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CONVERGENCE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN INDIA

Introduction: International Financial Reporting Standards (IFRS) are the first international guidelines issued by the International Accounting Standard Board (IASB) as the first step in its project to achieve the convergence of widely varying accounting practices in industries around the world. In India, at present, the Accounting Standards issued by ICAI (Institute of Chartered Accountants of India) are mandatory for all Indian Companies. With the globalization, the world has become borderless. Indian Companies are also doing business with the various countries around the world. Hence, ICAI has decided to adopt and converge the IFRS from April, 2011. While IASB has set the direction, companies have considerable room for maneuver in the key areas ranging from the adoption of new accounting basis for preparing financial statements to achieve some level of matching of incomes and expenditure as well as assets & liabilities. Hence one may perceive IFRS as mere legal compliance or also as another step towards globalization.

Objective of the paper: Keeping the above facts in view, this paper provides an overview of the accounting standards and also explains the concept of IFRS and its convergence. The present study is organized in 5 sections viz:

1. Fast facts in search of IFRS
2. Why IFRS? i.e. advantages of IFRS.
3. The phases for IFRS convergence.
4. Key issues & challenges involved in its implementation.
5. Whether India is ready to embrace the change?

Fast Facts in search of Uniform Accounting Standards: The globalization of business plays an important role in the economic development of any country. However, there was no international universally accepted accounting as well as reporting standards earlier. Formation of IASC

(International Accounting Standards Committee) was the first step to achieve some level of harmonization of widely varying accounting & reporting practices around the world. IASC was formed in 1973 in England. The search for various uniform accounting standards was a priority project for IASC. IASC has developed and issued various International Accounting Standards to be followed by the companies of member countries to bring them to a common platform for preparing & presenting the financial results. India became a member of IASC in 1974. The Institute of Chartered Accountants of India (ICAI) and the members of the Accounting Standards Board of India (ASBI) understand the International Accounting Standards issued by IASC and integrates the same to Indian business environment, considering economic, political and legal framework. ICAI also promotes the use of Accounting Standards in preparing and presenting the financial statements. It also gives clarifications on various issues arising on the accounting standards, reviews and modifies the same and ensure a high compliance rate. In 2001, IASC was replaced by IASB (International Accounting Standards Board). This organization has released 41 Accounting Standards so far; 31 of them have been implemented by Indian companies. Now, the Accounting Standards will be replaced by IFRS. Under the chairmanship of the Secretary of Ministry of Corporate Affairs, ICAI has initiated a core group for this purpose. This group has prepared a comprehensive plan for educating and training accountants so that our country may be well-prepared by 2011. The IFRS will be mandatory for the listed companies, other public interest entities like banks and insurance companies and other large-sized entities subject to ratification by government.

Why one has to adopt IFRS? With the greater globalization of business and internationalization of capital markets, it is generally agreed that the search for international accounting standards is a desirable objective for both preparers and users of financial statements. Every business keeps the accounts on the basis of fundamental postulates of accounting concepts and conventions viz. separate entity, dual aspect, accrual, going concern, materiality, objective evidence etc. However, every accountant may interpret these concepts in his own way and adopts different accounting policies. As a result the accounts kept by various companies are hardly based on homogeneous accounting practices. Thus, the need for accounting standards was felt. After a successful run of accounting standards at member countries over last 35 years has now brought the world at the threshold of fusion of accounting standards of various countries into commonly adopted standards all over the world. The key drivers behind the decision to adopt the IFRS are:

1. **Enhanced disclosure**: IFRS requires the companies to disclose all necessary information that helps users and all stakeholders. However, IASB insists that its implementation guidance is not a check list for disclosure, preferring to move to a more principle-based approach that will give companies considerable flexibility in the way they present the information.
2. **Transparency in the financial statement:** With more transparent financial statement, the possibility of manipulation of financial statements, misrepresentation of the financial position, evading of taxes etc. will be removed. The stakeholders, the government and the public at large will get benefited from IFRS.
3. **Corporate value reporting:** As IFRS will bring more transparency in the financial statements, the stakeholders would find it easier to interpret the same. This may possibly help them take well-studied decisions regarding investments. KPMG claims that IFRS will help in reporting economic value added, cash value added, management incentives and stock compensation plans.
4. **Mergers and acquisitions:** Since the last few years, the number of business combinations and collaborations has increased significantly. However due to multiple reporting standards, many such business associations spend a lot of time in valuation of assets, and at times the deal does not materialize due to absence of common measurement acceptable to both the parties involved. IFRS will eliminate this obstacle.
5. **Need to eliminate multiple reporting:** Today, the companies located in multiple countries fall under multiple jurisdictions. So they ought to prepare multiple sets of financial statements, one as per the requirements of the home country and others as per the foreign countries where the company is doing business. This will save a lot of time and energy of the accounts personnel. As a result, the manpower costs are likely to go down. The legal issues arising out of multiple reporting will also be eliminated.
6. **Lower cost of Capital:** Indian companies may use IFRS as a tool to communicate their financial position and profitability to attract foreign investors to India. The access to global capital markets will result into identifying opportunities beyond the boundaries of the country. This also may result in lowering the cost of capital.

7. **Provides a Common Platform:** All the firms following IFRS will maintain and present the accounts in the same style, bringing them to a common platform. Therefore, international transactions will become more simple and speedy. This will help Indian firms to meet the needs of the globalization.
8. **A tool for self-appraisal:** After the liberalization, privatization and globalization in Indian economy, Indian companies started comparing themselves with their global competitors. IFRS will help them in assessing their own performance against the global benchmarks.

The phases for IFRS convergence and implementation: Right-now both existing IFRS reporters and first-time adopters should closely evaluate their current accounting practices in relation to the requirements of IFRS. The IFRS convergence is broadly divided into two phases, viz.

(i) Implementation phase and

(ii) Post implementation phase.

While the more fundamental changes will follow under phase II, the impact of phase I is no less significant.

Phase-I Implementation of IFRS:

The IFRS implementation phase is sub-divided into 4 stages, viz.

1) **Diagnostic Stage**: In this stage the effects of IFRS on the accounting, reporting and other business practices will be considered. Thus, the consequences of IFRS will be studied in the first stage.
2) **Design & Planning Stage**: In the IInd stage, a new approach, plan as well as practice will be designed & prepared to comply with IFRS in the required areas.
3) **Solution Stage**: In stage III, a final solution will be designed after the critical analysis of plans made at stage-II. The top level personnel of the company have to review the plans made at stage-II to arrive at the final plan of IFRS implementation.
4) **Executive/implementation Stage**: The final plan of stage-III will be executed in stage-IV.

Phase-II Post Implementation Phase:

This post implementation/Review phase is sub-divided into 2 stages, viz: difficulties stage:

1) **Identification of**: In this stage-I of phase II, the difficulties suffered while actually implementing the IFRS, will studied.
2) **Resolving Stage**: In this stage, difficulty if any at the above stage will be resolved by taking necessary corrective steps.

Thus, the phase-II monitors the smooth functioning, resolving difficulties if any, and thereby ensures the compliances to IFRS by their adopters.

The key Issues and Challenges Involved in IFRS Implementation:

1. **Changes in accounting policies**: IFRS does allow companies to change their accounting practices as long as they are moving towards what IASB regards as a more "relevant and reliable model". It states that a company may change its accounting policies only if the change makes financial statements more relevant for users.
2. **Technological changes**: Technological changes will be must to implement IFRS in a firm. The accounting softwares will be required to be updated to follow the IFRS. The integrated softwares (like ERP) will undergo drastic changes as they touch practically all aspects of business. This would, involve a huge cost in terms of capital expenditure.
3. **Rigorous Training**: Human resources in accounts and finance departments are currently well conversant with the existing accounting standards. They would need rigorous training to understand the IFRS, to operate the new softwares that will replace the existing one. The IT personnel would also need training to install, operate and to trouble-shoot the new softwares. This would also involve huge costs.
4. **Change in Profitability**: IFRS will change the profit statement of the company. Naturally, the tax liability will also change. There is a need to be clear about tax treatment and auditing.
5. **Risk of insecurity of data**: Management information system will undergo radical changes. The disclosures will involve collection of data from various departments other than accounts and finance. Therefore, the entities should adopt more security measures to avoid the hazard of data leakage, data manipulation by other departments and more serious risks like the data cyber crimes.
6. **Compensation to employees**: IFRS involves financial re-engineering. As a result, it may undergo restructuring in the organization. So it may also have an impact on compensation to

the employees. There is a provision in IFRS that promotes performance based computation of rewards to the employees.

7. **Change in mindset**: Last but not the least, the implementation of IFRS may change the basic philosophy of the companies. It will have a larger impact on family managed and closely held companies, as their total business practices depend on the family's values, mission and heritage. Thus, IFRS may involve a change in the mindset of people.

Despite such issues and many other burdensome tasks to be performed to converge with the IFRS, Ernst & Young report reveals that 79 per cent Indian companies believe that they will be able to meet IFRS by April 2011.

Is India ready to embrace the change?

This section of the study is devoted to a survey of major Indian corporates, concerned authorities, like SEBI, IRDA etc., institutions like ICAI, Indian Universities, Commerce and Management Associations, Chartered Accountants etc. regarding their mindset and preparedness to adopt and converge IFRS.

IFRS would require capable manpower right from phase-I to the review phase to ensure smooth convergence. Does India have the qualified people to perform this task? Will Indian corporates be required to hire the resources from outside for IFRS convergence? The costs involved in developing IFRS systems, training and troubleshooting costs are very huge. Many Indian companies are much smaller in size operations and resources. They feel they lack the necessary resources and infrastructure to apply the proposed standards meaningfully! Moreover, IFRS will not be static. The IFRS will also vary as per the variations in future business environment & legal framework. If so, would it be affordable to Indian companies to make frequent changes in the systems and incur the training and troubleshooting costs & time again? These issues raise a fundamental question-is IFRS advantageous to India?

Another crucial decision needs to be taken by corporates, i.e. whether to converge fully to IFRS friendly systems or to install a compatible system which will only meet the reporting standards.

As mentioned earlier, Indian corporates have shown readiness to switch over to IFRS by April, 2011. India has a large no of CAs, Computer Professionals, and Software Professionals & Operators to accept the IFRS challenge efficiently. What is needed is the attitude towards this change and team spirit. Any change appears challenging in the beginning. However, when one accepts the challenge, it takes the person to s a sense of achievement.

However, many corporates have not yet started phase-I. Early start is required to pass through the first 3 sages before implementing IFRS. The process is very long. Right now, the Company's Act, 1956 gives the format of financial statements for all joint stock companies, for all banks the guiding authority 9s Banking Regulations Act, 1949, for all insurance companies the guiding authority is IRDA and for all mutual funds the guiding authority is SEBI. All such authorities need to melt down to one common IFRS format which requires their coordination at the macro level. While at the micro level to change each & every aspect of accounting and reporting the guidance of IFRS experts is required even on the smallest issues.

Indian universities should incorporate IFRS in the regular curriculum right from the current year. More and more awareness programs should be held by ICAI, universities, federation of commerce and management association in the coming year. Detailed training programs should be conducted in 2011. This will prepare our people for IFRS and ensure a smooth convergence and help India gain an equal standing in the global business.

Conclusion:

The international trade/business plays an important role in the economic development of any country. However there was no international standard set for it. IFRS is the first step in the project of IASB to achieve convergence of widely varying accounting practices around the world. The IFRS lays the foundation for the global business and in future it will work as a reference for further development. India has also identified the need for standardization in accounting & reporting practices. IFRS will provide us the common platform with the developed countries. India cannot afford to remain in the back seat in the global competition. Though IFRS implementation is both as challenge and an opportunity, the success of its convergence depends on taking the right steps are mentioned earlier.

Abstract

International Financial Reporting Standards (IFRS) are the first international guidelines issued by the International Accounting Standard Board (IASB) as the first step in its project to achieve the convergence of widely varying accounting practices in industries around the world. The

International Accounting Standards will be replaced by IFRS in more then 100 countries. In India, ICAI has decided to adopt and converge with the IFRS by April, 2011. The process of IFRS convergence involves huge cost, time and difficulties, as every change has challenges in the beginning. However, the advantages of IFRS are very assuring. Convergence of IFRS is both a challenge and an opportunity, which will provides a common platform to Indian companies with the foreign companies of developed countries, and thereby helps India gain an equal standing in the global business. Hence, Indian corporates should adopt IFRS as early as possible within the specified time limit. This paper tries to explain the concept of IFRS and focuses on its convergence process advantages & challenges involved in this process.

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