# IFRS Overview and Challenges in Adoption of IFRS (Converging With IFRS)

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**Abstract:**

In the era of globalization a need was felt for a reliable set of standards which can be adopted worldwide by all the countries for reporting their financial information. IASB came out with IFRS and the same was adopted formally by members of European Union in 2005. Subsequently many countries either adopted or converged to IFRS. India has also decided to converge to IFRS in a phased manner. The paper attempts to give a brief overview on IFRS, adoption process in India and the challenges that are likely to be faced in the process of adoption of IFRS in India. In conclusion part the paper brings out the ways through which these challenges can be met.

**Keywords:** IASB – International Accounting Standards Board, IFRS – International Financing Reporting Standards, ICAI – Institute of Chartered Accountants of India, GAAP – Generally Accepted Accounting Principles, SEBI – Securities and Exchange Board of India, IRDA - Insurance Regulatory Development Authority, FEMA – Foreign Exchange Management Act.

## Introduction

Accounting is a very old profession. The purpose of accounts is to exhibit true and fair view of the state of affairs of an organization or concern. Accounts have its base in very old human civilizations. Even the kings and other monarchs had concern for their accounts. They were interested in knowing about their financial health and were cautious when the accounts were needed to be reported to other interested entities. Over the ages, accounts developed into a full-fledged profession. With the advent of Industrialization and separation of management and ownership, accounts further developed and before presentation to others, the need of getting it checked arose as frauds and errors in reporting gave distorted figures. The accounts were checked with the help of independent professional who were supposed to be experts in accounts. However, the experts worked within their own set of rules without any guidance from any professional bodies. The need for having standardization in accounts was felt in order to have a common platform for presentation and understanding. Further the need for standardization of accounts was also felt by the users of accounts as the accounts presented by different people was having different dimensions. Different Countries started having different set of Accounting Standards. They Accounting Standards were devised by the Professional bodies set up in their countries. The Accounting Standards developed by the individual countries did not have international acceptance. The Accounting Standards were having limited use, in the sense that the Accounts prepared in those countries adhered to the Standards set up by their own country. Liberalisation, Standardisation and Globalisation have made the borders of the countries disappear. Businesses have grown by leaps and bounds. Foreign Investments have crept into business. Business models have become more competitive. The Accounting Standards which has universal acceptance needed to be devised. Further, with the advent of Internet, the whole world has become a small market place. A number of multinational 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 globally integrated. Financial Statements which are the barometers of an organization needs to have some common set of Accounting Standards which are accepted world over.

**The objective of this study**

1. To establish the importance and benefits of adopting IFRS.
2. To examine the challenges involved in implementation of IFRS and
3. Identify measures through which the problems of implementation can be addressed.

**Methodology**

The study is primarily qualitative in nature and do not use any quantitative tool to analyse data. Study is conducted mainly on the basis of literature survey and secondary information gathered from various journals, magazines, seminars, study meetings and conferences.

**Field of Study** :

Accounting and International Financial Reporting Standards (IFRS).

The study covers the following areas :

Background of Accounting practices, Background of IFRS, Background of IASB, Status of IFRS today, Benefits of adopting IFRS, Drawbacks of adopting IFRS, Challenges in adopting IFRS, Adoption of IFRS for the first time, Adoption of IFRS in India, Method to prepare opening balance sheet, adjustments needed for convergence to IFRS and planning for transition to IFRS.

**Background of IFRS** IFRS (International Financial Reporting Standards) are a set of Accounting Standards developed by an Independent Accounting Standard Setting Body known as IASB (International Accounting Standard Board). IFRS is becoming the Global Standard for preparation of Financial Statements, which is slowly being accepted as the Standard in many different countries. The implementation of IFRS is facilitating corporates to use one reporting language. Having a single standard will facilitate all the users of accounting data and information to really understand and interpret the accounts and thereby the purpose of preparing the financial statements will be truly achieved.

IFRS is different from IAS. IAS stands for International Accounting Standards. IAS are older standards which are replaced by IFRS. The standards issued before 2001 were known as IAS. The standards issued after 2001 are referred as IFRS.

**Background of IASB**

IASB stands for International Accouting Standards Board. It is a non-profit organisation. International Accounting Standards Board is stationed in London. It consists of 14 members. It is funded by contributions from organizations both private and governmental, all over the globe.

**Status of IFRS today**

Over 140 Countries have now recognized IFRS. They are bringing in statutes to implement IFRS. Many more countries have plans to converge their existing National Standards on Accounting to IFRS. What is a cause of concern is that, there are costs associated with implementing IFRS and there is general resistance to change. While many countries have fully accepted IFRS, by the year 2025 many other countries have plans to converge and accept the Universal Reporting Language of IFRS. Some of the major countries that are seeking to converge to IFRS in the very near future include Canada, Korea and Brazil. India has also accepted IFRS and is taking steps for its implementation.

**Benefits of adopting IFRS**

The focus of International Financial Reporting Standards (IFRS) is to improve financial reporting standard internationally by establishing a single set of high quality, consistent & comparable reporting standards. By adopting IFRS, Business Organization can present their Financial Statements in more readily acceptable form and method making comparisons easier. Further Companies with International Operations are largely benefited if IFRS is adopted by all its Subsidiaries. IFRS has become one common accounting language worldwide. Foreign Investors are able to understand accounts in a better manner. Hence Companies are benefited as they can attract foreign infusion of capital. The forces of globalisation prompt more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognise the benefits of having commonly accepted and understood financial reporting standards. In the absence of Accounting Standards the management were free to apply its own judgement in preparing financial statements, thereby the reliability and relevance of financial statements was a question of cause and concern. The financial statements were not exhibiting true and fair view which is the prime requisite. IFRS seeks to overcome all misjudgements and shortcomings, whereby laying a common standard and hence enhancing the true and fair view. Some of the other benefits of adopting IFRS is shortlisted below :

a) Transparency in Financial Reporting
b) Avoidance of duplication in Reporting
c) Benchmarking with global peers
d) Improved access to international financial markets
e) Lower cost of capital
f) Enhanced brand value
g) Reflecting true value of acquisitions and mergers.
h) Decrease in transaction costs for investors.
i) Improved financial information for investors and regulators.
j) Increased ability to secure cross-border listings.
k) Better management of global operations.

**Drawbacks of adopting IFRS**

Many believe that U. S. GAAP is a better accounting standard and moving to IFRS will create a disadvantage. Companies who do not have international exposure tend to dodge IFRS. They feel that moving to IFRS will incur additional costs

**Challenges in adopting IFRS**

1. A key premise of IFRS is that the financial statements including all comparative periods are prepared as though the entity had always used IFRS. As such the accountant has to apply retrospective accounting at the date of transition & with large corporations that are constantly acquiring businesses it would be too difficult to go back & restate every single business acquisition. Further application of retrospective accounting needs specialized skills as well as lot of time and Companies may need to engage specialized staff at additional costs to adopt IFRS.
2. It is not easy to adopt IFRS. The subject of IFRS is too complex and too comprehensive with lot of new disclosure requirements needing more time for preparation and compilation of accounting and financial reports. Various hurdles have to be overcome for IFRS transition including resistance to change.
3. The Regulatory authorities and Tax authorities of the respective countries should enact laws to accept IFRS in their country. Amendments are needed to existing laws like FEMA, SEBI, Indian Banking Laws and Regulations, IRDA, Companies Act, insurance laws etc. to adopt IFRS.
4. Bringing complete awareness of IFRS practices to stakeholders like corporates, banks, stock exchanges, commodity exchanges, insurance company etc. is a difficult task.

5. The Companies on whom IFRS is compulsory are required to incur huge costs for enhancement of IT systems.
6. IFRS application involves management to exercise judgement and estimations in many areas since IFRS is principle based framework and not rule based framework. This leads to different interpretations by different people.
7. IFRS adopts fair value orientation. Lack of statistical models for fair valuation and scarcity of valuation experts also creates a challenge in adoption of the fair value orientation. Further fair value orientation introduces volatility and subjectivity in income statement figures and changes the magnitude of key accounting ratios.
8. Lack of enough number of fully trained professional accountants, academicians and auditors to carry out the task of adopting IFRS is another problem coming in the way of early adoption of IFRS.
9. Lack of training facilities to train accountants, government officials, directors and chief executive officers in implementing IFRS and limited/non availability of resource materials on IFRS is another factor coming in the way of early adoption of IFRS.

It is quite possible that the companies which have to be IFRS compliant have to face all the teething problems. Also the investors have to be educated about IFRS. The personnel handling MIS issues, tax issues, day to day business issues have to be made knowledgeable.

**ADOPTION OF IFRS FOR FIRST TIME**

An entity will be considered as a first time adopter of IFRS if

It declares for the first time that it’s financial statements comply with IFRS.

Due to any reason whatsoever if a set of IFRS financial statement is given to an external party on the preceding year then the entity will be considered IFRS.

If the entity has published financial statements in the preceding year and has asserted that compliance has been made with respect to some IFRS but not with respect to all IFRS

Reconciliation has been made of selected figures from previous GAAP to IFRS

Compliance with both previous GAAP & IFRS

It has complied with IFRS though the auditor has given a qualified report.

**Adoption of IFRS in India**

Liberilisation, Privatisation and Globalisation has been adopted in India from 1991. Slowly and steadly, India has made changes in its Ecomonic and Foreign Policy that foreign investments have flown in India in a very large manner. India has strongly favoured adoption of IFRS.

The premier accounting autonomous body of the country, The 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 2011 by revising existing accounting standards to make them compatible with IFRS.

The financial watch keeper of the nation, The Reserve Bank of India has stated that financial statements of banks need to be IFRS-compliant for periods beginning on or after 1 April 2011.

SEBI first announced the adoption of IFRS in India in 2010, but it was only applicable voluntarily. In 2015, the MCA issued a notification mandating the adoption of Ind AS for certain companies from April 2016 onwards. It was made mandatory for all listed companies in India in April 2018.

However, implementation of IFRS is not an easy affair. The financial statement preparers and auditors will have to be made more knowledgeable about IFRS. IFRS is being slowly included in the teaching syllabus in the country. The correct implementation of IFRS has to be taught to all, including the people at the management level.

Broadly speaking IFRS can be categorised into three types

IFRS which can be immediately adopted or which can be adopted in the immediate future in view of no or minor differences with the existing Indian Accounting Standards.

IFRS which may require some time now so as to reach a level of technical preparedness both by the industry and professionals, keeping in view the existing economic environment and other factors

IFRS which have conceptual differences with the corresponding Indian Accounting Standards and where further dialogue and discussions with the IASB may be required.

The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRS 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 recognises the same. Now, as the world globalizes, it has become imperative for India also to make a formal strategy for convergence with IFRS with the objective to harmonize with globally accepted accounting standards.

The Institute of Chartered Accountants of India has announced that IFRS will be mandatory in India for financial statements for the periods beginning from 1st April, 2011. Steps are being taken to revise the existing Accounting Standard to make them compatible with IFRS.

The ICAI has suggested phase-wise implementation of IFRS in the country as under :

**Phase 1:**

In the case of the following set of Companies i.e.

a. Companies which are part of NSE Index - Nifty 50

b. Companies which are part of BSE Sensex - BSE 30

c. Companies whose shares or other securities are listed on a stock exchange outside India

d. Companies, whether listed or not, having net worth of more than Rupees 1,000 crore

IFRS will be implemented as follows :

Companies having financial year commencing on 1 April 2011 will prepare opening balance sheet as at 1 April 2011 as per IFRS while Companies having financial year commencing at a date other than 1 April 2011 shall prepare its opening balance sheet at the commencement of immediately following financial year.

**Phase 2:**

I n the case of the Companies not covered in phase 1 and having net worth exceeding Rupees 500 crore

IFRS will be implemented as follows :

Companies having financial year commencing on 1 April 2012 will prepare opening balance sheet as at 1 April 2012 as per IFRS while Companies having financial year commencing at a date other than 1 April shall prepare its opening balance sheet at the commencement of immediately following financial year.

**Phase 3:**

In the case of companies not covered in the earlier phases IFRS will be implemented as follows :

Companies having financial year commencing on 1 April 2014 will prepare opening balance sheet as at 1 April 2014 as per IFRS while Companies having financial year commencing at a date other than 1 April shall prepare its opening balance sheet at the commencement of immediately following financial year.

**Method to prepare the opening balance sheet**

The preparation of first balance sheet involves four major steps –

a) Derecognition

b) Recognition

c) Reclassification

d) Valuation

**1) Derecognition**- of certain asset & liabilities recognized as per national GAAP but not recognized as per IFRS i.e. the reporting entity has to eliminate previous GAAP assets and liabilities from the opening balance sheet if they do not qualify to be recognized under IFRS.

For example –

The national GAAP may allow expenditure on research, start up, training, advertising & promotion to be accounted as intangible asset but as per IFRS norms all this should charged to Profit & Loss account.

**2) Recognition** – Certain assets & liabilities not recognized as per national GAAP but recognized as per IFRS. For example – all derivative financial asset & liabilities are to recognized as per IFRS which is not done by GAAP.

**3) Reclassification** of items i.e. items included in the opening balance sheet is reclassified into appropriate IFRS classification. For example – dividend declared or proposed after the balance sheet date has been recognized as liability by GAAP but as per IFRS it has to be reclassified as retained earnings.

**4) Valuation** – The general valuation principles as per GAAP and IFRS may also vary in certain cases such as valuation at historical cost in GAAP vis-à-vis valuation at fair market value under IFRS.

**ADJUSTMENT NEEDED FOR CONVERGENCE TO IFRS**

Properly plant & equipment, intangible assets and investment properly carried under the cost model are to be valued on the opening IFRS balance sheet at their fair value.

Revaluation of assets at fair value is to be treated as the deemed cost of the concerned assets under IFRS.

Employee benefits, actuarial gains & losses as well as accumulated transition reserves are to be restated as per IFRS norms.

Financial information should be changed with retrospective effect while converging to IFRS.

Disclosures have to be made as to how the reporting entity's financial position, financial performance and cash flow got affected due to convergence to IFRS from GAAP.

The date of implementation for the first phase was 1 April 2010. Lack of preparedness of Indian companies has led to the decision to defer the adoption of IFRS for a year. India which is considered a country with good IT base and accounting skills, could not prepare itself for the transition to IFRS over last four years because of complications involved in the transition process.

**Planning for transition to IFRS**

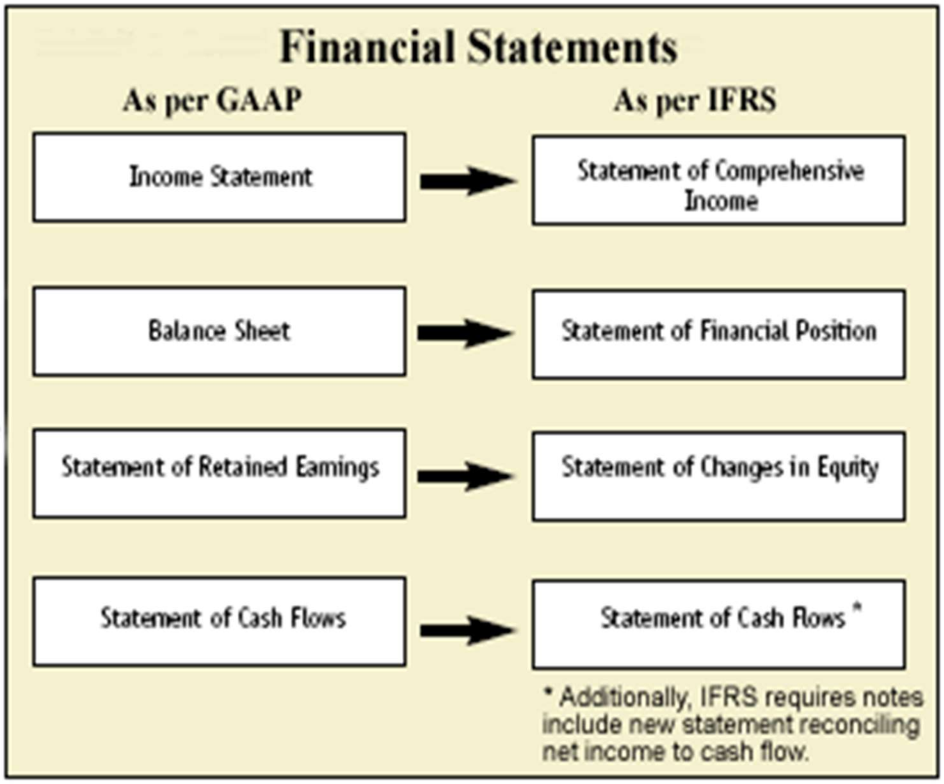
The transition to IFRS has to be in a planned manner. Directly jumping into the change to IFRS could prove dangerous. IFRS transition will necessarily be a joint exercise of an organization. The first year of transition will be testing time for the organization. The transition has to be divided into different stages :

1. Getting Familiar with IFRS. One has to acquaint with the intricacies of IFRS. The CEO or other leading person of the organization has to play a pivotal role into the implementation of IFRS. The critical analysis of the organisation's capabilities and

available resources will have to be done. Also an initial assessment of the strategic significance and implications of adopting IFRS is necessary.

2. A detailed study on the accounting equations should be conducted. Review meeting with the Auditors is necessary at this stage. The actual accounting differences should be tabulated and discussed. The Accounting conclusions arising out of the transition should be clear to all concerned. The Cost – Benefit Analysis may be clear by now..
3. All affected and relevant information has to be collected and analysed. All affected personnel should be trained so that the transition becomes safe and free from hurdles. All the personnel involved with the IFRS process should work in unison.
4. The next stage would be effecting the change to all the information process and data. In line with the dates of conversion, changes need to be made to the software and proper coordination with the outsider affected parties.
5. This could be the last stage where the full and final implementation and monitoring would be undertaken. The enterprise achieves the final output. At this stage we are able the make a critical anaylsis of the benefits of the change to IFRS and study the full impact on the financial profitability of the concern.

A proper internal control and reporting system should be in place to ensure minimum business disruption at the time of transition. It should be remembered that the transition to IFRS will be a cumbersome task, but once it is achieved, then the future work is not so difficult as the personnel would be well acquainted with the new system of financial reporting.




## Conclusion:

To take full benefit of globalization India is left with no alternative but to adopt IFRS. The benefits will definitely compensate for the hardships faced in implementation of IFRS. Each organization has to prepare its own road map for IFRS implementation. The top management of the organization, its directors, independent auditors, accountants, law makers and regulators will have to come together and work as a team for a smooth IFRS adoption procedure. The ICAI should also play an active role in the IFRS adoption process by conducting training programmes for its members and other interested parties. ICAI should also pro-actively issue guidance notes from time to time for clearing doubts on the procedure of implementation as and when such doubts arise. Laws should be amended suitably to allow adoptability of IFRS. Of late due to episodes of corporate frauds and debacles, the question of the efficiency and implementation of corporate governance has often arisen. India's commitment for IFRS acceptance and implementation is a welcome sign. Given the task and challenges, all entities should prepare themselves for smooth implementation of IFRS. All this will go a long way in building up the confidence of the investors.

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