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International Financial Reporting Standards

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Abstract

Due to globalization world is becoming a village and there is a need of uniform accounting standards. Also a business can operate successfully only if it has good financial reporting system and processes. A good financial reporting system helps in gaining the trust of the investors. More than 3600 MNCs' are operating in different sectors of India. These MNCs' present their financial statement as per Indian GAAP, IFRS, Japan GAAP, USGAAP etc. With the objective of avoiding this inconvenience professional accountant and bodies across the world are making their efforts for introducing a financial reporting system that can be applied by any country. For this purpose International accounting standard board (IASB) designed IFRS which were initially adopted by the European Union's members in the year 2005. In subsequent years more than 140 countries of the world either converged with IFRS or adopted it completely. The developing country like India also decided to converge its Indian accounting standards (Ind AS) to IFRS. ICAI has implemented the International Financial Reporting Standard in 3 phases. So this research paper is about the enforcement of the International Financial Reporting Standard in India, its process & challenges faced on account of its adoption.

Key Words: International financial reporting standard (IFRS), Convergence, IND AS, Financial reporting system.

Introduction

Firms of every country prepare their financial statement in accordance with the standards applies to them. This procedure is acceptable when the firm is doing its business in its own country but investors' faces inconvenience when the firm is operating in multiple countries. At this time, it is difficult for the investors to compare the various corporations based upon their financials. IFRS is the solution of all these problems.

IFRS stands for international financial reporting standard. It is presented by the IASB. IFRS is a set of accounting rules and standards which tell us in what manner accounting events should be reported in financial statement of your business. The main aim of IFRS is to bring consistency, transparency, comparability in financial statement of across the world. By observing these benefits of adopting IFRS, many countries of the world make it mandatory for the companies to prepare its final statement as per IFRS. India is one of those country who mandate IFRS from 1st April 2011 but despite this India is facing some issues in conversion with IFRS. After companies act 2013, comes into effect ministry of corporate affairs (MCA) has made their efforts to implement IFRS.

Objective of Study

The objective of study is to discuss steps taken by India in the convergence of Indian accounting standard (IND AS) with IFRS & also highlight the challenges faced by the companies of India during its implementation.

Research Methodology

Research methodology describes the methods or processes used for systematic collection and analyzing of the data. Qualitative research approach is adopted for the present study. This research has been conducted on the basis of the survey of the various articles, journals and so on.

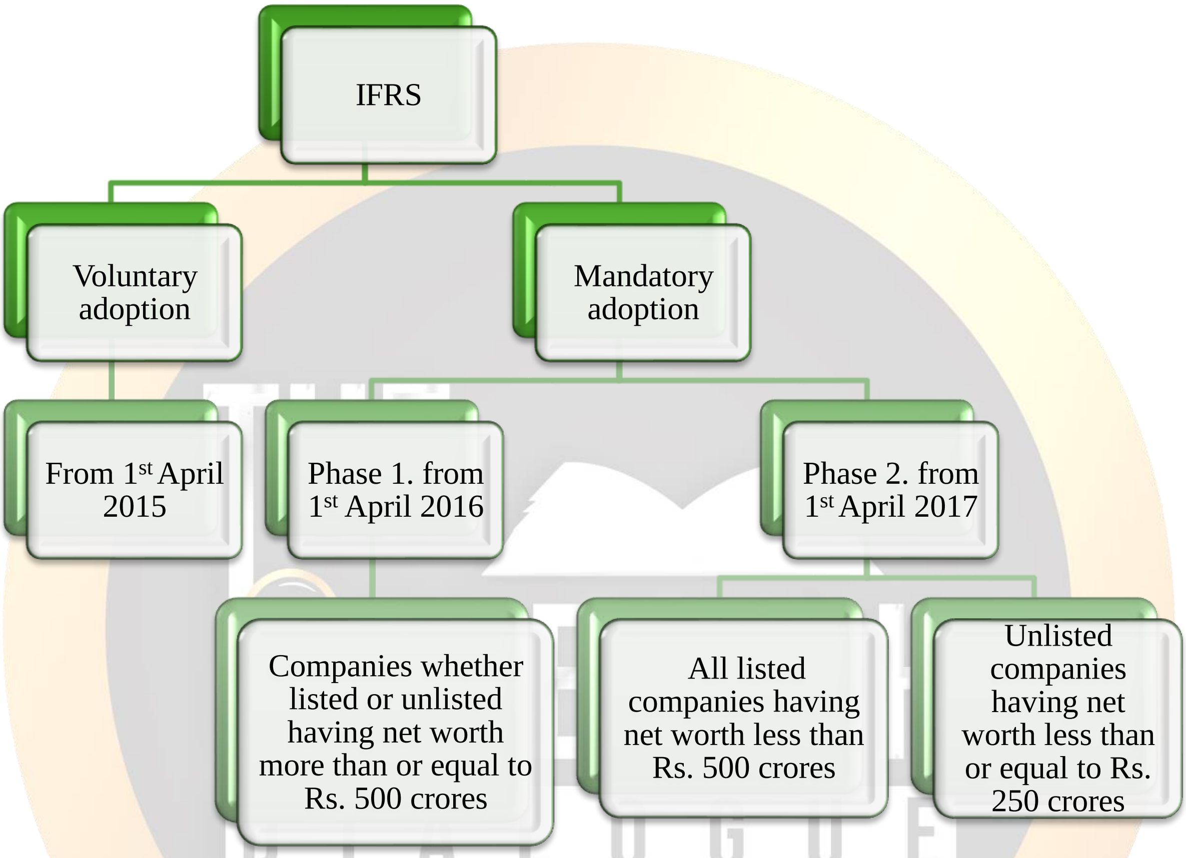
Process of Convergence with IFRS in India

In India accounting standards are prepared by institute of chartered accountant in India (ICAI). In 2007, India announced that by 2011 it will fully adopt IFRS. ICAI has played a significant role in the implementation of the international financial reporting standard (IFRS). For this ICAI has laid down a complete set of Ind AS in converged with IFRS. Here at this step it is necessary to know the difference between convergences to IFRS or adoption of IFRS. On the other hand convergence to IFRS means IASB and Indian AS will work together to formulate good quality, compatible accounting standards over time.

Implementation of IFRS in India in Phases

Phase 1.	Phase 2.	Phase 3.
1st April 2011 opening balance sheet	1st April 2013 opening balance sheet	1st April 2014 opening balance sheet
• It includes companies the shares or securities of which are listed in other than or outside India. • Companies with more than Rs. 1000 crores net worth whether listed or not. • Companies with NSE-Nifty 50 and BSE-Sensex 30.	• It includes the companies with more than the Rs. 500 crores net worth and not covered in phase 1.	• It includes those listed companies which are not covered in earlier 2 phases.

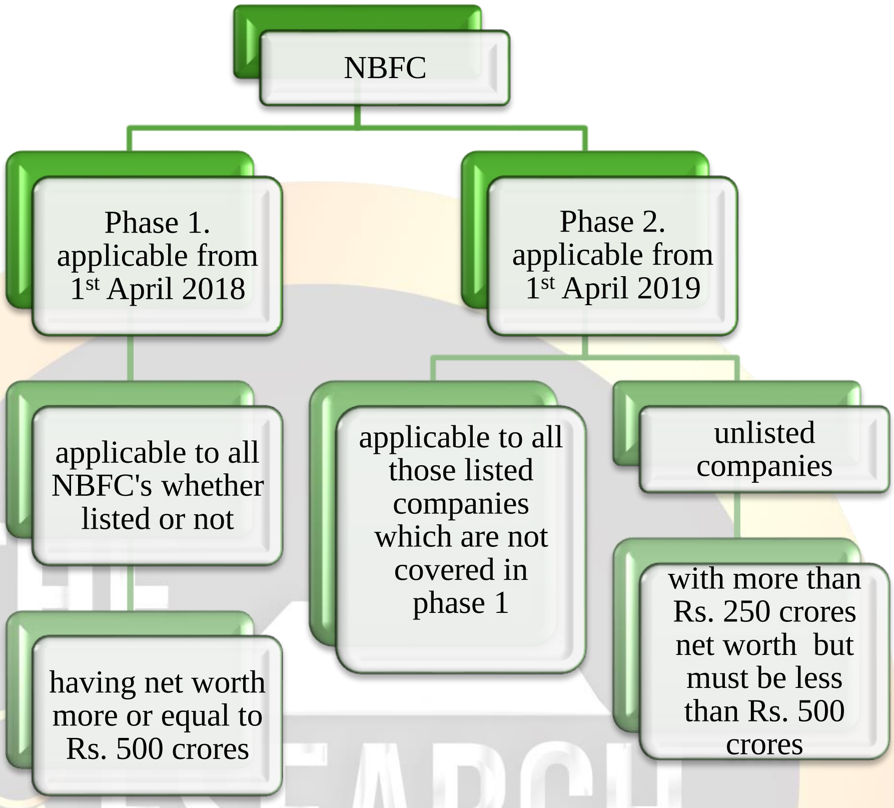
Revised Process for the Implementation of IFRS in India for Companies other than NBFCs, Banking Companies and Insurance Companies



- Here, company includes parent company, subsidiary company or any other associate company.
- If a company starts following the Indian accounting standard (Ind AS) then it has to follow the Ind AS in all its upcoming years.

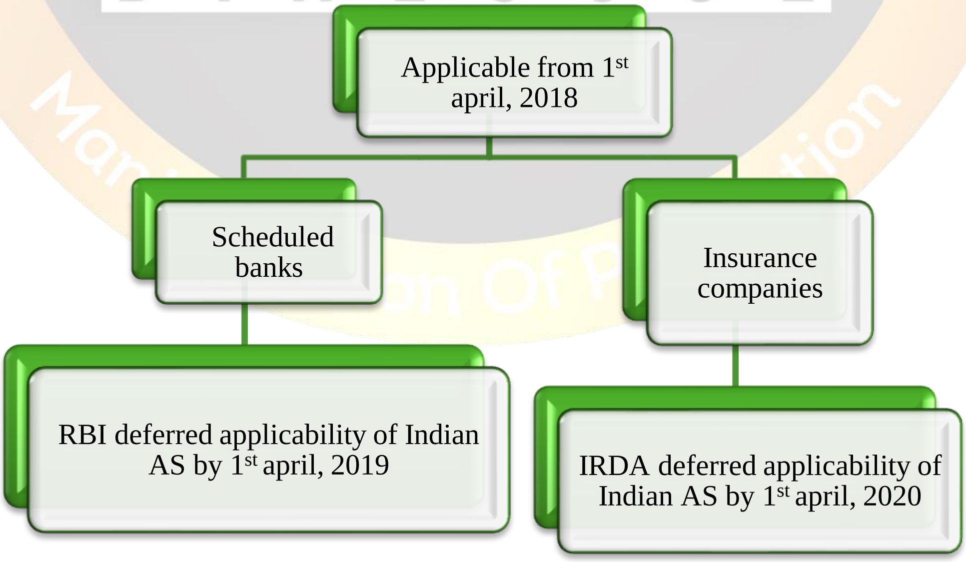
Phases for Banks, NBFC's, and Insurance Company

NBFC's



Note: Under this voluntary adoption is not allowed.

Scheduled Commercial Banks and Insurance Companies



Note: Regional and Urban Co-operative banks are not needed to apply Indian accounting Standards (Ind AS).

Challenges in Implementation of IFRS in India

Training and Education

One can expect the successful implementation of IFRS from the professional and trained authorities. Authority can include professional accountant, government officials, chief information officer (CIO) and chief executive officer (CEO). But it has been seen that INDIA does not have properly trained accountants as the date of implementation of IFRS comes closer.

Taxation Effect

Tax liabilities under financial statement undergo a major change due to convergence to IFRS. Addressing this problem becomes a challenge for the tax authorities.

Legal Consideration

In India, accounting practice of accountants is mainly regulated under generally accepted accounting principal (GAAP) and companies act 1956. Also some guidelines for the preparation of financial statement are also issued by Foreign exchange management act (FEMA), SEBI, Indian banking law & regulation. But the major challenge while adopting IFRS is that it does not recognize any such guidelines issued by these authorities.

Fair Value Measurement

Items of financial statement under IFRS are valued as per their fair value. But accounting the items of financial statement as per their fair value can be challenging in terms of instability and it also brings biasness to the financial statement. In India financial statement is prepared on the basis of historical cost so it will be challenging for Indian corporate world to shift their basis to fair value accounting.

Difficulties in Adoption

With conversion to IFRS many complexities are increased. Because the treatment of various accounting transactions are different in Ind AS and in IFRS like the treatment of contract accounting entries, lease treatment, discount allowed on the offering of debentures. As a result it becomes complicated to understand the income statement.

Awareness regarding International Financial Reporting System (IFRS)

For the successful adoption of IFRS in India it is necessary have complete awareness of its different reporting standards. But the stakeholders of India like: banks, commodity exchange, firms, stock exchange are not fully aware of it. So it is challenging task to bring awareness among these parties.

Conclusion

The conclusion of the present study is that the adoption of International financial reporting standard (IFRS) in India is must. But just adopting the IFRS does not solve any problem. Accounting body and government officials should take all necessary steps for the smooth and successful implementation of IFRS in India. For this each interested party like: independent auditors and accountants, top management and directors and regulators and law makers needed to come together for its accurate implementation. Regulators and law makers must monitor the international financial reporting standard (IFRS) compliance system effectively and on time to time basis. Auditors and accountants should prepare and present the financial statement in an efficient manner as well as should audit financial statement as per the need of IFRS. Only enforcing the IFRS is not the solution but a proper advisor is also mandatory. Only by taking all these steps, adoption of IFRS in India will become accurate and smooth.

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