IFRS Adoptibility In India

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Abstract

With the world shrinking at a rapid pace and globalization being the ruling theme, it is the need of the hour to follow homogeneity in the reporting standards in the financial sector so as to ensure ease of comparison, universality, removal of redundancy, comprehensiveness etc. Adoption of IFRS (International Financial Reporting Standards) is a step in this direction to bridge the gap existing due to intra country reporting standards in the various countries.

Through our paper, we have tried to highlight what IFRS is all about, its basic features, comparison with the already existing accounting standard - GAAP, Current global scenario from the perspective of adoption, status of implementation in India, its benefits , challenges in the implementation and the future roadmap in this direction.

Our basic motto through this paper has been to provide a lucid and comprehensive picture of IFRS and the benefits India can derive through its adoption.

Introduction

Since the advent of internet, the world has shrunk, distances have lost their importance and information has no more remained a differentiating factor in this global arena.

"Globalization"-the BUZZWORD has swept nations within its leap and business at this hour, across the international boundaries has become as easy as it was in the domestic setup. Unfettered, unbridled, the corporate world is expanding and spreading its reach beyond nations conquering them at the rate of knots and boundaries have lost their relevance without a doubt.

At this point, it is the need of the hour to have globally set standards in all domains to avoid discrepancies and conflicts across boundaries and have a well defined, structured policy framework throughout. In this regard, a need for an internationally accepted accounting standard becomes all the more unavoidable so as to ensure greater accountability and homogeneity in the financial sector and bridge the lacuna that exists in the accounting standards. So, the transition from GAAP i.e.GenerallyAccepted Accounting Principles to IFRS- International Financial Reporting standards becomes indispensable.

What is IFRS?

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries

- These are standards for reporting financial statements applicable to all the companies under its ambit.
- IFRSs are developed and approved by IASB (International Accounting Standard Board)
- One of the basic features of IFRS is that it is the principle based standard rather than rule based Need of IFRS in India

- With the transition of a large number of countries towards acceptance of IFRS as their financial reporting standard, it has become the need of the hour for India to quickly adopt the IFRS standards so as to stay competitive and investor friendly. Also to ensure greater flexibility, ease and friendly environment for the growth of our companies we need a globally accepted reporting framework so as to ensure greater credibility of the Indian companies on the global podium.
- The Ministry of Corporate affairs (MCA), a part of Government of India, laid out a roadmap for transition to IFRS Converged Indian Accounting Standards (IAS) in January 2010 in three different phases for companies.

IFRS VS GAAP

	GAAP	IFRS
Financial Periods required	Generally, comparative financial statements are presented; however, a single year may be presented in certain circumstances. Public companies must follow SEC rules, which typically require balance sheets for the two most recent years, while all other statements must cover the three-year period ended on the balance sheet date(US GAAP)	Comparative information must be disclosed with respect to the previous period for all amounts reported in the financial statements.
Layout of balance sheet and income statement	No general requirement within GAAP to prepare the balance sheet and income statement in accordance with a specific layout; however, public companies must follow the detailed requirements in Regulation S-X.(US GAAP)	IAS 1, Presentation of Financial Statements, does not prescribe a Standard layout, but includes a list of minimum items. These minimum items are less prescriptive than the requirements in Regulation S-X
Presentation of debt as current versus non-current in the balance sheet	Debt for which there has been a covenant violation may be presented as non-current if a lender agreement to waive the right to demand repayment for more than one year exists prior to the issuance of the financial statements.	Debt associated with a covenant violation must be presented as current unless the lender agreement was reached prior to the balance sheet date.

Classification of deferred tax assets and liabilities in balance sheet	Current or non-current classification, based on the nature of the related asset or liability, is required.	All amounts classified as non-current in the balance sheet.
Income statement - classification of expenses	SEC registrants are required to present expenses based on function (US GAAP)(e.g., cost of sales, administrative).	Entities may present expenses based on either function or nature (e.g., salaries, depreciation). However, if function is selected, certain disclosures about the nature of expenses must be included in the notes.
Income statement	Restricted to items that are both	Prohibited.
extraordinary items	unusual and infrequent.	
Income statement discontinued operations presentation	Discontinued operations classification is for components held for sale or disposed of, provided that there will not be significant continuing cash flows or involvement with the disposed component.	Discontinued operations classification is for components held for sale or disposed of that are either a separate major line of business or geographical area or a subsidiary acquired exclusively with an intention to resell.
Third balance sheet	Not required.	A third balance sheet (and related notes) are required as of the beginning of the earliest comparative period presented when an entity restates its financial statements or retrospectively applies a new accounting policy.

Global Scenario

European Union

On 19 July 2002 a regulation was passed by the European Parliament and the European Council of Ministers requiring the adoption of IFRS. As a result of the Regulation, all EU listed companies were required to prepare their financial statements following IFRS from 2005.

United States of America

15 Nov, 2007 - The SEC, in 2007, also announced that it would allow foreign companies to have

access to US Capital Markets while reporting under IFRS, which in turn affected around 1100 U.S. companies with US listings, along with any companies planning U.S. IPO's.

Aug, 2008 - On 27th August, 2008, the Securities and Exchange Commission (SEC), America's financial markets watchdog, made the landmark decision to adopt IFRS in an effort to promote sharing of financial information across geographical boundaries by standardizing terminology.

A roadmap for mandatory adoption of IFRS, in US, by 2016 has also been proposed by the SEC

China

With China's increasing prominence in the world, it becomes imperative that it adopts IFRS so as to increase its reach in the business world. Following EU and America, China has taken the path of IFRS adoption but in its new domestic version called the Accounting Standards for Business practices, which was issued by its Ministry of Finance in Feb, 2006.

By increasing transparency of financial reporting and harmonizing Chinese national accounting standards with IFRS, the measures adopted in 2006 has had a great positive impact for business houses in China.

India

India, being an emerging player has established a strong foothold in the business arena and has drawn the eyelids of investors all over the world as a hub of great business opportunities. At this opportune moment, India has also moved ahead with the idea of establishing IFRS as a financial accounting standard.

Starting 1st April, 2011, The Ministry of Corporate Affairs (MCA) has designed a roadmap for companies to start following IFRS converged IAS (Indian Accounting Standards) in a phased manner.

Roadmap for Companies for the transition towards IFRS

Phase 1: (Companies moving from April 2011)

1. Companies on the BSE Sensex 30 and NSE Nifty 50
2. Companies having listed securities outside of India
3. Listed and Unlisted Companies with net worth in excess of Rs 1000 Crore
4. Insurance companies are scheduled to transition on April 1, 2012

Phase 2:(Companies moving from April 2013)

1. Listed & Unlisted Companies with networth in excess of Rs 500 Crores but not exceeding Rs. 1000 Crores.
2. Non Banking finance companies on the NSE – Nifty 50 or BSE – Sensex 30, non listed NBFC with net worth above Rs. 1000 crores
3. Commercial banks and urban co-operative banks with net worth above Rs. 300 crores

Phase 3: (Companies moving from April 2014)

1. Listed companies having net worth of Rs. 500 crores or less
2. Urban co-operative banks having a net worth in excess of Rs. 200 crores but not exceeding Rs.300 crore

For companies who do not fall in the above categories, if voluntarily wants then they can disclose their financial statements under IFRS.

Benefits

1. **Effective Comparison of performance with other business**
   With the acceptance of IFRS by all the nations, the burden on the multinationals in reporting their accounts and profitability will be much less and their accounts will be more comprehensible. It would also help in comparing and contrasting the performance of the multinationals and measuring the overall profitability and financial accountability.
2. **Increased transparency**
   With the adoption of IFRS across the globe, there will be greater transparency for the companies in comparing the performance of the company outside its country. It will also

help the companies in judiciously evaluating the companies in foreign lands and taking the decision about their prospective alliances or partners in different countries.

3. **Universality**
   With the adoption of IFRS, there will be a universal reporting standard and this will in turn help the users in easily understanding the financial statements and hence make the business decisions.
4. **Ease of application**
   With the global acceptance of IFRS, it will be easy and simple for the international bodies to make the changes and enforce them globally as much subsequent changes will be needed.
5. **Flexibility**
   The universally accepted IFRS will provide the companies with greater flexibility when they want to report their financial statements in other countries which also follow IFRS. A huge amount of rework is avoided as changes done by the companies need be done again and again if all the countries in which the company is listed, originally belong to or operates in all adopts the same IFRS as their reporting standard.
6. **Increase the credibility of Indian companies globally**
   The adoption of IFRS by Indian companies in reporting their financial statements will help them in increasing their creditability as the financial statements will be more comprehensible and transparent and subsequently will help them in attracting foreign investors and also
7. **Ease in partnering with global partners**
   With the adoption of IFRS, investors looking forward towards targeting India as a investment opportunity or Indian companies looking for foreign investors all will find it much easy and comprehensible to understand their financial statements before partnering or forming the alliance.

Drawbacks of non adoptability of IFRS:

1. The increased burden on foreign investors who have their financial statements reported under IFRS to convert it to GAAP in order to list themselves on Indian stock exchanges. This extra cost will lead to mitigate the investment sentiments and will in turn reduce the foreign capital inflow to India.
2. The non adoptability of IFRS has attracted a very poor rating in terms of ease of doing business in India.

Challenges

1. **Inadequate trained people on IFRS**

With the adoption of IFRS in India, a large pool of people trained on IFRS will be required which is a big challenge for India

2. **Complex Transition**
Transition from GAAP to IFRS is complex as it not only requires changes in the accounting procedures but also in our IT systems. Along with these changes huge costs will be incurred in order to ensure the transition in training people, modifying systems, procedures etc.
3. IFRS requires assets to be reported as per the market value instead of historic value as required under GAAP. This may adversely impact the financial statements of a huge number of firms initially and is attracting resistance from a large number of corporate houses.
4. Unlike other countries, the accounting framework in India is subject to a wide number of laws and regulations. With the complete and full-fledged adoption of IFRS, changes need to incorporated in various regulatory requirements under The Companies Act 1956, Income Tax Act 1961, SEBI, RBI etc
5. Along with the people preparing the financial statements; stakeholders, regulators, auditors, employees, tax authorities, management and people in other decision making bodies need to be trained.

Indian Efforts towards Adoption of IFRS

Realizing the utter need of IFRS, The Ministry of Corporate Affairs finally took a step forward and announced a three phase roadmap for the companies specifying the date for them for reporting their financial statements in accordance with the IFRS. In order to ensure the smooth attainment and helping companies in the transition process, government of India has taken the following steps:

1. A high level task force was set up in India to expedite the convergence process
2. Following Committees were constituted
- Technical Committee
- CFO Sub Group
- National Advisory Committee on Accounting Standards (NACAS) established by MCA.
3. Extensive Research and surveys were carried out to understand the state of readiness of the companies on adoption of IFRS and it was concluded that a large number of them had successfully attained the pilot phase.
4. Small and Medium Enterprises (SMEs) were exempted in adopting the IFRS in the roadmap proposed as the whole transition is very cost intensive and will pose great burden on SMEs. Also ICAI has suggested that for SMEs, a separate standard may be

formulated based on the IFRS issued by the IASB after modifications, if necessary.

5. As per a senior official of ICAI, they are planning to upgrade the CA curriculum with the adoption of IFRS in India by including some of the certification courses , conducting programs and also training people on this.

Conclusion

Since the inception of the idea of a universal financial reporting standard, more than 100 countries have already adopted it to enjoy the long term benefits derived due to its homogeneity and standardization.

Seeing and analyzing the benefits of IFRS, it becomes all the more pertinent for a country like India to adopt it as soon as possible so as to maintain investors' positive sentiments and also strengthen their faith and credibility in the Indian Market. The adoption might lead to short term investments and initial challenges but the long term benefits are strong enough to justify the initial hassles of implementation and adoptability.

A holistic roadmap, with the support of the government, must be chalked out to train all the people from the top management to all the stakeholders involved so as to gain maximum benefits from IFRS.

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