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IFRS: A Snapshot Of The New Accounting Standard In India

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ABSTRACT

Globalization has laid down a way for all the countries to adopt a single set of accounting standards. More than 100 countries have converged or recognized the police of convergence with the IFRS. With the growth of Indian Economy and increasing integration with the foreign economy, Indian corporate is raising capital internationally. Under the circumstances, it would be important for corporate leaders to accept IFRS for their financial reporting. IFRS are the globally accepted accounting standards and interpretations adopted by the IASB. The Ministry of Corporate Affairs has converged Indian GAAP with IFRS in phase wise, first phase on 1st April 2011. The convergence with IFRS stand is set to convert the scenery for financial reporting in India. The paper tries to explain the present status of IFRS and its challenges and advantages in the Indian scenario. This paper will help in the better understanding of this new language of Financial Reporting.

KEYWORDS: IFRS, IASB, Indian Accounting Standard and Indian GAAP

INTRODUCTION

Accounting standards are being established both at national and international levels. However, the diversity of accounting standards among the nations of the world 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. The Statements on accounting standards are issued by the Institute of Chartered Accountants of India (ICAI) to establish standards that have to be complied with, to ensure that financial statements are prepared in accordance with a commonly accepted accounting standard in India (India GAAP). Accurate and reliable financial information is the lifeline of commerce and investing. India is yet to implement IFRS. India will adopt the globally accepted International Financial Reporting Standards (IFRS) by 2011, a move that will integrate the accounting system with the rest of the world. According to the Institute of Chartered Accountants of India (ICAI) President Ved Jain, “A common accounting standard is in the interest of the investors who are exploring investment opportunities in other geographical areas as well". Thus, this move by India will harmonize its accounting standards with the internationally accepted accounting standards, which will lead to a globally accepted accounting system for the companies in India.

BENEFITS OF ADOPTING IFRS FOR INDIAN COMPANIES

The decision to coverage with IFRS is a milestone decision and is likely to provide significant benefits to Indian corporate. Some of them are listed below:

1. **Improved access to international capital markets**: Many Indian entries are expanding or making significant acquisitions in the global arena, for which large amounts of capital is required. The majority of stock exchanges require financial information prepared under IFRS. Migration to IFRS will enable Indian entities to have international capital markets, removing the risk premium that is added to those reporting under Indian GAAP.

2. **Lower Cost of Capital**: Migration to IFRS will lower the cost of raising funds, as it will eliminate the need for preparing a dual set of financial statements. It will also reduce accountants’ fees, abolish risk premiums and will enable access to all major capital markets as IFRS is globally acceptable.

3. **Enable benchmarking with global peers and improve brand value**: Adoption of IFRS will enable companies to gain a broader and deeper understanding of the entity’s relative standing by looking beyond country and regional milestones. Further, adoption of IFRS will facilitate companies to set targets and milestones based on global business environment, rather than merely local ones.

4. **Escape multiple reporting**: Convergence to IFRS, by all groups' entities, will enable company managements to view all components of the groups on one financial reporting platform. This will eliminate the need for multiple reports and significant adjustment for preparing consolidated financial statements in different stock exchanges.

5. **Reflects true value of acquisitions**: In Indian GAAP, business combinations, with few exceptions, are recorded at carrying values rather than fair values of net assets acquired. Purchase consideration paid for intangible assets not recorded in the acquirer's books is usually not recorded in the financial statements; instead the amount gets added to goodwill. Hence, the true value of the business combination is not reflected in the financial statements. IFRS will overcome this flaw, as it mandates accounting for net assets taken over in a business combination at fair value. It also requires recognition of intangible assets, even if they have not been recorded in the acquirer's financial statements.

6. **New opportunities**: Benefits from the adoption of IFRS will not be restricted to Indian corporate. In fact it will open up a host of opportunities in the service sector. With a wide pool of accounting professionals, India can emerge as an accounting services hub for the global community. As IFRS is fair value focused it will provide significant opportunities to professionals including, accountants, valuers and actuaries, which in – turn, will boost the growth prospects for the BPO/KPO segment in India.

THE BENEFITS AND DRAWBACKS OF CONVERSION FROM GAAP TO IFRS

Conversion to IFRS offers many benefits to companies. The most obvious and beneficial aspect of adopting IFRS is consistency. As stated before, public companies in over 100 countries are using IFRS and Canada is on track to adopting the new system and it seems only logical that the United States do the same. Additionally, if a company has foreign operations, adapting IFRS would give them internally consistency as well. They would be able to make their reporting uniform which can reduce costs because all reporting will be done the same way. This will allow them to streamline their operations, reporting standards, auditing, training, development and company standards. Whether domestic or global, their offices could adapt similar standards and reporting techniques, giving them precise and consistent company records and reporting. If IFRS adaptation is ruled to be optional before a set date, a company can gain a large advantage if they were to adopt the reporting standards early because they would be giving themselves a head start on using and becoming familiar with the system. Also, they would be receiving all the before-mentioned benefits that IFRS has to offer. For first-time converters, there are many choices on how to run their initial application.

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The eventual conversion from IFRS from GAAP is unavoidable. For companies to be sufficiently prepared for the change, they should plan ahead. It is a good idea for companies to begin their conversion with a plan and a timeline. It has been estimated that total conversion time will be about two years. As previously stated, it was projected that the US should be converted by 2014. That leaves approximately 4 years left for companies to be changed to IFRS. It is crucial that companies begin planning and changing their standards. Time is running out and the rest of the world does not have to file their records with any adaptation to GAAP. It is in their interest to start the change over so that they can be up to date and receiving the benefits that conversion has to offer as soon as possible. If companies start planning and acting now, it is entirely possible for the United States to have successfully converted itself to IFRS and be able to join the rest of the world in their accounting procedures.

CONCLUSION

In the present era of globalization and liberalization, the World has become an economic village. The globalization of the business world and the attendant structures and the regulations, which support it, as well as the development of e-commerce make it imperative to have a single globally accepted financial reporting system. A number of multi-national companies are establishing their businesses in various countries with emerging economies and vice versa. The entities in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated consistent with this World-wide trend. Indian companies are also being listed on overseas stock exchanges. Sound financial reporting structure is imperative for economic well-being and effective functioning of capital markets. The forces of globalization prompt more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognize the benefits of having commonly accepted and understood financial reporting standards. In this scenario of globalization, India cannot insulate itself from the developments taking place worldwide. In India, so far as the ICAI and the Governmental authorities such as the National Advisory Committee on Accounting Standards established under the Companies Act, 1956, and various regulators such as Securities and Exchange Board of India and Reserve Bank of India are concerned, the aim has always been to comply with the IFRSs to the extent possible with the objective to formulate sound financial reporting standards. The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRSs and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. The Preface to the Statements of Accounting Standards, issued by the ICAI, categorically recognizes the same. Although, the focus has always been on developing high quality standards, resulting in transparent and comparable financial statements, deviations from IFRSs were made where it was considered that these were not consistent with the laws and business environment prevailing within the country. Now, as the world globalizes, it has become imperative for India also to make a formal strategy for convergence with IFRSs with the objective to harmonize with globally accepted accounting standards.

Convergence to IFRS will greatly enhance the transparency of Indian companies which will surely help them to project themselves in global map, which will help Indian companies benchmark their performance with global counterparts. But companies will need to be proactive to build awareness and consensus amongst investors and analysts to explain the reasons for this volatility in order to improve understanding, and increase transparency and reliability of their financial statements. However, the responsibility for enforcement and providing guidance on implementation vests with local government and accounting and regulatory bodies, such as the ICAI in India will play a vital role. The ICAI will have to make adequate investments and build infrastructure for awareness and training program. Successful implementation of IFRS in India depends on the regulator's immediate intention to convert to IFRS and make appropriate

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