The Aspects of IFRS in Indian Context

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Abstract

With the increase in global business and globalization of capital markets, the need for communication across the borders has increased. A country's company is borrowing in the capital market of another country. Therefore, financial details produced in a country are used more and more times in other countries, it has raised the issue of reconciliation of accounting policies, presentation, disclosure etc. Accounting can be defined as the process for the purpose of increasing reconciliation in context. Comparison of financial details produced in different countries accounting regulation. Investors will like to direct their capital to the most efficient and productive companies globally, provided they are in a position to understand their accounting report / financial report. The argument and the argument behind that, it will increase the comparison of the financial statement. This makes it easy to use cross-border. In India, the government has decided to principles in order to follow the IFRs; Although India wants to follow through IFRS through convergence, not through adoption. Convergence means that it will minimize ministers in IFRS issued by IASB in line with the presentation requirements in India. The Ministry of Corporate Affairs (MCA) has already notified 35 IAS converged with IFRS. All this emphasizes identifying this matter whether this convergence will bring uniformity at the global level. The current research work is inspired by this factor and will focus on the possibilities and challenges of Indian business and commerce by adopting the IFRS.

KEYWORDS: Harmonization, Comparability, Convergence, Investors, Regulation, Accounting, Prudence.

INTRODUCTION

Conversion is more than a technical accounting issue. In India, IFRS can significantly influence the company-day-to-day operations and can even affect the reported profitability of the business. The conversion brings the one-time opportunity to re-evaluate financial reporting and take a clean sheet of paper for financial policies and procedures. For those companies who have already studied clinical studies for IFRS, it is mandatory to consider again on their clinical studies, because IFRS is a dynamic goal and it remains regularly. Companies need to consider that some IFRS process cannot be applied during clinical studies, but the financial changes can be resulted in their applicability in the future.

Understanding IFRS and its implications is a business essential for Indian companies. In July 2014, the Finance Minister in his budget speech proposed to adopt new Indian accounting (Ind AS – the converged IFRS standards) by Indian companies voluntarily from the financial year 2015-16 and compulsorily from financial year 2016-17. In March 2014, the Indian Chartered Accountants Institute (ICAI) presented a proposed new IFRS roadmap and convergence plan to India's Ministry (MCA) of Corporate Affairs. In proposed roadmap, ICAI recommended only the implementation of the Ind AS only by the companies from prepared their consolidated financial details. The current study has been undertaken to understand the implications of the importance of IFRS in the current situation and the procedure of adoption of IFRS. And to show and understand that how the International Financial Reporting standard will affect the Indian corporate.

REVIEW OF LITREATURE

Cai and Wong (2020) summarized in their study of global capital markets that countries that have adopted IFRS have a higher degree of integration between them after adopting IFRS than in the period before adoption.

Paananan and Lin (2019) gave opposite contrast to pre-research that adopting IFRS is ensured better quality of accounting information. Their analysis of the reporting of German companies has shown that the quality of accounting information has been spoiled with adopting the IFRS with time. They also suggested that this is the possibility of developing the newly adoption of the IFRS's developers, but inspired by the changes of standards.

Latridis (2020) concluded based on the figures of the listed in the London Stock Exchange that IFRS implementation has favorably affected financial performance (measured by profitability and development capacity). The study also demonstrated that after the fair price orientation of the IFRS, changes in IFRS introduces instability in the data details.

Lanto and Sahlstrom (2019) found in the study of the financial proportions of Finnish companies that adopt the IFRS changes the magnitude of major accounting ratios. The study also found that the adoption of Fair Value Accounting rules and strict requirements on certain accounting issues are reason for the changes seen in accounting data and financial ratios.

Chand and White (2017) has been in his paper on the convergence of domestic accounting standards and IFRS displayed that the influence of multinational enterprises and large international accounting firms can transfer the financial resources in their favor, in which public interest is generally ignored.

Studies made by **Callao et al (2017)** on the financial figures of Spanish firms have shown that if both IFRS and local accounting standards are applicable in the same time, then there is adverse effect on local comparison. Therefore, the study has been demanded immediate convergence of local accounting standards with IFRS.

Elena et al (2019) in their article to deal with issues of convergence among US generally accepted accounting principles (GAAP) and IFRS were opined that the adoption of IFRS in the United States would undoubtedly lead to an important change for many U.S. companies or greater reliance on management (and auditor) judgment and major changes in company procedure and system.

Ali and Ustundag (2019) in their paper on the development process of financial reporting standards worldwide and in its developing country, its practical results in Turkey. They see that Turkey has suffered many complications in the customization of IFRS, such as the complex structure of international standards, the lack of potential knowledge and other difficulties in application and enforcement issues.

Epstein (2019) emphasized the fact that in the article on its economic effects of adopting IFRS, the universal financial reporting standards will increase the quota of the market, the cost of transactions will be reduced to investors, the cost of the capital and the international capital will be of facilitation and flow.

PLANS FOR CONVERGING

The Ministry of Corporate Affairs, a part of the Government of India, in January 2010 laid out a multi-stage plan for the transition beginning April 1, 2011 to the new convergent Indian Accounting Standards (India's attempt to converge in IFRS, which has carve outs that distinguish it from IFRS and is now known as Ind AS). MCA finalized the fatty in India in February 2011. Although these standards are similar to the IFRS in many cases, some of them have been made some discounts/changes, resulting in some companies can have significant differences between IFRS and Ind AS. Keeping these ideological differences between AS and IFRs, the limit between the AS. Ind-AS and the related IFRSs conversion process will need to be carefully. By presenting a new company law, the Government of India has started the amendment of legal and regulatory framework. In conversion, the impact assessment, the Revisiting Accounting Policy and then will include changing and operational operations (including ERP) so that the individual AS or IFRS can be fully compliance with.

IFRS ADOPTION PROCEDURE IN INDIA

In order to rational accounting practices in the country, the Government of India established the Indian Chartered Accountants Institute by passing on the ICAI Act, 1949, in 1949. To be reconciliation between diverse accounting policies and practices, the Accounting Standard Board was formed in ICAI in 1977. India the process of three steps was set by accounting professionals in India, which are summarized as follows:

Step 1 IFRS Effects Assessment: This is the first step. In this phase, firm will assess the effect of adopting IFRS on processes and systems on the accounting and reporting issues and on the main business of institutions. Then the firm will get important conversion dates according to the IRRS training plan. When and when the training plan will apply, the firm will have to identify important.

The financial reporting standard will be applicable to the firm and there are also variations between the current financial reporting standards being adopted by both firm and IFRS.

Step 2 Preparation for IFRS Implementation: This is the second phase of the process, which will create such activities for the IFRS implementation process. Then the firm will improve internal reporting systems and processes. IFRS is related to adopting and implementing the adoption of the first time.

Step 3 Implementation: this is the final step of the process that is related to the actual implementation of IFRS. The initial stage of this phase is to prepare an initial balance sheet on the date of infection in IFRS. Indian accounting standards have to be developed to understand the actual effect of changes in IFRS. It will follow the full application of IFRS and when it will be required. The initial phase of IFRS implementation requires much more training and may experience of various technical difficulties. An Smooth implementation of transition from Indian accounting standards to IFRS, regular training of individuals and identification of problems while implementing.

UTILITY FOR INDIA IN ADOPTING IFRS

Economies around the world have benefited from the adoption of IFRS for financial reporting purposes. Adopting the IFRS for financial reporting purposes, the economies have benefited from the world. Previous studies have suggested various benefits of adopting IFRS, especially, better financial information for shareholders, better financial information for regulators, increased comparison, better transparency of results, increase the ability to secure cross-border listings, better management of global operations and reduction capital. This study will try to add some of these more few benefits to the firms in India and India as a country.

1. **Better Access to Global Capital Markets:** During the last decade, India has emerged as a strong economy on the map of the global economy. Indian firms are expanding. These firms are not only establishing plants in other countries but are also acquiring other firms around the world. For this, they require wealth at affordable costs, which are available in American, European and Japanese capital markets. To meet the regulatory requirements of these markets, Indian companies should give their financial reports according to IFRS. Thus adopting IFRS helps only reach firms to reach the global capital market for money, but also availability of money at affordable costs.

2. **Easier Global Comparability:** Worldwide, Firma is using IFRS to report its financial results. With adopting IFRS by Indian firms, the comparisons of two become easy. Investors, bankers and lenders also feel easy to compare two financial statements after the same reporting process. In the process of raising funds from foreign capital markets, Indian companies have to provide financial results to interested companies. Since most Indian firm is reaching European capital markets, preparing and preparing financial details based on IFRS helps firms get easy access to these capital markets.

3. **Easy Cross Border Listing:** As mentioned earlier, Indian firms require wealth for their expansion plans, which are not limited to India's economic and political boundaries. Indian firms are also acquiring firms outside India. They are also listed in European and US capital markets by raising money from these markets. One of the leading pre-requirements of being listed in European markets is to prepare accounts according to the IRRS requirements. Some Indian companies who have raising money through European capital markets, they have started preparing their financial details according to the IFRS.

4. **Better Quality of Financial Reporting:** Adopting the IFRS is expected to be better considerable implementation of accounting principles and improves the reliability of financial statements. Between concepts based on different latest trends, IFRS follows a concept of reasonable price that can help reflecting its actual value of property furnished in financial statements. Since a single body (IASB, London) is preparing IFRS, it is very easy to adopt very consistent, reliable and reliable to ensure better quality of financial reporting.

5. **Elimination of Multiple Reporting:** Farm companies in India have been a company of big business houses such as TATA, BIRLA and AMBANI and are also registered firms in European and American capital markets outside India. Registered firms in India prepare their accounts according to Indian Accounting Standards, while registered firms in other countries prepare their financial details according to the reporting standards of the related country. Adopting IFRS ensures many financial reporting standards by these firms because they are following the single set of financial reporting. The above benefits are the alleged

The above benefits are the alleged benefits of adopting IFRs. Researchers have not been carried out yet to understand the actual benefits of adopting IFRS. Such research is negligible for Indian financial data, because India is still steep in the era of IFRS. It demands the future scope of study on the impact of adopting IFRS by Indian companies on Indian economy and firms.

CHALLENGES IN THE PROCESS OF ADOPTION OF IFRS IN INDIA

The Institute of Chartered Accountants of India established a Task Force in 2006 to give study and suggestions to adopt IFRS in India. Based on the recommendation of Task Force, a 3-phase program (India has already been discussed in this paper to be favorable in IFRS in India). India and the worldwide accounting professionals have listed various benefits of adopting IFRS. Despite these benefits, IFRS is in the hard work to have a lot of work and face to challenge many challenges. Some of these have been listed below:

1. **Awareness about International Financial Reporting practices:** IPROS adopts a complete set of different reporting standards. There is still awareness about these reporting standards between stakeholders such as firms, banks, stock exchanges, commodity exchanges etc. There is a difficult task to bring full awareness about these standards between these parties.

2. **Training:** Professional accountants are seen to ensure the successful implementation of IFRS. Along with these accountants, the official officials, Chief Executive Officer, Chief Information Officer is also responsible for the process of adopting a smoothly. There is a lack of training facilities in India to train so many groups. As the date of implementation comes close (2011), it has been seen that India has no submerged professionals to complete this task of adopting IFRS in India.

3. **Amendments in existing laws:** In India. Accounting practices are mainly known by the Companies Act 1956 and Indians Generally accepted accounting principles (GAAP). The rules of the Indian Securities exchange board, Indian banking law and regulations, Foreign Exchange Management also provide some guidelines on preparing financial details in India. IFRS is not recognized the presence of these laws and accountants will have to completely follow the IFRS there is no overriding provision from these laws. Indian lawmakers must be required to ensure the necessary changes to ensure smooth changes in IFRs.

4. **Taxation:** Adopting the IFRS will affect most items in financial statements and as a result, there will also change changes in tax liabilities. Currently, Indian tax laws do not recognize accounting standards. The full change of immediate tax laws in front of Indian law makers is a big challenge. To ensure that there are enough changes in tax laws to identify that tax officer IFRS – identify compliance financial statements otherwise it will immigrate administrative work for firms.

5. **Use of reasonable price as measurement base:** IFRS uses reasonable prices to measure multiple items in financial statements. With the use of Fair Value Accounting can introduce a many more volatility and subjectivity in financial statements. The adjustment of reasonable price is profit or loss which reflects in income details and is evaluated in the evaluation balance sheet. Indian Corporate World, which is preparing its financial statements based on historical costs, will have difficult time to move into reasonable price accounting.

6. **Financial Reporting System:** IFRS provides the complete set of reporting system to give companies to its financial details. In India, different laws and acts provide financial reporting systems but are not comprehensive according to the IRRS provided by the program. Indian firms must ensure that the existing business reporting model will be revised in accordance with the requirements of IFRS. The modified reporting system will take care of various new requirements of IFRS. To ensure minimal business interruptions at the time of transition, it must have to install the entire control system. All the challenges mentioned here can be a proper internal control and reporting system. In India, firms, regulators and stock exchanges should take some guidelines from countries which have adopted the IFRS and have similar economic, political and social conditions.

Opportunities and Challenges of IFRS

Variables	Opportunity		Challenge	
	No. of Respondents	%	No. of Respondents	%
Comparison at Global Level	107	71.33	43	28.67
Acceptance in International Market	98	65.33	52	34.67
Least Cost of Capital	81	54	69	46
Better Accounting Framework	99	66	51	34
Divergence Between IFRS & IAS	119	79.33	31	20.67
Requirement to change in Existing Laws	107	71.33	43	28.67
Legal Aspect Consideration	111	74	39	26
Trained Manpower	141	94	9	6
Compliance Requirements	93	62	57	38
Derivatives & Hedge Accounting	138	92	12	8

Source: Author's Calculations

RECOMMENDATIONS AND CONCLUSION

1. Keeping in view the international best practices, IFRS under the aegis of IASB should take note of GAAPs of various countries in subsequent review so that users can benefit globally.
2. IFRS should be included in the curriculum at universities, polytechnics and UG levels so that human capacity can be constructed which will help in preparing financial details in the organization.
3. Through the reciprocal international understanding of corporate objectives, there is a continuous research in accordance with the constant research and convergence with international standards.

4. Since the tax laws of different nations give birth to different tax liabilities, IFRS should also solve the question of tax liabilities as a result of convergence in the auspices of IASB.
5. In the reporting requirements of IFRS and other countries, the difference between reasonable price and the affordable value is to solve the measurement of most financial statements.

CONCLUSION

It can be strongly recommended considering the current scenario of the world economy and India's convergence with IFRS. But at the same time it can also be said that this change in IFRS will not be a quick and simple process. Instead of implementing IFRS, changes in accounts formats, changes in different accounting policies and more comprehensive disclosure requirements will be required. Therefore, all sides related to financial reporting also need to share the responsibility of international harmony and convergence. IFRS has its advantages and provides an opportunity to interact with the general international accounting standard and will save the cost of spending costs to maintain dual accounting and reporting system by MNCs and internationally listed corporate. It will provide small and medium-sized industry and institutions with transitions with worldwide counterparts and crop capacity and comprehensive performance. But to adopt the IFRS, especially for small and medium-sized industries, will be a challenge in terms of lack of expertise and the prohibitive cost to upgrade IT system. A collective in the government bodies, financial institutions, banking sector, and corporate, industry and educational system, IFRS requires collaborative and centralized efforts for smooth, efficient and effective infections and implementation.

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