ISSN: 2249-894X IMPACT FACTOR : 5.2331(UIF) VOLUME - 6 | ISSUE - 11 | AUGUST - 2017

REVIEW OF RESEARCH

IFRS : CHALLENGES AND PROSPECTS IN INDIAN ACCOUNTING SYSTEM

Mrs. S. S. Kadam
Asst. Professor, D. R. K. College of Commerce, Kolhapur.

ABSTRACT :

IFRS is stands for International Financial Reporting Standards which are issued by the International Accounting Standards Board (IASB). A good financial system is the most important requirements to operate a business effectively. Presently, there are two sets of accounting standards that are accepted for international use namely, the U.S., Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS) issued by the London-based International Accounting Standards Board (IASB). International Financial Reporting Standards (IFRS) set common rules so that financial statement can be consistent, transparent and comparable around the world. They specify how companies must maintain & report their accounts, defining types of transactions and other events with financial impact. IFRS were established to create a common accounting language so that businesses and their financial statements can be consistent and reliable from company to company and country to country. This paper deals with the challenges faced in the process of convergence and measures taken to address the challenges.

KEY WORDS - *IFRS, Accounting, Financial, Consistent, Reliable, Transparency, Efficiently, Reporting.*

INTRODUCTION

International Financial Reporting Standards usually called IFRS, are standards issued by the IFRS. Foundation and the international accounting standards board (IASB) to provide a common global language for business affairs. So, that company accounts are understandable and comparable across international boundaries. IFRS financial statements has various characteristics these are relevance, faithful representation, comparability, verifiability, timeliness and understandability.

India is one of the emerging economics in the world. For the economic development foreign direct investment (FDI) is needed, to facilitate the investment climate, it wants to integrate its financial reporting with rest of the economics of the globe so that investors from outside will understand the financial results and financial positions of the companies. The needs to communicate across the borders has increased with the increase in global trade, consequently there is globalization of capital markets. Company in one country is borrowing in the capital market of another country. Therefore, financial statements produced in one country are used in other country more and more frequently; this has raised the issue of harmonization of accounting policies, presentation, disclosure, etc. The Accounting Standards not only prescribe appropriate accounting treatment of complex business transactions but also foster greater transparency and market discipline.

Accounting standards are being established both at national and international levels. However, the diversity of accounting standards among the nations of the worlds has been a problem for the globalization of the business environment. In India, the Accounting Standards Board (ASB) was constituted by the Institute of Chartered Accountants of India (ICAI) on 21st April 1977, which performs the function of formulating accounting standards. Presently, there are two sets of accounting standards that are accepted for international use namely, the U.S., Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS) issued by the London-based International Accounting Standards Board (IASB). Generally, accepted accounting principles (GAAP) are diverse in nature but based on a few basic principles as advocated by all GAAP rules. These principles include consistency, relevance, reliability and comparability. Generally Accepted Accounting Principles (GAAP) ensures that all companies are on a level playing field and that the information they present is consistent, relevant, reliable and comparable. Thus, these moves by India will harmonize its accounting standards with the internationally accepted accounting standards, which will lead to globally accepted accounting system for the companies in India.

LITERATURE REVIEW:

- **Pawan Jain (2011)** Explains that for high quality corporate financial reporting environment depends on effective Control and Enforcement Mechanism. Merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure.
- **Shobana Swamynathan and Sindhu (2011)** discusses the IFRS by Wipro through their financial statement and it conclude that IFRS is fair value oriented and Balance Sheet oriented accounting there there are more transparent disclosures and Indian GAAP is conservative approach.
- **Rakesh H. M. (2013)** in their study to assess the relationship between IFRS and FDI and its impact on Indian economy found out that IFRS is a right step in this direction. With adoption, Indian companies will produce more credible financial statements that will not only be uniform but also provide a basis for better interpretation.
- **Dr. Mahender K. Sharma (2013)** studied in the field of "IFRS and India - Its problems and challenges. The main objective of this study is to analyze the information available on IFRS adoption process in India. It also focuses on the IFRS adoption procedure in India and the utility for India in adopting IFRS.
- **Shibhu Das (2013)** explains that IFRS is a common global language for financial reporting and benefited the existing and prospective investors, This is the fully transition phase GAAP to Ind AS.
- **Amit Kumar Chakrabarty (2014)** discuss in their study the conceptual framework of Ind AS and found that IFRS is necessary for Indian corporate for high quality reporting and its significance in Liberalization and globalization era.
- **Santanu Kumar Das (2014)** explains "Indian Accounting Standards and IFRS". The Main aim of this study is to thus; global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets with IFRS is also in the interest of the industry since compliance with them would be able to create greater confidence in the mind of investors and reduce the cost of raising foreign capital.
- **Vinayagamoorthy (2014)** study the various challenges in IFRS adoption in India. There are the various differences between GAAP and IFRS. Lack of training and education, complexity in fair measurement, various regulatory laws override other law and IFRS does not permit that, renegotiation has required in IFRS for contract and tax treatment.
- **Gokulnath M. (2015)** Discuss various challenges in IFRS implementation in India like, awareness of IFRS, lack of expertise, fair value measurement and existing law has not supported IFRS and also encountered

benefits of IFRS and conclude that by proper planning of IFRS implementation is beneficial for Indian corporate and Investors etc.

OBJECTIVES OF THE STUDY:

1) To study the challenges of IFRS.
2) To study the prospects of IFRS.

DATA COLLECTION:

The present study is based on secondary data which is collected from various publications, journals, magazines, reference books, internet etc.

Challenges in India as Implementation Process of IFRS:

IFRS adoption/conversion it may be beneficial to the industries in various ways while the transition process having some difficulties and it becomes the implementation process challenging. The following are the challenges that Indian corporate might face;

Awareness of International Financial Reporting Standards

The whole set of financial reporting practices needs to undergo a extreme change after the adoption of IFRS to overcome the number of differences between the GAAP and Ind AS. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

Lack of Trained Manpower

The biggest hurdle for the professionals in implementing IFRS is the lack of training and academic courses on IFRS in India. IFRS has been implemented with effect from 2011; but it is observed that there are shortage of trained IFRS manpower. There are large gap between Trained Professionals required and trained professional available.

Requirement of Amendments to the Existing Laws

It has been examined that there are lots of inconsistencies with the existing laws and it becomes the hurdle for smooth implementation process like; Taxation, SEBI regulations, banking laws and regulations and the increase laws and regulations. Gurrently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not permit such overriding laws.

Fair Value Measurement

IFRs consider fair value as a measurement base for valuing most of the items of financial statements. It can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of knowledge and expertise in arriving at the fair value. In addition, adjustments to fair value result in gains or losses which are reflect in the income statements.

Complexity in Adoption

Converting to IFRS will increase the complexity with the introduction of concepts such as present value and fair value measurement. In IFRS framework, treatment of various accounting transaction is different like treatment of lease, treatment of contract accounting entries, expenses like premium payable on redemption of debentures, discount allowed on issue of debentures, underwriting commission paid on issue of debentures etc. It results a complexity to undersand the income statement.

Time Consuming Process

Approximate 90% of companies in European Union and Australia took more than a year to the complete IFRS transition and around 40% taking more than two years. In Indian context, IFRS adoption is delayed by the government. ICAI play vital role to harmonization and proposed implementation plan but only few companies prepared their financial accordingly. Government announced another phase wise implementation plan later. So in this way we are too late. IFRS implementation is a time consuming process for first time users due to dual set of financial statements are prepared.

High Conversion Cost

The IFRS transition is costly because there are shortage of expert staff and for first time users set of financial reports are mandatory requirements so extra manpower has required and if organization have not such expert staff than they re compel to take the services of expert and charges are high for the same. Audit fee, system change charges etc. is also high for the same.

Prospects for International Financial Reporting Standards in India

- Implementation of IFRS-converged Indian Accounting Standards would help in bringing excellence in financial reporting, as these standards are based on the premise that the financial statements should be transparent and should faithfully represent the actual financial position and performance of the entity.
- Fair value approach, historical costs will be replaced by fair values in several balance sheet items, which will enable the entities to know its true worth. By providing transparent and comparable financial information, reporting as per these Standards will provide an impetus to cross-border acquisitions, will enable partnerships and alliances with foreign entities, and lower the cost of integration in post-acquisition periods.
- According professionals having expertise in these Standards would also set global recognition.
- Indian Accounting Standards, which would bring financial reporting in India at par with the international financial reporting. While India is moving towards convergence at present, in future the Indian accountancy profession is expected to play a significant role not only in Indian financial reporting system, but also in international financial reporting by playing an influential role in the formulation of IFRS before their finalization.
- IFRS has resulted in improvements to the quality and consistency of financial reporting across the European Union.

SUGGESTIONS:

1) Education and Training : The investors, financial analysts, stakeholders, treachers, accountants, auditors, tax professionals etc. all need to be educated and trained. IFRS should be introduced as a full-fledged subject in universities, especially in Chartered Accountancy curriculum. The ICAI has laready launched Certificate Course and e-learning course on IFRS. IFRS awareness drive has conducted several workshops, seminars and conferences on IFRS in various parts of the country.
2) Amendments in existing laws : The existing laws should be timely and suitably amended it make them consistent with IFRS.
3) Tax Clarification : The tax authorities in India should issue clarifications on tax treatment of items arising on account of convergence with IFRS.
4) Adequate Infrastructure : The Indian firms should build required infrastructure to ensure smooth and hassle free transition to IFRS.
5) Coordination : All the interested parties including regulators, top management, investors, accounting and tax professional and other stakeholders should work together as a team to accomplish this challenging task of convergence.
6) Disciplinary Action : The proposed roadmaps and timelines should be strictly followed and disciplinary action should be taken in case of non-observance and default.
7) The representation on IASB should be more diverse and political pressure on it should be avoided so as to be fair to all the countries around the world.

CONCLUSION :

Accounting Standards (AS) at par with IFRS so that the Indian corporate and the accounting professional reap the benefits of global accounting standards Irrespective of various challenges, adoption of converged IFRS in India will significantly change the contents of corporate financial statements as a result of more refined measurements of performance and state of affairs, and enhanced disclosures leading to greater transparency and comparability. Accounting Statement prepared according to IFRS enhance understandability, uniformity, comparability and reduce the dual set of accounting statement of companies which have operations in another country. The proper implementation process has requires a complete change in formats of accounts, accounting policies and disclosure requirements. So, all parties concerned with financial reporting also need to share the responsibility of international harmonization and convergence because IFRS is a principle based approach rather than a rule based approach. All accounting professional requires attaining the knowledge of IFRS for smooth functioning of convergence process.

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