ISSN: 0975-833X

Available online at http://www.journalcra.com

International Journal of Current Research
Vol. 6, Issue, 01, pp.4815-4818, January, 2014

INTERNATIONAL JOURNAL OF CURRENT RESEARCH

RESEARCH ARTICLE

KEY CHALLENGES IN TRANSITION TO IFRS- AN INDIAN PERSPECTIVE

***Dr. Atul Bansal**

Department of Management & Research, INTEGRAL University, Lucknow- 226026, Uttar Pradesh

ARTICLE INFO

Article History:
Received 18th October, 2013
Received in revised form
07th November, 2013
Accepted 19th December, 2013
Published online 31st January, 2014

Key words:
IFRS,
Convergence Considerations,
IFRS Challenges

ABSTRACT

Conversion to IFRS offers entities a number of important potential benefits. Notwithstanding its benefits, the transition to IFRS will be challenging. It is therefore imperative to assess the impact of IFRS and immediately embark upon taking the steps to towards convergence plan and positive and pro-active approach from all the stakeholders – the regulators, the ICAI, the profession and the industry. Therefore, an attempt to throw light on key challenges embedded with conversion to IFRS is made through this research paper. The paper also describes the ways and strategies to convert challenges of conversion to IFRS into opportunities for the Indian entities.

Copyright © 2014 Dr. Atul Bansal. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

INTRODUCTION

In recent times, it has increasingly become difficult for the companies to raise funds and get them listed on stock exchanges because of non-following of the standard in accordance with International Financial Reporting Standards (IFRS)[1]. Individual or institutional investors find difficulty in comparing financial results of different companies and making investment decisions because of differences in accounting practice. Therefore, the adoption of IFRS by most of the major economies in the world is well under way. Convergence of accounting standards will have the effect of attracting investment through greater transparency and a lower cost of capital for potential investors. Convergence to IFRS offers a number of vital prospective benefits. Convergence to IFRS will greatly enhance an Indian entities' ability to raise and attract foreign capital at a low cost. A universal accounting language, such as IFRS, will help Indian companies benchmark their performance with global counterparts. There will be escape from multiple reports for global Indian companies that have to prepare their financial statements under multiple GAAPs. It will help the entities to streamline reporting and reduce related costs by developing common reporting systems and consistency in statutory reporting. It will also mke possible to compare their financial reporting to that of not only national as well as international competitors. With the knowledge of IFRS, the Indian Chartered Accountant would be globally acceptable.

****Corresponding author: Dr. Atul Bansal***
Department of Management & Research, INTEGRAL University, Lucknow-226026, Uttar Pradesh.

[1] International Financial Reporting Standards (IFRS) is a set of accounting standards, developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements.

Establishment and Structure of IFRS

Since 1973, the International Accounting Standards Council (IASC) has been formulating International Accounting Standards (IAS)[2]. In 2001, restructuring of IASC was undertaken and renamed as the International Accounting Standards Board (IASB). Objective of setting up of IASB[3] was set up was to design a single set of high standard of excellence, comprehensible and enforceable global accounting standards so as to assist various stakeholders participating in capital market to make economic decisions. Set of these standards came to be known as IFRS. IFRS have been accepted by many multinational companies and endorsed by many countries as their own standards so far. Use of IFRS is widespread. More than 15,000 companies listed overseas use IFRS. More than 100 countries have adopted IFRS or otherwise have adapted

[2] standards issued before 2001

[3] The International Accounting Standards Board (IASB) founded on April 1, 2001 is the successor of the International Accounting Standards Committee (IASC) founded in June 1973 in London. It is responsible for developing the International Financial Reporting Standards (new name for the International Accounting Standards issued after 2001), and promoting the use and application of these standards. The International Accounting Standards Board is an independent, privately-funded accounting standard-setter based in London, UK.

their local accounting standards to conform to IFRS. Following table shows global acceptability of IFRS:

Domestic Local Entities	Number of Countries
IFRS required for all Domestic Listed Companies	77
IFRS permitted for Domestic Listed Companies	24
IFRS required for some Domestic Listed Companies	4
IFRS not permitted for Domestic Listed Companies	32
	137

Source: Ernst & Young

Convergence of IFRS from Indian Perspective

In India, the annual accounts are prepared according to section 211 and schedule VI of the Companies Act 1956. Accounting Standards formulated and amended by ICAI also play an important role in book keeping. Corporate disclosure in India is also governed by the Securities and Exchange Board of India 1992. Though Indian accounting and legal systems have been developed on British pattern, statutes of companies act and other related statues to the industry and commerce have been amended with a view to bring its accounting standards closer to the IFRS and meet altering requirements of the country especially after the deregulation of the economy in 1991. Currently, on the basis of IFRS, Accounting Standards are formulated by the Accounting Standards Board of the ICAI keeping in view the domestic legal, regulatory (Such as Reserve Bank of India, the Insurance Regulatory and Development Authority and Security Exchange Board of India, among others) and economic environment and the level of preparedness of the industry and the accounting professionals. Presently, Indian accounting standards are of good quality in most instances, in fact are practically the same as IAS. With a view to ensuring smooth transition to IFRS from 1st April, 2011; the matter of convergence with IFRS will be taken up by the ICAI with National Advisory Committee for Accounting Standards[4] (NACAS) as well as with the IASB, certain areas where changes in certain IFRS may be required keeping in view Indian conditions. It is ICAI to formulate a work-plan to ensure that IFRS are effectively adopted from 1st April, 2011 and conduct training programmes for its members and other concerned to prepare them to implement IFRS.

Looking to the benefits of IFRS to the Indian economy, its investors, industry and accounting profession, the convergence with IFRS will be taken care by the ICAI for large sized and for small and medium sized entities separately. The Concept Paper of ICAI reveals that IFRS should be adopted for the public interest entities like listed entities, banks and insurance entities and large sized entities with a turnover of over Rs. 100 crore or borrowing of Rs. 25 crore from the accounting period beginning on or after 1st April, 2011 because the countries which have adopted IFRS have done so for similar entities. It has also been expressed by the Concept Paper that the adoption of all IFRS with the same numbers as that of IFRS from 1st April, 2011 rather than stag-wise keeping in view current economic condition, expected time to reach the satisfactory level of technical preparedness of industry and to resolve the conceptual differences with the IASB. As far as Small and Medium Sized Entities (SMEs) are concerned, the Concept Paper of ICAI divulges that the separate standard may be formulated based on final issue of IFRS for SMEs by IASB because it is not necessary for the IFRS-Compliant country to adopt the IFRS for SMEs to be issued by IASB.

Convergence Considerations and Key IFRS Challenges

While adoption or convergence of the IFRS, following key issues are required to be given a thought:

1. Whether it would be convergence or adoption?
2. Whether appropriate amendments would be made to Companies Act?
3. Whether exceptions to IFRS would be made so as to take care of India-specific issues in the rarest of rare circumstances?
4. Whether on adoption of IFRS, would IFRS standards continue to be notified under the Act?
5. What standards would apply to small-and medium-size enterprises?

KPMG report reveals that though ICAI has been harmonising existing Accounting Standards with IFRS, there are significant differences between Indian Accounting Standards and the International Standards especially in areas of business combinations, group accounts, fixed asset accounting, presentation of financial statements, accounting for foreign exchange and financial instruments. In addition to differences between Indian Accounting Standards and the IFRS, local laws in India override the Accounting Standards. Following are some key examples that show that local are more important than the Accounting Standards:

1. As per Companies Act, Indian companies are treated as separate legal entities, while IFRS promotes the group concept and therefore individual legal entities lose their individual relevance to the overall economic entity i.e. the group except for legal or tax compliance.
2. As per the Companies Act, class of assets is considered, while IFRS upholds the concept of components of fixed assets on the basis of their usefulness.
3. As far as provision of depreciation is concerned, statutory depreciation rates are prescribed in the Companies Act, 1956 and provision for depreciation is required to be made on the basis of useful life of assets or statutory depreciation rates, whichever is higher. Under IFRS, provision for depreciation is required to be made on the useful life of asset e.g. the engines and airframe of an aircraft are depreciated separately using different lives. Moreover, depreciation on revaluation of fixed assets to be reflected in the profit and loss account is prohibited, while IFRS is based on fair value concepts and therefore the entity revalue its fixed assets to reflect current value and as a result the depreciation on revalued fixed assets is recorded in profit and loss account and profit is affected adversely.
4. As per the Companies Act, capital instruments like equity and preference shares are disclosed and governed separately. Even issue and disclosure rules for convertible debentures or bonds are different from that of equity and preference shares. IFRS treats convertible debentures or bonds or preference shares as compound instruments that

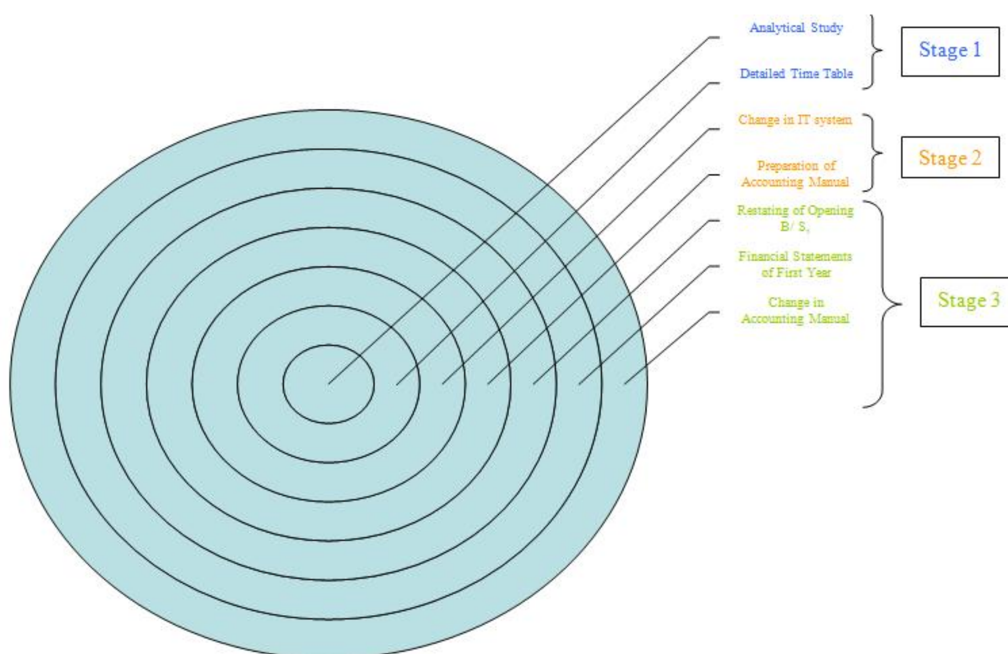
[4] The NACAS was established by the Ministry of Corporate Affairs, Government of India and various regulators including RBI, IRDA (Insurance Regulatory and Development Authority) and SEBI.

are segregated into debt and equity on the basis of their relative fair values.

5. As far as accounting for amalgamation is concerned, it is done in India as per the treatment prescribed by the High Court as per the Scheme approved though it does not comply with the Accounting Standards. Under IFRS, it is required to carry out accounting for amalgamation as per the IFRS principles.
6. Definition of subsidiary companies differs in the Companies Act as compared to that of IFRS.
7. As per the companies act, writing off of fictitious assets such as debenture discount, preliminary expenses, underwriting commission and premium on redemption of debentures is adjusted against the security premium account. Under IFRS, writing off of fictitious assets is charged to revenue account.
8. As per the Companies Act, once accounts are approved in the Annual General Meeting, reopening of financial statements is prohibited. Under IFRS, effect to change in accounting policy and prior period adjustment are requires to be made even after approval of the annual accounts.

a detailed conversion programme. They will also be forced to review existing tax planning strategies with a view to testing their alignment with changes created by IFRS. Indian companies, while converging with the international standards, could face shortage of skilled accounting professionals having knowledge of IFRS. Adoption of IFRS by large sized entities would result in a significant demand for IFRS resources. With a view to strengthening of corporate governance norms, increasing financial regulations and global economic growth; the accountants are the most sought after globally and nationally. In view of this, accounting resources is a major challenge not only in India but also in the world around and will stay same as in the short term. As far as India is concerned, the availability of the chartered accountants is 145000 only which is far below its requirement. As convergence with IFRS has to be consistently applied, it is mandatory to understand them unvaryingly. Therefore, proper training needs to be given to all the stakeholders, comprising auditors, audit committees, teachers, students, analysts, regulators and tax authorities. Introduction of IFRS as full Subject in universities and Chartered Accountancy syllabus has become indispensable. With a view to delivering information

Stages in Convergence with IFRS



In view of this, it is mandatory to amend the local laws and to enact the overriding section with regard to the accounting standards. As the accounting standard setting in India is done closely with various regulators because without regulatory approvals the whole thing will fall flat, elimination of differences between Indian Accounting Standards and International Standards may have a significant impact for corporate India. The regulators should also announce its intention to convert to IFRS and not only make but also announce appropriate regulatory amendments keeping in view impact of IFRS on financial statements and consequently on direct as well as indirect tax liability. It will make Indian companies start taking the IFRS convergence process seriously keeping in view tax and other regulatory issues and make them conduct preliminary assessment so as to enable them to prepare

in accordance with IFRS, entities need to improve their information systems. On the verge of convergence with IFRS, entities are required to adopt such IT systems as will help them in reducing the risk of business interruption in general and in dealing with potential fraud, cyber terrorism and data corruption in particular. Such financial accounting and reporting systems will also help in producing not only existing strong, consistent and healthy data but also in capturing new information required for disclosures in order to report financial information to various stakeholders.

Indian companies would have to incur good amount after training the existing staff and modifying IT system as one-time costs. They would also have to increase audit cost and incur the cost for educating stakeholders i.e. investors, analysts, board

members. They need to focus not only on reconciliation of the data but also on changing accounting software and systems so as to make them compatible with IFRS. In addition to this, companies also need to communicate the impact of convergence of IFRS to investing community with a view to making understand the shift from Indian GAAP to IFRS. As IFRS would become mandatory form 1st April, 2011; Indian companies should start looking at the conversion process right now because it will give them early opportunity to anticipate challenges, manage to outcome and implement the best solutions. Therefore, conduct of analytical study before proceeding for a full convergence is needed to be carried out by the Indian companies.

Stage 1: Entities should perform the accounting diagnostic comprising of identification of industry issues and benchmark and assessing impact of reporting, tax, investor relations on the basis of comparison on Indian GAAP and IFRS. On the basis of comparison of Indian GAAP with IFRS, entities should identify surrounding major accounting differences and perform an IT problem-solving and accordingly satisfy the teams with suitable requirements and appropriate expertise so as to prepare the detailed time table for convergence with IFRS.

Stage 2: For convergence with IFRS, entities are also required to make necessary changes in information systems through the required changes by developing and documenting scenarios so as to prepare accounting manual in compliance with IFRS and determine IT changes required whenever appropriate.

Stage 3: On the basis of developed accounting manual, entities should restate the opening Balance Sheet as well as balance Sheet and Profit and Loss Account for comparative information so as to prepare financial statements as per IFRS for the first Year. Entities are also required to make time to time changes in accounting manual whenever new interpretations and standards take place.

Conclusion

To avail benefits of convergence of India GAAP to IFRS, it is required to consider convergence process seriously because change from Indian GAAP to IFRS is not mere change from one set of accounting policies to another but it has vital impact on accounting consequences as well as business consequences. If it is taken casually, it will have negative publicity and regulatory action. Convergence process consists of a detail impact assessment between Indian GAAP and IFRS and identifies areas of differences and challenges. It will also make it possible to compare and replace the current way of preparing financial statements through impact assessment between Indian GAAP and IFRS. As convergence process is complex and time-consuming process, it is required to undertake preliminary study before proceeding for the convergence of Indian GAAP with IFRS. Then, preparation of a detailed time table to change existing information technology systems and prepare accounting manual is required to be done. It will help in restating opening Balance Sheet and financial statements for the first year as per IFRS. As per new IFRS and interpretations of IFRS, time to time change in the accounting manual is also required to be done.

REFERENCES

Article Entitled "*What is IFRS and Why are Global Economics looking at One Accounting Standards?*" Posted on Artclesbase, Free Online Articles Directory, 23/9/2008.

Banerjee C. 2008. *"Journey to IFRS – A Guide on Transition to IFRS"* Ernst & Young, London

Cornelia Herzog December, 2008. *"Private Equity – Fair Value Measurement"*, PricewaterhouseCoopers

David Cairns 2004. Research Paper entitled *"Other New IFRS"*

http://www.iasplus.com/index.htm

http://www.iasplus.com/resource/0808aaaifrsresources.pdf

http://www.sec.gov/news/press/2008/2008-184.htm

Jim Quigley August 12, 2008, "Full convergence with IFRS to benefit Indian Firms" An interview telecast by NDTV PROFIT BETA

News telecast April 11, 2009, entitled "The IFRS Challenge" CNBC – TV18

Press Article April 18, 2009, entitled "Transition to IFRS is good" Business Standard

Press Article December 27, 2008, entitled " Global Accounting Standard: Challenges India Face", retrieved from http://www.rediff.com///money/2008/dec/27guest-global-accounting-standard-challenges-india-faces.htm

Press Article June 09, 2008, entitled "India needs to set up action to reap benefits of IFRS convergence", Views of Dolphy D'Souza, Business Line, THE HINDU

Press Article March 26, 2008, entitled "Adoption of IFRS may impact India Inc, Says KPMG" The Economic Times

Work (entitled "Journey to IFRS A guide on transition to IFRS", Ernst & Young and CII.

Work March 2008, entitled "IFRS in the U.S.: Benefits and Challenges of the Coming Change" KPMG

Work March 2008, entitled "IFRS: Developing a Roadmap to Convergence" KPMG

****