECTIVE IFRS

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International Financial Reporting Standards as Global Standards

The last decade has witnessed a severe change in the global economic scenario. The emergence of transnational corporations in search of money, not only for fuelling growth, but to sustain ongoing activities has necessitated raising of capital from all parts of the world, cutting across frontiers. Each country has its own set of rules and regulations for accounting and financial reporting. Therefore, when an enterprise decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply and this in turn will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country of origin. International analysts and investors would like to compare financial statements based on similar accounting standards, and this has led to the growing support for an internationally accepted set of accounting standards for cross border filings. The harmonization of financial reporting around the world will help to raise confidence of investors generally in the information they are using to make their decision and assess their risks. A strong need was felt by legislation to bring about uniformity, rationalization, comparability, transparency and adaptability in financial statements. The better way for getting rid of problems faced by different methods of standards is to have a single set of global standards, of the highest quality, set in the interest of public. The convergence of financial reporting and accounting standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders. It improves the ability of investors to compare investments on a global basis and thus lowers their risk of errors of judgment. It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say restoration of financial statements. It has the potential to create a new standard of accountability and greater transparency, which are values of great significance to all market participants including regulators. It reduces operational challenges for accounting firms and focuses their value and expertise standard setters and other stakeholders to improve the reporting model.

Why IFRS

✓ Investors ease and comfort

✓ Enhances credibility of domestic capital markets to foreign capital providers

✓ Easier access to foreign capital markets
- Enhanced comparability with international peers
- Keep “one set of books”
- Global education and training
- More opportunity for local p

**Indian Approach to move to IFRS**

- India made a commitment to G20 to follow IFRS from 2011
- Accordingly, Core Group was formed by MCA consisting of people from MCA, Industry, ICAI and other regulators
- Core Group concluded that convergence is a better option than adoption
- Convergence means changing the existing Indian accounting standards to bring them in line with the principles of IFRS
- Convergence leaves a scope for making country specific departures
- Some EU countries, Cyprus, Hongkong, etc. have also made certain departures/exceptions to IFRS as issued by IASB

**Decision to converge**

- Ind AS gained momentum again after Mr Arun Jaitley announced intention to move to Ind AS in his budget speech in July 2014
- NACAS was reconstituted in September 2014
- 39 Ind-AS, revised, where required, were notified by MCA on February 16, 2015 for implementation
- India specific carve outs have been made to address specific concerns
- Optional exemptions on First time adoption: PPE, Foreign Currency Items, etc.
- Bargain purchase in business combinations
Major Accounting policy changes-
Ind AS entails major accounting policy changes, compared to AS, in the areas such as:

- **Accounting for taxes on income**: Deferred tax asset/liability to be created based on Balance Sheet items as against the Profit & Loss Account items at present.

- **Useful life of Intangible asset**: Intangible assets can have indefinite useful life under Ind AS whereas it is 10 years at present under AS 26 (5 years in AS 14 Goodwill). Goodwill to be tested only for impairment under Ind AS.

- **Leases**: Arrangements that contain an element of lease will need to be segregated into lease and non-lease component, which is not required under AS.

- **Business Combinations**: Fair value mandatory, concept of reverse merger, etc.

- **Prior period items**: Will require retrospective restatement.

- **Extraordinary items**: Not permitted under Ind AS, exceptional items permitted under Ind AS as well as AS.

Benefits and Challenges

The move to IFRS it not just a technical accounting exercise. It is an exercise in change management and offers opportunities for improvement. IFRS conversion offers companies an opportunity to improve their business in several ways.

The company can:

- Reshape its management reporting systems to better manage both its financial accounting and its financial statement.
- Generation and provide company leadership with essential information.
- Improve disclosure — to analysts, investors, regulators and other stakeholders — of your company's financial results and position and other performance indicators.
- Improve the metrics used to evaluate both company and executive performance.
- Benchmark itself against its global peers.
- Ensure all finance team members have the training, knowledge and skills needed to perform their roles.
Make accounting policy choices that are associated with global industry practice.

**IFRS: The Impact on Indian Corporate**

The use of international financial reporting standards (IFRS) as a universal financial reporting language is gaining thrust across the globe. Over a 100 countries in the European Union, Africa, West Asia and Asia-Pacific regions either require or permit the use of IFRS. The Institute of Chartered Accountants of India (ICAI) has recently released a concept paper on Convergence with IFRS in India, detailing the strategy for adoption of IFRS in India with effect from April 1, 2011. This has been strengthened by a recent announcement from the ministry of corporate affairs (MCA) confirming the agenda for convergence with IFRS in India by 2011. Even in the US there is an ongoing debate regarding the adoption of IFRS replacing US GAAP. 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. The European Union’s experience highlights many perceived benefits as a result of 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 EU 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; and
- Better access to and reduction in the cost of capital raised from global capital markets since IFRS are now accepted as a financial reporting framework for companies seeking to raise funds from most capital markets across the globe.

A recent decision by the US Securities and Exchange Commission (SEC) permits foreign companies listed in the US to present financial statements in accordance with IFRS. This means that such companies will not be required to prepare separate financial statements under Generally Accepted Accounting Principles in the US (US GAAP). Therefore, Indian companies listed in the US would benefit from having to prepare only a single set of IFRS compliant financial statements, and the consequent saving in...
financial and compliance costs. 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. IFRS requires application of fair value principles in certain situations and this would result in significant differences from financial information currently presented, especially relating to financial instruments and business combinations. Given the current economic scenario, this could result in significant volatility in reported earnings and key performance measures like EPS and P/E ratios. 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. For example, the use of a cost-based model or a revaluation model in accounting for investment properties. This could reduce consistency and comparability of financial information to a certain extent and therefore reduce some of the benefits from IFRS adoption. 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.

In Addition to the above, there are Several Impediments and Practical Challenges to Adoption of and Full Compliance with IFRS in India. These are

- The need for a change in several laws and regulations governing financial accounting and reporting in India. In addition to accounting standards, there are legal and regulatory requirements that determine the manner in which financial information is reported or presented in financial statements. For example, the Companies Act, 1956 determines the classification and accounting treatment for redeemable preference shares as equity instruments of a company, whereas these may be considered to be a
financial liability under IFRS. The Companies Act (Schedule VI) also prescribes the format for presentation of financial statements for Indian companies, whereas the presentation requirements are significantly different under IFRS. Similarly, the Reserve Bank of India regulates the financial reporting for banks and other financial institutions, including the presentation format and accounting treatment for certain types of transactions.

- The recent announcement by the MCA is encouraging as it indicates government support for the timetable for convergence with IFRS in India. However, the announcement stops short of endorsing the roadmap for convergence and the full adoption of IFRS that is discussed in ICAI's concept paper. In the absence of adequate clarity and assurance that Indian laws and regulations will be amended to conform to IFRS, the conversion process may not gain force.

- There is a lack of adequate professionals with practical IFRS conversion experience and therefore many companies will have to rely on external advisers and their auditors. This is magnified by a lack of preparedness amongst Indian corporate as this project may be viewed simply as a project management or an accounting issue which can be left to the finance function and auditors. However, it should be noted that IFRS conversion will involve a fundamental change to an entity's financial reporting systems and processes. It will require a detailed knowledge of the standards and the ability to consider their impact on business transactions and performance measures. Further, the conversion process will need to disseminate and embed IFRS knowledge throughout the organization to ensure its application on an ongoing basis.

- Another potential pitfall is viewing IFRS accounting rules as "similar" to Generally Accepted Accounting Principles in India (Indian GAAP), since Indian accounting standards have been formulated on the basis of principles in IFRS. However, this view disregards significant differences between Indian GAAP and IFRS as well as differences in practical implementation and interpretation of similar standards. Further, certain Indian standards offer accounting policy choices which are not available under IFRS, for example, use of pooling of interests method in accounting for business combinations. There is an urgent need to address these challenges and work towards full adoption of IFRS in India. The most significant need is to build adequate IFRS skills and an expansive knowledge base amongst Indian accounting professionals to manage the conversion projects for Indian corporate. This can be done by leveraging the knowledge and experience gained from IFRS conversion in other countries and incorporating IFRS into the curriculum for professional accounting courses. Ultimately, it is imperative for Indian
corporate to improve their preparedness for IFRS adoption and get the conversion process right. Given the current market conditions, any restatement of results due to errors in the conversion process would be detrimental to the company involved and would severely damage investor confidence in the financial system.

CONCLUSION

From the above discussion 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.

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