INDIAN ACCOUNTING STANDARDS AND TRANSITION TO IFRS

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Abstract

Reliable and uniform financial reporting is part of good corporate governance practices and to enhance the credibility of business in the eyes of investors in the form of informed investment decisions. Companies are operating worldwide so it become mandatory for companies to adopt, single set of accounting standards i.e. International financial reporting standards. International Financial Reporting Standards (IFRS) is a set of high quality, understandable, enforceable and globally accepted 'principle-based' accounting standards for the preparation of financial statements. IFRS is becoming worldwide medium of financial reporting for business, India also decide to converge with IFRS from 1st April 2016 in phased manner which in turn improves the comparability and transparency of financial statements. Adopting IFRS will not only make Indian corporates at par with global corporate but shall also enhance the marketability of Indian corporates in terms of foreign investments. The purpose of this paper is to study the impact of IFRS implementation on financial position of business. Another objective of paper is to study the difference between IFRS, Indian GAAP and Ind AS and challenges.

Keywords IFRS, Ind AS, GAAP, Globalization

INTRODUCTION

Globalization results into emphasis on single set of international accounting standards of good quality which are globally acceptable. In different countries financial statements are prepared according to different set of rules, mean different national sets of standards, each with its own interpretation about a similar transaction, making it complex to compare, analyses and interpret financial statements across nations. A good quality financial reporting system supported by good governance, high quality standards, and firm regulatory framework is the key to economic development. Actually, a quality financial reporting standard highlights the investors trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. Financial reporting means disclosure of financial information to management and various interested parties. Various principles are used to record financial information which are known as accounting standards. Due to globalization there is change in accounting standards also which are known as international financial reporting standards. IFRS are worldwide acceptable standards issued by IASB IFRS provides the methods and treatments for various types of financial transactions and how the transactions are recorded in financial statements. Before IFRS we had IAS issued by IASC.

REVIEW OF LITRATURE

Raghunatha and Rajashekar, (2014), in their article, "Indian Accounting Standards vs. International Financial Reporting Standards" studied that how convergence of Indian accounting standards with IFRS is beneficial to India. On the basis of primary data from a structured questionnaire which was ana- lyzed utilizing descriptive and one-way ANOVAs statistical tools. They con- cluded that convergence of Indian standards with IFRS has both positive and negative benefits, but the positive benefits are greater than its negative effects

Dr Muniraju and Ganesh (2016), in their article, A study of impact of IFRS convergence on Indian Corporate sector surveyed the awareness for implementation of IFRS and studies shows that there is high requirement of knowledge and training towards IFRS and there is positive response for implementation of IFRS.

Dr B Shekhar (2013) in his study, Relevance of IFRS in globalized economy, an empirical study surveyed that IFRS removes the confusion from the mind of investors as it gives single financial statement which brings transparency in financial reporting.

Kirit & Meenakshi (2015). A study on the topic "IFRS: Challenges Ahead" was done by Prof Kirit Magana and Dr. Meenakshi Somani. In this paper main focus was on the benefits of IFRS to the Indian Corporate and Professionals, its key issues and challenges. Study recommended that a single set of high-quality standards would be in public interest and would provide a uniformity for financial reporting which, in turn, will have a positive impact overall.

Srivastava and Bhutani(2012). In his study IFRS in India Challenges and Opportunities 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 main focus of paper was on the awareness and adoption of IFRS in India.

Objective of Study

1. To examine the effect of IFRS implementation on financial position of company.

2. To explore the major difference between IFRS, Ind AS, Indian GAAP

3. To examine the challenges and issues in adopting IFRS

Research Problem and methodology

IFRS is recent development in the field of accounting standards. India has its own accounting standards which are different from international accounting standards on many fronts, an attempt is made to develop the single set uniform accounting standards which help the investors to take decision. The main emphasis of this paper is on study of impact of adoption of IFRS on financial position of companies. This research is based purely on secondary data, data from, journals, articles, websites .

This study is organized in different sections such as

Impact of IFRS adoption

Difference between Ind AS, IFRS, Indian GAAP

Challenges and opportunities

Key Research Findings

Impact of IFRS adoption

Globalization of trade and business results into preparation of financial statements according to the needs of global investors, and companies prepare financial statements according to their own standards which creates great confusion for users of financial statements and inefficiency in capital markets ,therefore there is need to create single set of high quality standards which can be used to record business transactions globally which leads to India to go for convergence of international accounting standards (IAS) into International financial reporting standards (IFRS).Adoption of IFRS is gaining momentum and also challenging for companies .For global investors implementation of IFRS has positive impact as it improves the quality of financial reporting .some of the positive impact of IFRS are

Adoption of IFRS raises the reputation and relationship of Indian corporates with international financial community.

Implementation of IFRS results in uniformity in preparing financial statements and makes information more reliable and comparable which in turn helps the investors desirous to invest abroad.

Adoption of IFRS will facilitates the comparability of financial statement and financial performance of Indian corporates with peer groups operating globally resulting in transparent financial reporting outside India also.

IFRS implementation results in reducing cost of preparing financial statement as it increases the confidence in the mind of investors and reduces the burden of financial reporting and simplifies the process of preparation of individual and group of financial statements

IFRS benefits accounting professionals also as they can sell their professional expertise worldwide and results in increasing the mobility to work in industry and in practices also.

Adoption of IFRS results into saving of time and effort as management of corporate can view all corporate as a group on a common platform.

Comparison and benchmarking of financial data with international competitors is possible through implementation of IFRS.

There is increase in merger and acquisition opportunities since the major challenge conversion of financial statement to uniform standard is removed due to implementation of IFRS.

With the adoption of IFRS the investor can directly invest in efficient corporate globally as they properly understand the financial results of different corporates results into increase in foreign capital flows in the country.

So IFRS as single set of globally accepted financial standards results into removal of complexity and confusion of financial statements and benefitted to financial and non-financial users.

Key Difference between Indian GAAP, IFRS and Ind -AS

Main points of difference between Indian GAAP, IFRS and Ind AS

Basis point	Indian GAAP	IFRS	Ind -AS
Valuation of inventories	Valuation of inventory is not based on nature and use of inventory. Valuation should reflect fairest approximation to the cost.	Valuation is based on the nature and use of inventory. Same cost formula will be used for inventory valuation having same nature and use of stock.	Same as IFRS
Cash Flow Statement	AS-3 Cash flow statement	IAS -7 Statement of cash flows	Ind-AS- 7 Statement of cash flows

Treatment of bank overdraft under cash flow	Bank overdraft is treated under financing activity	Bank overdraft from an integral part of entity's cash management is categorized under cash and cash equivalents	Same as IFRS
Cash Flows from extraordinary items	Cash flows from extraordinary items are classified under financing, operating investing activity as the case may be	Cash flow statement is not permitted to extraordinary items. There is no such classification under IFRS	Similar to IFRS
Property, Plant and equipment	AS-6 Deprecation accounting	IAS-16 Property, Plant equipment	Ind-AS 16, Property, Plant and equipment
Foreign Currency	AS-11 The effects of changes in foreign exchange rates	IAS 21-The effects of changes in foreign exchange rates	Ind AS 21 The effects of changes in foreign exchange rate
Replacement Cost	It is treated as expense when incurred	Replacement cost is capitalized if replacement meet the criteria of recognition	Similar to IFRS
Earnings per share	As 20 -Earning per share	IAS-33 Earning per share	Ind-AS 33 Earning per share

Disclosure of EPS in separate financial statement	All financial statement of parent company should disclose basic as well as diluted EPS	Only consolidated financial statement have to disclose EPS. Standalone financial statement has option to disclose or not to disclose	Both consolidated and standalone financial statement should include EPS
Intangible Assets	AS-26 Intangible assets	IAS-38 Intangible assets	Ind -AS 38 -Intangible Assets
Measurement of Intangible Assets	Intangible assets are measured on cost basis only.	Measured either on cost or revalued amount	Similar to IFRS

Challenges in implementation

As a coin has two sides in the same way implementation of IFRS has positive as well as negative points also. Challenges which are faced by companies at the time of implementation of IFRS.

Lack of awareness: Awareness about IFRS is limited to few people in India Most of the stakeholders such as banks, stock exchanges firms are not aware of IFRS. This the major challenge faced by Indians at the time of implementation.

Adequate training requirements-Lack of adequate training and knowledge is the major challenge as far as Indian economy is concerned. Thus, training should be imparted to stakeholders such as Chief Financial Officers (CFOs), Auditors, tax authorities.

Amendments in Regulations: In order to implement IFRS in proper manner there is need to amend rules and regulations. As Indian accounting practices are governed by companies act 1956, Income tax act 1961 IRDA, Reserve Bank of India which are different from IFRS so adequate changes must be made in order to follow IFRS.

Change in financial Reporting System: In India financial statements are prepared on the basis of standards issued by ICAI. We need to amend same to suit the requirements of IFRS. Financial reporting system should be changed in such a manner that it results into proper implementation of IFRS.

Small and medium enterprises (SME): There is scarce resources and lack of expertise with small enterprises, which act as barrier for the process of convergence to IFRS. In case of SME's cost would surpass the benefits of implementation of IFRS which acts as challenge.

Need to change IT system: Financial accounting and reporting system must be to produce robust and consistent data for reporting. Information system must be able to capture the new information required for disclosure. For the effective implementation of IFRS there is need to change IT system also.

Conclusion:

Convergence to IFRS with the accounting standard of course ensure the greater credibility in international capital markets but there is lots of difficulties which are experienced by Indian corporates. It is not only accounting exercise which need to change. It is transition requiring everybody concerned to learn new language and new way of working, while formulating accounting standards on the basis of IFRS.

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