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IMPLEMENTATION OF IFRS IN INDIA: ITS OPPORTUNITIES AND CHALLENGES

Vivek Jaiswal[1] and Deepika Swami [2]
[1]Assistant Professor, Sri Aurobindo College(M) University Of Delhi
[2] Assistant Professor, Shaheed Bhagat Singh College(M) University Of Delhi

ABSTRACT :

The International Financial Reporting Standards, usually called the IFRS Standards, 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. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. They are the rules to be followed by accountants to maintain books of accounts which are comparable, understandable, reliable and relevant as per the users internal or external.

KEYWORDS : *International Financial, business affairs, global language*

INTRODUCTION:

IFRS set common rules so that financial statements can be consistent, transparent and comparable around the world. IFRS are issued by International Accounting Standard Board (IASB). They specify how companies must maintain and report their accounts, defining types of transections 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. IFRS are designed to bring consistency to accounting language, practices and statements, and to help businesses and investors make educated financial analysis and decisions.

IFRS sets the standards to bring transparency, accountability and efficiency to financial markets around the world. It fosters growth and long term financial stability in the global economy. Companies benefit from IFRS because investors are more likely to put money into a company if the company's business practices are transparent. Keeping this into view, standardization of accounts has now become a routine work and a matter of serious concern to the various professional accounting bodies. This is also because, standards are known to be a set of rules that aim at making accounts more consistent, comparable and thereby bringing in a harmonization of accounting policies and principles. A set of prudent accounting standards is expected to enhance corporate governance and responsibility that is a much talked-about topic as of now.

Objectives of the Study

1. To discuss the IFRS adoption procedure in India;
2. To discuss the utility for India in converging to IFRS;
3. To discuss the problems faced by the stakeholders in the process of convergence to IFRS in India; and
4. To discuss the ways through which these problems can be addressed.

Conceptual Framework

IFRS – In Global Context

In the today's era of globalization and liberalization, the entire world has become a small village. The globalization of the companies and firms and with the rapid development of e-commerce industry, the concept of single globally accepted financial reporting system has emerged. The reach of business entities and firms are not only limited within the geographical boundary of the country rather these multinational companies are establishing their business network across various countries. In order to get easy access to capital funds, these corporate entities are getting their securities listed on the stock exchanges of different countries. Thus in order to comply with the listing requirements and the use of different accounting practices in these countries, the companies are required to prepare their financial statements on the basis of those standards which are accepted globally. So this calls for the countries to set up a single set of high quality accounting standards. A single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRS.

IFRS – In Indian Context

India is one of the over 100 countries that have or is on the verge of converging with IFRS with a view to bring about a uniformity in reporting systems globally, enabling businesses, finances, and funds to access more opportunities. Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statements for the periods beginning on or after 1 April 2016 in a phased manner. There is a roadmap issued by MCA for adoption of IFRS.

Convergence of Accounting Standards

Accounting standards are set to be converged when one set of high quality standards are being used by the corporates of a country and this standards are used at global level. Under this process all standard setters around the world should agree on a single, high-quality accounting standards. This goal of convergence can be achieved in two ways: either a country directly adopt International Financial Reporting Standards (IFRS) or it adopts IFRS to formulate its own standards.

International Accounting Standards Committee (IASC) and IASB

The International Accounting Standards Committee was founded in June 1973 in London and was replaced by the International Accounting Standards Board on April 01, 2001. It was responsible for developing the International Accounting Standards and promoting the use and application of these standards. The IASC was founded as a result of an agreement between accounting bodies of different countries. Then in 2001, International Accounting Standard Board (IASB) was constituted in order to take over from International Accounting Standard Committee. IASB a private sector institutions that develops and approves International Financial Reporting Standards (IFRSs) previously known as International Accounting Standards (IAS) and promoting the use and application of these standards.

In 2001, the IASB issued a conceptual framework for the preparation and presentation of financial statements. The framework describes the basic concepts that underline financial statements prepared in conformity with International Financial Reporting Standards (IFRS). The framework serves as a guide to the IASB in developing accounting standards as well as a guide to resolving accounting issues that are not addressed directly in an IFRS. Preparers and auditors of financial statements use the framework as a point of reference to resolve an accounting question in the absence of a standard or interpretation that specifically deals with the question. It is not possible for any set of accounting standards to provide clear answers to all accounting questions. Judgement is required in answering specific questions that the standards do not address. Thus the framework establishes boundaries for the exercise of judgement in preparing financial statements, and hence it reduces the need for interpretations and other detailed implementation guidance.

First-Time Adoption of IFRSs

A company is regarded as a first-time adopter of IFRSs if, for the first time, it makes an explicit and unreserved statement that its general purpose financial statements comply with IFRSs. A first-time adopter company will prepare its first IFRS financial statements using the IFRSs that are in effect at the time it first adopts IFRSs. There are certain adjustments that will be required to move from the entity's previous GAAP to IFRSs. These may include the following:

- The entity should eliminate previous GAAP assets and liabilities from the opening balance sheet if they do not qualify for recognition under IFRSs.
- Conversely, the entity should recognize all assets and liabilities required to be recognized by IFRSs even if they are never recognized under previous GAAP.
- The entity should reclassify previous GAAP opening balance sheet items into the appropriate IFRS classification.
- Adjustments required to move from previous GAAP to IFRSs at the time of first-time adoption should be recognized directly in retained earnings or in another appropriate category of equity at the date of transition to IFRSs.

IFRSs: Principles –Based Approach

IFRSs are considered more principle based rather than rules-based. Sir David Tweedie, Chairman of IASB, has noted that one of the biggest obstacles the IASB faces with the development of international accounting standards is whether to write specific rules or adopt certain principles. Principles-based standards focus on establishing general principles derived from an underlying conceptual framework, reflecting the recognition, measurement and reporting requirements for the transactions covered by standards. By following a principles-based approach, IASs tend to include only a limited amount of guidance for applying the general principles to specific transactions, encouraging the professional judgment in applying the general principles to other transactions specific to an entity or industry. IASs also tend to include qualitative principles (a lease is a finance lease if its term is for the 'major part of the economic life of the asset') rather than quantitative guidelines (a lease is a finance lease if its term is '75% or more of the estimated economic life of the leased property')

However Radebaugh, Gray and Black are of the opinion that both the approaches may be required. They asserted that "principles –based standards are difficult to implement in practice because little guidance exists on how to apply the standards. The more guidance provided on how to apply the principles, the more the standards appear to be based on rules. As a result, comparability between companies is difficult when reporting is based on principles. Furthermore, many reporters want detailed guidance on how to account for complex transactions."

Advantages of Principles-Based Accounting

Flexibility Principles-based accounting is more flexible than rule-based accounting. The principles are better suited to help accountants respond to rapid changes in a business environment. It can take the authorities years or even decades to amend accounting rules. In contrast, an accounting principle or idea can be applied to new types of transactions or financial instruments immediately.

Encourages Professional Judgment Principal based accounting takes into consideration more of one's professional judgment as compared to rules based accounting standards. These standards tends the accountants across the globe to look at the very basic and minute substance of each and every accounting events, Because of this nature of principles based accounting , the accountants develop a higher and enhanced professional judgement.

Demerits of Principles-Based Accounting

Increased Inconsistency One of the demerits of principle based accounting which accountant talks around the world is reduced comparison across financial data of different firms across the globe. They argue this point giving the reason that if principles are followed rather than rules, then in such cases accounting data will get less consistent. Those who support this argument are of the view that if same accounting data are concluded by two different persons, then there is a possibility that they both arrive at completely two different interpretations. Also if this approach is followed, it will lead to the firms with same financial assets to present them in their balance sheet in different way.

Difficulty in Compliance When principles are followed in place of rules based accounting system, then its implementation in accounting structure of the country becomes more difficult in terms of increased expenditure and also it takes more time in getting into action. Another view in support of this argument is that if all the firms are required to derive the conclusion out of the different principles, then more and more of trained professionals are needed for its interpretations along with enhanced experience.

Difficulty in Acceptance It gets hard enough for courts to come to a conclusion based on explicit accounting rules and it would be even worse with accounting principles.

IFRS – Adoption vs. Convergence

The use of IFRS is becoming so widespread that it has already been applied in over a 100 countries which includes the likes of European Union, Hong Kong, Australia, South Africa, Russia and Singapore amongst others. As companies have now aggressively started globalizing their operations, IFRS is increasingly gaining its importance across the globe. But confusion still prevails over the difference between Adoption of IFRS and Convergence with IFRS. Although in common practice, many users are using them interchangeably, but there exists a significant difference between the two.

Adoption of IFRS means that the Accounting Standard Board of the country implementing IFRS in the same manner as issued by the IASB and would be the exact standards and compliant with the guidelines by IASB. Thus all the domestic listed as well as unlisted companies will be using IFRS as the primary accounting standard in their consolidated financial statements for the external financial reporting. This means that the basis of the presentation note and auditor’s report indicate that the Financial Statements are prepared on the basis of IFRS.

The concept of converging accounting standards started in the 1950s with post-World War II economic integration and related increases in cross-border capital flows. Initial attempts to converge focused on harmonization, or reducing differences among the accounting principles used in major capital markets throughout the world. By the 1990s, harmonization was replaced with convergence - the development of a unified set of high-quality, international accounting standards used in all major capital markets and elsewhere.

Convergence with IFRS means that the Accounting Standard Board of the country applying IFRS would work together with IASB to develop high quality compatible Accounting Standards over time. Thus, countries which are converging with IFRS may deviate to a certain extent from the IFRS’s as issued by the IASB. IAS 1 requires that the financial statements to comply with all requirements of IFRS. This does not mean that IFRS should be adopted word by word. The local standard setters can add disclosure requirements or can remove some requirements which do not result in non-compliance with IFRS. Convergence is driven by several factors, including the belief that having a single set of accounting requirements would increase the comparability of different entities' accounting numbers, which will contribute to the flow of international investment and benefit a variety of stakeholders.

Need for Convergence with IFRS

- To maintain the uniformity in reporting of financial statements.
- To make sure the reliability and high quality financial reporting.
- To prevent material manipulation or errors in financial statements
- To provide a level playing field where no country is advantaged or disadvantaged by its GAAP and disclosures.
- To enable a systematic review and evaluation of the performance of a MNC's having subsidiaries and associates in various countries.
- To make the comparison of the performance of a company against its domestic and international peers easier and more meaningful.

IFRS Implementation Procedure In India

In order to strengthen the accounting practices in the country, the Indian government in 1949 established the Institute of Chartered Accountants of India by passing ICAI Act, 1949. In 1977, ICAI constituted the Accounting Standard Board in order to extent to which on regular basis when required. In 2006, ICAI established a mechanism. The main job of this mechanism was to make preparation of way for IFRFs in India.

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REVIEW OF LITERATURE

Dr. Titto Varghese (2014) in his paper 'Convergence of GAAP to IFRS: Opportunities and Challenges for India' concluded that a high quality corporate financial reporting environment depends on effective Control & Enforcement Mechanism. Only enforcement mechanism will not help the procedure but an Advisor is also required. He advocated the role of Top Management, Directors of the firms, Independent Auditors, Accountants, Regulators and Law Makers to come together and work as a team for a smooth IFRS adoption procedure. He pinpoints the role of various interested parties to bring the required awareness and necessary changes to bring Indian Accounting Practices in line with IFRS. India lack these professionals and this increases the role of ICAI.

Dr. M. Muniraju and Ganesh S. R. (2015) did their study to find out about IFRS problems. Their paper is divided into two parts. Their paper is divided into two parts. The first part explains and the other part focuses on the likely beneficiaries of convergence. The Major Challenges which the paper highlighted are: because of change in new standard, the process has become difficult for them. There is as a result of which is being delayed. Apart from the above mentioned challenges in implementation, the paper points out the beneficiaries from the convergence as: IFRS as The converged accounting standards encourages international investing and thereby leads to more foreign capital flows to the country.

Dr. Rajan Kumar (2015) in his paper 'Implementation of IFRS in India' observed that converges of Indian standards into international standards, has specified various benefits arising out of this convergence out of which improved inclusion of capital from foreign firms, broader exposure to domestic industries, and reduction in the cost of compliance are the major ones. Apart from the benefits, he has highlighted the limitations in the process of implementation of IFRS in India. The major limitation which the paper talks about are scarcity of expertise faced by small and medium sized industries, increased burden to organizations for changing the current policies in order to meet new legal and operational adequacies as well as expense that required to overhaul the existing policies. He concluded that even after different problems in the process related to convergence, adoption has resulted into improved work culture as well as it has enhanced disclosures leading to greater transparency. He was of the view that in order to outcast the challenges and limitations, a collective, collaborative and centralized efforts are required across state agencies, regulators‟, banks and various other departments for smooth, efficient & effective transition and implementation of IFRS.

K.A.Kumar (2014) in his paper „IFRS – Positives and Negatives‟: made an analysis whether the adoption of IFRS is suitable in some given situation or not and what should be the time frame within which IFRS can be adopted successfully. He observed that all companies that elected for voluntarily adoption of IFRS is expanding its operation due to scope of benefits of adopting IFRS. The major benefits which he observed are: The enhanced comparability of the companies‟ financial information and the improved quality of communication to their stockholders, decreases investor uncertainty, reduce risk, increases market efficiency and eventually minimizes the cost of capital. There is no need to prepare two sets of financial statements for individuals companies in the case of groups, if IFRS is adopted. It improves decision making function of the corporates. IFRS provides improved and enhanced financial information and has a positive effect on the credit ratings of the company as a result of which a company's position strengthens in negotiations with credit institutions and its benefits are reflected in reduced cost of borrowings. The universal applicability of the IFRS financial statements assist the business firms in easy comparisons. The major challenges which he observed regarding convergence of Indian Standards with IFRS are: the provisions of in preparing financial statements but the Indian economy lacks in depth knowledge for fair values measurement as well as financials complex provisions. On the work of his study, he concluded that financial statements has changes because of IFRS and has enhanced the disclosures leading to greater transparency. He maintained that the IFRS can be achieved through strong and disciplined efforts of experienced professionals.

Bruno Mascitelli (2014) in his study on „IFRS in Vietnam‟ focuses on the country's accounting structure and its perception towards the benefits and costs of IFRS implementation, and the additional burden that would come on the financial position of the companies due to its impact. He was of the view that with the adoption of IFRS by the country, the overall accounting structure will be improved because of better accounting policies and more transparent accounting structure as compared to previous one. It will not only increase the chance for the firms to attract funds from foreign companies but also it will enhance the image of the local companies in terms of global competition. But he concluded that not every Vietnamese business will enjoy the benefits of adopting IFRS. He explored several disadvantages of adopting IFRS including over-complexity and irrelevance, lack of IFRS expertise, training of employees. The main problem in the process of adopting IFRS which the paper highlighted were the complicated nature of some standards of IFRS, the lack of guidance of first-time IFRS reporting, the under-development of capital markets and the weak enforcement of law and regulations.

Prof. Dr. Hajah Mustafa Mohd Hanefah and Jaspal Singh (2012) in their paper on „IFRS Adoption In Malaysia‟ talks about various challenges that the country faced in adopting IFRS. They stated that IASB would grant exemptions and therefore this would create unequal platform for non-private entities that are supposed to apply MFRS framework as the criterion for full adoption. They observed that if Malaysia ends trimming its MFRS as a convergence framework that can be adapted to fit the local conditions and not a one size fits all set of standards, because a full adoption forces countries to surrender their sovereignty, then Malaysia will have serious issues and will face difficulties in complete adoption of IFRS in its accounting system. They concluded that Malaysian education system, is very much in line with the current developments in the accounting and business fraternity, hence, the country doesn't lacks the talent in terms of modern day accounting structure and the country's professional expert in the field of accounting are ready and well prepared to join the era of one uniform accounting standard.

Andreas Hellmann (2015) in his paper on „Implementation of IFRS in Japan‟ has studied the pattern in which the country has taken an extra effort in the process of convergence from the local standards to IFRS. There are two political segments of the country namely the Liberalists and the Conservatives. The Liberalists extends their support to "direct adoption approach". The paper shows how Liberalists presents that because of adoption of IFRS by the country, the country's financial position will improve as it will enhance the accounting structure of the firms. The term "transparency of financial reporting", "enhancing international comparability" & "attractiveness of capital markets" are the main views of Liberalists. As opposite, Conservatives were of the view of "cautious convergence approach". They were of the opinion that there were many industries in the country that enjoys better accounting policies under local accounting standards as compared to IFRS because the majority of those basic industries have prepared accounting standards to reflect the economic realities of Japanese manufacturing. The paper explained that the overall culture in Japan has been formed by the integration of Japan's own culture with that of western countries culture, which has led to the formation of Japan's modern day culture. In the same way, the overall accounting structure of the Japan's various firms and industries is the result of the combination of two different sets of model, that is, one of America accounting model and the other one is its own model.

Philip Brown (2013) in his paper „Advantages to countries in adoption of IFRS ‟ analyzed the advantages from adopting IFRS in terms of improved comparison and enhanced version of different numbers in the books of accounts , improved and better culture for those practicing accounts, improved and better chance of getting access to foreign funds and in relation to enhanced advantages of investing in foreign firms, improved and high standards of stock market environment, improved quality of financial information availability for the investors resulting in improved and informed investment decisions, and a lower cost of capital. The paper discussed the benefits of adopting IFRS to different nations. The benefits to European countries were clearly stated as now there will be less hurdles in making investments across the borders of the country, ensures various accounts of different firms being liable, easy comparisons can now be made across different firm's statements, improve the overall market structure and decrease in the overall cost of raising capital. Talking of Australia, because of adoption of IFRS the overall cost of raising funds has been clearly reduced which has resulted in making their firms more viable and in a position to compete with other firms located in different parts of the world and also improved the financial environment of the country by gaining the confidence of different stakeholders and investors. Korean government made the adoption of IFRS from the year 2011. Benefits which flowed to Korea because of IFRS adoption were enhanced the overall accounting structure of Korean firms, improved internal accounting policies of the firms, and it also opened up the gates for the Korean firms in expanding their business in other parts of the world.

Igbinosa Adeghe (2016) in his paper has discussed the various challenges that a developing countries faced while adopting the international standards of accounting. He asserted that the main problem for IFRS adoption is the process through which the rules and regulations will be formulated and that too in the jurisdiction where the institutions are not that strong and where the regulating agencies are weak. He went further to mention that the failure of auditors to express their opinion regarding the provisions of IFRS compliance or non-compliance is equally disturbing. He identified the complex nature of certain IFRSs and tax orientation of most nations as the two most significant impediments to convergence. He points that although IFRS has a lot of potentials to include the comparison of financial statements with firms located in other parts of the world, enhanced accounting reports, reduced expenditure, improved overall accounting structure of the firms but these positives can‟t be attained until & unless the country doesn't change their mind set regarding IFRS as the result of pessimistic mind set is the negative outcome. The paper concluded that the importance and benefit arising out of implementation regarding IFRS must be matched with its resultant negatives or burden as ahead of making decision. The decision must be made in a well calculative manner and the rushed one should be avoided because of negative impact it could have on the economy.

Olesea Ghedrovici and Svetlana Mihaila (2013) in their paper has explained the major difficulties which the Moldova have faced while implementing IFRS in the country. He puts that the very old culture of Maldova is one of the main reason of the hindrance in the way of their growth, and it is also one of the reason for mass scale problems in their own accounting structure. Shifting from rule based accounting to principles based accounting which IFRS presumes is a major challenge. It focuses on judgment based on professional and must be parallel with the law and order of the nation. Another problem in IFRS adoption in Maldova, is on the basis that various companies and corporates needs to face number of challenges, that requires great implications of different authorities, corporations, local bodies also comes in relation to similar hurdles which is really of generating and creating awareness regarding implementation process Even though not all the firms are required to follow IFRS, companies whose major part of raising funds lies with public becomes mandatory from the year 2009. They put that the major difficulty in the process is the low demand requirement for the quality of information because of quite a long nature of corporate culture. The IFRS will be made successful only in the case when the corporates and the firms come to know the true essence of quality reports and standards.

J.O.Odia and K.O.Ogiedu (2013) in their paper discussed the major issues and challenges faced by Nigeria in implementing IFRS. They stated that although IFRS has the potentials to improve cross-border comparability, enhance reporting transparency, reduce information costs, reduce information asymmetry, hence improves the liquidity, competition and efficiency of markets but cultural, political and business differences may also continue to impose severe challenges in the process of moving towards universal accounting standards because a single set of standards cannot reflect the differences in national business practices arising from differences in cultures and institutions. They point out that there have been varying levels of compliance with IFRS irrespective of the claims made by companies that their financial statements complying with IFRS. Cultural and structural changes in the various institutions in a country also seems to a major impediment in the process of implementing IFRS. There are cultural, language, regulatory and accounting profession challenges as well as the increasing demands for greater accountability and wider political participation and rolling out necessary political reforms faced by countries in adopting IFRS. They made a concluding remark that there is increased need for training and education for investors, accountants, auditors, preparers and all other stakeholders of financial reports, need for development of IFRS curricula at the university and other levels, imparting accounting training and education to incorporate IFRS.

Katerina Struharova, Karel Steker, Milana Otrusinova (2013) in their paper „Challenges and opportunities represented by shift to IFRS in the Czech Republic‟ have explained the situation of Czech Republic where only the listed companies are required to prepare its financial statements as per IFRS and other companies have been given the option of preparing their financial statements under IFRS if they want to but only in addition to financial statements under CZ GAAP which are mandatory for statutory purposes. This has created a deep confusion among the companies to which standards have to be complied with. Since the CZ GAAP is based on rules and IFRS is based on principles, the shift from local accounting standards to IFRS is itself a challenging task. The paper asserted that the Czech tax legislation is one other impediment in implementation of IFRS as it does not allow using profit or loss reported under IFRS to calculate the income tax. It is calculated only as per CZ GAAP and that is why all companies have to prepare financial statements under CZ GAAP. This has made mandatory to prepare two sets of financial statements. Thus reporting under IFRS brings to the companies significant additional cost. They points that because of all above mentioned differences and issues, the Czech companies do not see the opportunities that IFRS can bring in the form of more and accurate financial information, improved possibilities of financing, and enhanced relationship with their stakeholders.

Helen Irvine and Natalie Lucas (2006) discussed in their paper on the „Rationale and impact of the adoption of IFRS on a developing country‟, they suggested that accounting policies and standards adopted within any country, it reflects the cultural and individual values and beliefs in that country. In some cases of developing countries there had been concerns regarding the country's overall environment has not been given due focus regarding adoption procedure. They asserted that process of integration of accounting reports undertaken by big multinationals firms are done only as per the cost of domestic firms. In similar way, unable to implement IFRS in the state of Kuwait resulted as lack of intent in molding standards in the country. Through these observations, they concluded that it is the process of implementation that seems to be the most challenging and problematic aspect of adopting IFRSs and not the decision to adopt it. They observe that the reluctance of the firms in UAE was very few when compared to different nations. This is so because the UAE government as well as the corporations were well prepared. The paper also discusses the hurdles in terms of weak institutions. Also there are many other problems in the overall financial environment of weak economy. The authorities are taking a step ahead in controlling frauds but there are many hurdles in this process as well.

Dr. A. Vinayagamoorthy (2015) in his paper has discussed the various benefits and challenges that IFRS will bring in India. He puts that converging to IFRS in India benefits it offers a chance itself the universal not only in the process of preparation and comparison of financial statements other experience enhanced exposure by interacting more freely with their counterparts which operates across the globe and harvest efficiencies and benefit of economies of scale. He further explains that this benefit of IFRS comes with its own challenges out of which the additional system especially by small and midsized industry is the major one. In addition to this, laws and regulations deeply affect the accounting structure due to which it becomes necessary to make changes. For this, the education system of India will have to come forward and it would be required to share the responsibility to educate. He concludes that in order to make IFRS the strength of Indian accounting system, a collaborative and centralized effort is required across various regulatory framework of the country.

D.Venkatesh and M.Venkateswarlu (2016) in their paper highlighted implementation. The study covers the need for IFRS in India and puts that IFRS will not only improve the strength of economy, but it will also provided. They makes that the economy, investors and the industries will be the major beneficiaries of convergence with IFRS. Although of all the advantages of implementation, it will be challenging job for local firms. These Re-negotiation of contracts is major problem since the accounting reports as per IFRS will be completely different with that of local accounting standards. Paper concluded that India is economy, and so IFRS adoption is the need of the day in order to enter global markets and improve the efficiency and competitiveness of the accounting firms and industries across India.

Summary

The Advantages and opportunities that the Indian firms can enjoys by implementing IFRS are as under:

1. **Improved comparability of financial information with global competitors**
   Majority of the firms across the globe are using IFRS for the purpose of financial reporting. One of the biggest advantage in converging to IFRS will be easier comparison between the firms within the country with those outside the boundary of India. The stakeholders of the company like IFRS standards would ensure better comparability of financial statements which in turn will boost the confidence of investor, and thereby enabling companies to raise the capital at lower costs. In order to assure the comparability of financial statements, all companies should follow the same rules by adopting IFRS. Private and small and medium sized, unconsolidated statements can be prepared under IFRS which further improves the comparability and consistency of financial statements. And eventually, the adoption of IFRS by all countries around the world gives even more increased usefulness and comparability of financial statements.

2. **Better access to foreign capital markets and investments**
   Indian economy is one of the fastest growing economy of the world. The firms and industries are expanding their operations beyond the boundary of India and also acquiring various firms across the globe. In order to maintain the pace of this expansion, the firms need capital. By converging to IFRS, these firms will be able to meet the regulatory requirements of the international capital markets. This

will enable Indian firms to get access to global capital markets and attracting funds at cheaper cost. And this has been mainly achieved and still going to be achieved as more and more countries around the world have been converting to IFRS from their national reporting standards.

3. Beneficial to new and small investors.

The IFRS can help new and small investors by making reporting standards to have better quality and become simpler, putting these investors in a similar position with professional investors, which was not feasible under previous standards. This also entails a reduced risk for these investors when they trade, as the professionals will not be able to take advantage because the nature of financial statements will just be simple to be understood by all.

SUGGESTIONS

The accounting disclosures under IFRS is of great significance for not only different stakeholders and users of accounting information but also for accounting institutions responsible for implementing global standards. But in the process of convergence from Indian GAAP to IFRS, there are certain challenges as well. These challenges are as under:

1. Awareness of International Financial Reporting Practices

The proper and adequate knowledge regarding IFRS is still limited to few numbers of people in India. Most of the parties which related and are concerned regarding the financial reporting, like firms, banks, shareholders, and other stakeholders are not very much aware about the process. Convergence efforts are being made to educate and create awareness regarding the knowledge of IFRS among the related parties but bringing a complete awareness of the standards among these parties is a difficult task.

2. Training and Development

Challenge implementation of the educational facilities implementation requires a professionally trained workforce, but in order to ensure smooth and effective adoption process. The various governing bodies in India, like different types of on IFRS own as well as for other interested parties, courses on IFRS are being added in the academic curriculum of educational institutions.

3. Taxation Provisions

The convergence to IFRS would affect most of the items in the financial statements and as a result of this major changes are to be made in Tax laws so that the tax authorities recognize IFRS compliant financial statements. A complete renovation in the tax system of India by the law makers is one of the major challenge.

4. Use of Fair Value Accounting as Measurement Base

IFRS which uses fair value as a measurement base for valuing most of the items of financial statements can bring a lot of volatility and subjectivity to the financial statements. The major problem arises in the valuation of the assets particularly the goodwill, intangibles, and the financial instruments. This problem of valuation arises since the Indian Standards uses historical cost as the basis of valuation in most of the cases. The There will be various types of adjustments in the fair value will be made that will result in either gains or losses which are reflected in the income statements. Whether this can be included in computing distributable profit. This needs further debate and clarification. Moreover, accurate information regarding the fair value of the transaction may not always be easy to get and it depends on the availability of related professional.

5. Financial System

The reporting and disclosure reporting requirements of GAAP. In India, various laws and acts provide the various financial reporting system which is not as elaborative and comprehensive as provided by the IFRS. In order to fulfil the requirements of IFRS reporting system, the Indian firms and companies will have to make necessary amendments in the existing reporting model. New version of reporting system should be designed in such a way that it accommodates new requirements related to segment disclosures, intangible assets, related party transactions etc.

6. **Time and cost concern**
   Majority of firms in near about convert from their previous standards to IFRS. To be implemented which resulted into increased confusion regarding the interpretations of standards.
   The cost involved in the process of IFRS convergence is another challenge. The IFRS transition is expected to cost Indian firms between Rs.30 lakh and 1 crore, with an average of 16 internal and three external full-time staff dedicated to the transition. Fifty percent of adopters had to implement entirely new IT systems to accommodate IFRS; only 20% of companies did not implement systems changes. Costs such as auditor fees, systems changes, and reporting costs is huge hurdle in the process of implementation.
7. **SME Concern**
   Another challenge in the process of convergence to IFRS is the scarcity of resources and lack of required expertise with the Small and Medium Enterprises (SME). Since the SME does not operate on a very large scale, the cost of convergence to IFRS would exceed the benefit arising out the process. Therefore, this SME concern acts as a barrier.
8. **Amendments in Existing Laws**
   In order to converge to IFRS, firstly we need to make amendments in our existing regulations and certain laws. There are various legal authority bodies that govern the Indian accounting practices like Companies Act, 1956, Income Tax Act 1961, Reserve Bank of India Act, GAAP etc. In India, the reporting requirements are governed by these regulators and their provisions override other laws. IFRS does not recognize the presence of these laws. Thus the Indian Lawmakers need to make necessary amendments in order to ensure smooth transition to IFRS.

CONCLUSION

There is a strong case for convergence of accounting principles and standards by Indian firms and companies. From the above discussion it is very much clear that transition from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended. This requires a high degree of mutual international understanding about corporate objectives, financial reporting objectives and convergence objectives. Convergence involves compromises and therefore, in order to have lasting impact, it must be worked out with national accounting bodies and standards-setters who not only establish standards in their countries but also are assigned the task of monitoring those standards. Although convergence has many obstacles, Indian accountants and regulatory bodies have to overcome them. Keeping in mind the fact that IFRS is more a principle based approach with limited implementation and application guidance and moves away from prescribing specific accounting treatment, all accountants – whether in practice or not – have to participate and contribute effectively in achieving convergence. Besides, the other interested parties concerned with financial reporting should also share the huge but necessary responsibility of international harmonization and convergence.

As evident from the review of literature, good number of studies carried out in different countries have highlighted the benefits of having a single set of financial reporting standards across the globe. Nearly all the studies highlighted the need of IFRS and how to move from country specific accounting standards to globally accepted reporting standards.

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Vivek Jaiswal
Assistant Professor, Sri Aurobindo College(M) University Of Delhi

Deepika Swami
Assistant Professor, Shaheed Bhagat Singh College(M) University Of Delhi