

## **Challenges In Implementation Of International Financial Reporting Standards: Indian Context**

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**Abstract:** *International Accounting is considered to be a universal system that could be adopted in all countries. A world-wide set of generally accepted accounting principles. Developments made by different international organizations which come under two categories; those backed by International or Political agreements and Voluntary organizations. The first category includes the United Nations and the European Union. The second category includes IASB, IFAC, IOSCO, and the European Financial Reporting Advisory Group. Further it includes, Confederation of Asia Pacific Accountants, American Accounting Association, The British Accounting Association, The Indian Accounting Association etc.*

*This paper focus on the challenges faced in the process of implementation of IFRS, the accounting developments-influencing factors, review of previous studies, and benefits by adopting these kinds of international practices. It also includes the structure of IFRS foundation the esteem organization which involved in the process of internationalization of Accounting practices.*

**Keywords:** *Accounting, Ifrs, International Accounting, Iasc.*

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### **I. Introduction**

Owing to Globalization, business crossed borders has continued to grow rapidly and need for global communication has correspondingly increased. As increasing amounts of goods, services, or capital flow across domestic borders, the probability of increase for global parties to the transaction. From decision-making perspective, these parties must obtain relevant information on those they conduct business and need to understand the International Accounting issues. The purpose of accounting is to provide information that is useful for making business and other economic decisions. Hence, it is referred to as language of business. Accounting 'Lingua Franka, Language that communicates to others. The birth of the science of accounting almost synchronized with the introduction of money as a medium of exchange. (International Monetary System) As a social science, accounting is the product of its environment- It influences the social environment. A country's accounting regulations and practices are the product of a complex interaction of social, economic, and institutional factors. The factors that impact accounting development at the national level also contribute to accounting diversity at the international level. Accounting is no longer limited to book-keeping and preparation of financial statements. It helps in designing policies besides facilitating day-to-day operations of the business. Accounting has developed into basically an information system that provides economic information to decision-makers (Internal and External). International Accounting includes all varieties of principles, methods, and standards of accounting in all countries. This concept includes a set of generally accepted accounting principles established for each country, thereby requiring the accountants to be multiple-principles conscious when studying international accounting. No universal or perfect set of principles would be expected to be established. A collection of all principles, methods and standards of all countries would be considered as international accounting system.

- **Accounting Development-Influencing Factors**
- Type of Capital Market / Nature / Sources of Finance
- Types of Legal System
- Type of Reporting Regime(System)
- Types of Business Entities
- Level of enforcement of regulations
- Level of Inflation
- Political and Economic Ties

- Status of Accounting Profession
- Existence of Conceptual Framework
- Level of Economic Development
- Quality of Accounting Education

## **II. Review Of Literature**

**Meenu Sambaru and Dr. N. V. Kavitha (November, 2014)** made a study on “**A Study on IFRS in India**”, in their article they found that Economic development of any country requires a sound financial reporting system sustained by good governance, clearly defined quality standards and established regulatory framework. As the accounting standards formulating body in our country, the Institute of Chartered Accountants of India (ICAI), has always formulated accounting standards that have withstood the test of time. As we globalize, the significance of convergence increases with International Financial Reporting Standards (IFRS). In today’s scenario of global business village India cannot afford to insulate itself from the developments and modifications taking place worldwide. IFRS can be explained in a narrow as well as a broad sense. In the narrow sense IFRS is the new numbered series of pronouncements that IASB has issued. In the broad sense IFRS includes standards and interpretations approved by the IASB, IASC & SIC. These new set of accounting standards is more principles based as compared to the earlier standards that were basically a principle based.

**Abhinaya L P, Vidyashree N S and Manu H (March, 2016)** made a study on “**IFRS in India- its impact on Indian corporate: benefits and challenges**”, in their article they opined that India adopting the International Financial Reporting Standards (IFRS) can not only ensure justice to investors but also bring huge opportunity for the country to emerge as a dominating force in the new accounting standard, experts today claimed. IFRS are standards and interpretations adopted by International Accounting Standards Board (IASB). Regulators in India have set a 2011 deadline to adopt the system. The new accounting standard, adopted by more than 100 countries, replaced the International Accounting Standards (IAS) after 2001. It is based on understandability, relevance, reliability and comparability. 'IFRS: The roadmap to Transition' it can bring great benefits similar to the BPO revolution to the country as India could dominate the world to become its accounting back office by championing the new system. "IFRS also enables companies become more transparent in disclosure.

**Prof. K.V. Achalapathi Dr. P. BhanuSireesha (June, 2015)** made a study on “**Impact of IFRS adoption on financial statements of select Indian companies**”, in their article they opined that there are many accounting standards in the world, with each country using a version of their own Generally Accepted Accounting Principles, also known as GAAP. These allow firms to report their financial statements in accordance to the GAAP that applies to them. The complication lies within when the firm does business in multiple countries. Under such circumstances, various questions arise, like, how can investors deal with multiple standards, which ones are accurate, and how can corporations be compared based upon their financials, and the like.

**Mingyi Hung and K.R. Subramanyam (Nov, 2004)** made a study on “**Financial Statement Effects of Adopting International Accounting Standards: the Case of Germany**”, in their article they opined that using a sample of German companies, researched the impact of the adoption of IFRS during 1998 through 2002. They concluded that the value of total assets, value of equity and variability of net earnings are significantly higher under IFRS compared to the German Accounting Standards. However, they could not support a respective change on financial ratios, which were examined.

**Agca and Aktas (2007)** made a study on “**GAAP vs. IFRS Treatment of Leases and the Impact on Financial Ratios**”, they examined that the adoption impacts on financial ratios of 147 listed firms in Istanbul stock exchange during 2004-2005, considering one year as pre-adoption, and the other as post-adoption periods. They observed the results with F-Test tool, and found out that CR and net asset turnover are significantly affected. The authors based this variation to the fixed assets adjustment.

**Ali Abusalah Elmabrok Mohammed and Ng Kim-Soon (July, 2012)** made a study on “**Using Altman's Model and Current Ratio to Assess the Financial Status of Companies Quoted in the Malaysian Stock Exchange**” they focused on listed companies through Altman’s financial distress model clubbed with current ratio to assess the current financial situation and also predict the financial failure of the firm. Though this study did not consider data on the IFRS norms, it has given an angle of consideration for the present study.

**Yhlas Sovbetov (2015)** made a study on “**How IFRS Affects Value Relevance and Key Financial Indicators? Evidence from the UK**”, he examined the impact of adoption of IFRS by public listed firms of UK using three groups of ratios, profitability, capital structure and efficiency and liquidity considering pre and post IFRS adoption stages. According to the author, the increase on return on assets and profit margin ratios were observed as an impact of IFRS adoption in UK.

### **III. Statement Of The Problem**

Accounting is no longer limited to book-keeping and preparation of financial statements. It helps in designing policies besides facilitating day-to-day operations of the business. Accounting development of countries also influenced by their political and economic ties with other countries. Like legal systems and educational systems accounting system also imported and exported among countries. In the past countries have adopted the accounting regime of other countries both voluntarily and involuntarily. Where a country was colonized for an extended period of time, it typically adopted the accounting system of the colonial power.

With the growing internationalization of trade and the globalization of business and capital markets, financial information prepared according to the national accounting system of one country no longer satisfies the needs of users of the other countries, whose decisions are more and more global in scope. The pressure to adapt to the new global environment therefore comes not only from the users of the financial information, but also from those who regulate and prepare them, that is the multinational corporations, the accounting profession and the government and revenue authorities. To reap the full benefits of converged global standards a number of practical implementation challenges need to be addressed. Achieving international convergence, however, requires more than theoretical support. It requires reaching consensus (consent) as to the international standards that will serve as the foundation for financial reporting and auditing globally, determining how to facilitate the adoption of those standards, and ultimately taking the actions necessary to encourage implementation". The benefits of convergence have overcome the nationalist sentiment associated with standards in the past. The challenges may be grouped into three major categories, Environmental issues, Enforcement issues and Technical issues.

### **IV. Objectives Of The Study**

- To study the credibility of domestic capital markets to foreign capital providers.
- To know the Major Accounting policy changes with implementation of IFRS.
- To study the effect of adoption of IFRS on the stability ratios of Indian companies.
- To study the challenges faced by corporates in India with implementation of IFRS.
- To make a comparative study on Indian GAAPS vs IFRS.
- To study the benefits and challenges to be faced by Indian education system with respect to implementation of IFRS.
- To know the India's internationalization of accounting practices.

### **V. Methodology**

The present study includes secondary data through the various means such as books, reports of various committees', Indian financial survey reports, journals, various announcements, websites of IFRS home, standing committee reports, newspapers, ministry of Finance, interpretation committee reports, etc.

### **VI. Benefits And Challenges Of Implementation**

Recognizing the fact that, global capital markets require high quality, globally consistent and uniform regulatory and accounting standards regime (system), most major capital markets are actively supporting the efforts of convergence towards a single set of globally accepted accounting standards.

- It improves the comparability of investors to compare investments on a global basis and thus lowers their risk of errors of judgment.
- For companies with global operations, it facilitates accounting and reporting and thus eliminates that cost involved in preparing multiple reports to meet regulatory requirements of different countries.
- Lowers the cost of capital. The adoption of global standards such as IFRS may reduce the risk premium and, consequently, the cost of capital.
- More efficient allocation of resources, as it would eliminates barriers to cross-border listings.
- High economic growth.

To reap the full benefits of converged global standards a number of practical implementation challenges need to be addressed. As Wong (IFAC, 2004) rightly observes, "Achieving international convergence, however, requires more than theoretical support. It requires reaching consensus (consent) as to the international standards that will serve as the foundation for financial reporting and auditing globally, determining how to facilitate the adoption of those standards, and ultimately taking the actions necessary to encourage implementation". The benefits of convergence have overcome the nationalist sentiment associated with standards in the past. The challenges may be grouped into three major categories:

- Environmental issues
- Enforcement issues
- Technical issues

**Environmental issues**

- Legal Issues (governing corporate reporting, parliamentary legislations, commercial codes and company acts).
- Economic issues (valuation of financial instruments, and statements).

**Enforcement issues**

- Exchange Commissions/Boards
- Stock Exchanges
- Banking and Insurance supervisory authorities
- Professional bodies
- Facilitating systems like Financial Reporting Review Board in India (FRRB), 2002 for tackling with the problems on convergence of accounting standards.
- In Germany, the German Accountancy Act of 2004 set up a 2 tier enforcement system that is;
- The German Financial reporting enforcement panel
- The federal financial supervisory authority.

**Technical issues**

- International Standards are complex
- Shortage of competent accountants and auditors
- Translation of the standards into domestic language
- Limited availability of training material
- Lack of experts on IFRS
- Frequent changes in standards
- Non-availability of actuaries

**VII. Structure Of Ifrs Foundation**

The IFRS foundation has a three-tier governance foundation, based on an independent standard-setting board of expert i.e., International Accounting standards Board, governed and overseen by Trustees from around the world who in turn are accountable to a monitoring board og public authorities i.e., IFRS foundation Monitoring body. The “IFRS advisory council” provides advice and counsel to the trustees and the board, whilst the board also consults extensively with a range of other “standing advisory bodies and consultative groups”.

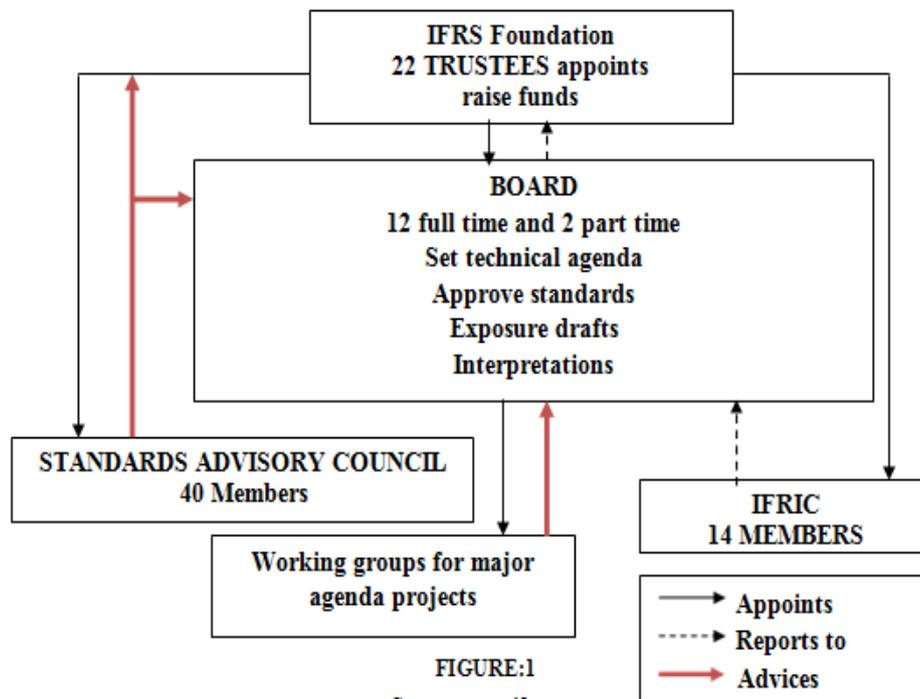


FIGURE:1  
Source:www.ifrs.org

### **IFRS Foundation**

This foundation board of trustees has 22 members. The constitution requires an appropriate balance of professional backgrounds, including auditors, preparers, users, academics and other officials serving the public interests. The trustees are from; 6 from North America, 6 from Europe, 6 from Asia and remaining 4 are from any area.

The responsibility trustees are;

- Appointment of members of the IASB, the IFRIC and the Standards advisory council(SAC).
- To review annually the strategy of the IASB and its effectiveness, and approves its annual budget
- To establish and amend operating procedures for IASB, SAC IFRIC
- To raise funds

### **International Accounting Standards Board**

The IASB is an independent private sector body that develops and approves IFRS. Formed in 2001 to replace the IASC, it operates under the oversight of the IASCF.

Objectives of IASB;

- To develop in the public interest, a single set of high quality, understandable and enforceable global accounting standards that requires high quality, transparent and comparable information in financial statements
- To promote the use of rigorous application of those standards.
- To take account of the special needs of small and medium enterprises and emerging economies in fulfilling the first two objectives.
- To bring about convergence of national accounting standards and IASs and IFRSs to high quality solution.

### **Standards Advisory Council (SAC)**

The SAC provides a forum for participation by organizations and individuals, with an interest in international financial reporting, having diverse geographical and functional backgrounds, with the following objectives of;

- Advising the IASB on Agenda decisions and priorities in the IASB's work.
- Informing the IASB of the views of the organizations and individuals on the council on major standard setting projects.
- Giving the advise to the IASB or the trustees

### **International Financial Reporting Interpretations Committee(IFRIC)**

The IFRIC (until 2002 it was known as SIC) has 14 members appointed by the trustees for a term of 3 years. The trustees of the IFRIC are to interpret the application of the IFRSs and provide timely guidance on financial reporting issues not specifically addressed in IFRSs or IASs, in the context of IASBs framework, and undertake other tasks at the request of the board.

## **VIII. Conclusion**

IFRS by Indian corporates is going to be very challenging but at the same time it could also be rewarding. Indian corporates are likely to reap significant benefits from adopting IFRS. The European Union experience highlights many perceived benefits as a result of adopting IFRS. Overall, most investors, financial statement preparers and auditors were in agreement that IFRS improved the quality of financial statements. The adoption of IFRS is expected to result in better quality of financial reporting due to consistent application of accounting principles and improvement in reliability of financial statements. This, in turn, will lead to increased trust and reliance placed by investors, analysts and other stakeholders in a company financial statements; and Better access to and reduction in the cost of capital raised from global capital markets since IFRS are now accepted as a financial reporting framework for companies seeking to raise funds from most capital markets across the globe. A recent decision by the US Securities and Exchange Commission (SEC) permits foreign companies listed in the US to present financial statements in accordance with IFRS. This means that such companies will not be required to prepare financial statements under Generally Accepted Accounting Principles in the US (US GAAP). Therefore, Indian companies listed in the US would benefit from having to prepare only a single set of IFRS compliant financial statements, and the consequent saving in financial and compliance costs.

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