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Challenegs And Opportunities Faced By Indian Companies For Application Of Ifrs

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Abstract: The International Financial Reporting Standards aim to make international financial reporting comparisons as easy as possible because each country has its set of accounting rules, over the years, the use of International Financial Reporting Standards (IFRS) as a universal financial reporting language is gaining momentum across the globe. Several countries have implemented IFRS and converged their national GAAP to IFRS. More than 100 countries and 12000 companies throughout the world, including the 27 European Union member states, require or permit the use of International Financial Reporting Standards (IFRSs), developed by the IASB. India also apply the IFRS from 1st April,2011 to include all listed companies, all banking companies, all financial institutions, all scheduled commercial banks, all insurance companies etc. IFRS implementation affects several areas of the business entity, such as presentation of accounts, the accounting policies and procedures, the way legal documents are drafted, the way the entity looks at its assets and their usage, as well as the its communications with its stakeholders and also the way it conducts its business. So the present paper focuses on challenges and opportunities for application of IFRS before Indian companies.

Keyword: International Financial Reporting, Reporting Language, GAAP, Momentum, Challenges

1.INTRODUCTION:

India today has become an international economic force. Indian companies has surpassed in several sectors of the industry that includes, ITES, software, pharmaceutical, auto spare part to name a few. And to stay as a leader in the international market India opted the changes it need to interface Indian stakeholders', the international stakeholders' and comply with the financial reporting in a language that is understandable to all of them. In response to the need several Indian companies have already been providing their financial statements as per US GAAP and/or IFRS on voluntary basis. But, however this is becoming more of a necessity then just being a best practice. International Financial Reporting Standards (IFRS) to serve as a possible pathway for establishing uniform global accounting standards. Since then, IFRS has been adopted or become accepted in over 100 countries. By adopting IFRS, the Indian companies especially the Medium & the Large ones will reap significant benefits considering the phenomenal success the European Union is experiencing in this regard. Planning to implement IFRS in a phased manner with effect from Aril 2011, which will pose a great challenge not only to Corporate India but also to the preparers of the financial statements and also to the Auditors, other stakeholders such as people in Management, Operations, HR, investors and analysts amongst others. By adopting IFRS, the Indian companies especially the Medium & the Large ones will reap significant benefits considering the phenomenal success the European Union is experiencing in this regard.

2. OBJECTIVES OF THE STUDY:

1.To study the Conceptual framework of International Financial Reporting Standards (IFRS).
2.To study the challenges of International Financial Reporting Standards (IFRS) for application before Indian Companies.
3.To study the opportunities of International Financial Reporting Standards (IFRS) application among Indian Companies.

3. METHODOLOGY OF THE STUDY:

The present study has been descriptive; the data for this study were obtained from secondary sources. The secondary has been collected from various references which already existed in published form; part of the paper is based on literature review the method comprising of collecting all the available papers relating to the theme and selecting relevant papers/books for the review purpose. Selection of the paper is done on the basis of their relevance and contribution to the body of knowledge. The author has made an attempt to do primary reading of the selected papers which will constitute the core of this review study.

4. TERMINOLOGY OF IFRS

IFRS is a single set of high quality, understandable and enforceable global accounting standards. It is a" principles based" set of standards which are drafted lucidly and are easy to understand and apply.

International Financial Reporting Standards comprise of:
International Financial Reporting Standards (IFRS)
International Accounting Standards (IAS)
Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)
Standing Interpretations Committee (SIC)

In addition to the above, there is a "Framework for the Preparation and Presentation of Financial Statements", which describes the principles underlying the IFRS.

Objectives of IFRS
To standardize accounting methods and procedures.
To lay down principles for preparation and presentation.
To establish benchmark for evaluating the quality of financial statements prepared by the enterprise.
To ensure the users of financial statements get creditable financial information.
To attain international levels in the related areas.

5. LIST OF IFRS ADOPTION COUNTRIES

Sr.No	Year	Countries
1	2005	Australia
2	2005	Israel
3	2005	New Zealand
4	2005	European Union
5	2010	Brazil
6	2011	Canada
7	2011	India

6. CHALLENGES OF IFRS
Accounting Professionals in India and across the world have listed various benefits of adopting IFRS. In spite of these benefits, adoption of IFRS in India is difficult task and faces many challenges. Few of these have been listed as below:

I. Awareness about international practices
Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. There are a number of differences between the two GAAP's (discussed below). This may cause the users of financial statements to look at them from a new perspective. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

II. Training
Professional accountants are looked upon to ensure successful implementation of IFRS. The biggest hurdle for the professionals in implementing IFRS is the lack of training facilities and academic courses on IFRS in India. As the implementation date draws closer (2011), it is observed that there is acute shortage of trained IFRS staff. The solution to this problem is that all stakeholders in the organization should be trained and IFRS should be introduced as a full time subject in the universities.

III. Amendments to the existing law
It is observed that implementation of IFRS may result in a number of inconsistencies with the existing laws which include the Companies Act 1956, SEBI regulations, banking laws and regulations and the insurance laws and regulations. Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. Although steps to amend these laws have been initiated, the authorities need to ensure that the laws are amended well in time.

IV. Taxation
IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS. It is extremely important that the taxation laws recognize IFRS compliant financial statements otherwise it would duplicate administrative work for the organizations.

V. Fair value
IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used. Moreover, adjustments to fair value result in gains or losses which are reflected in the income statements. Whether this can be included in computing distributable profit is also debated.

VI. Management compensation plan
The terms and conditions relating to management compensation plans would also have to be changed. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP. The contracts would have to be re-negotiated which is also a big challenge.

VII. Reporting systems
The disclosure and reporting requirements under IFRS are completely different from the Indian reporting requirements. Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc. Existence of proper internal control and minimizing the risk of business disruption should be taken care of while modifying or changing the information systems.

7. OPPORTUNITIES OF IFRS

Companies across the globe have benefited by adopting IFRS for financial reporting purposes. Previous Studies have suggested various benefits of adopting IFRS, notably, better financial information for shareholders, better financial information for regulators, Enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, Better Management of global operations and Decreased cost of capital and few other benefits with respect to the firms in India and also India as a country.

I. Rationalize and reduce the reporting cost

Conversion to IFRS offers companies a number of important benefits. Companies that operate in a global environment and comply with foreign reporting requirements can streamline their financial reporting. This will reduce related reporting costs by developing common reporting systems and will ensure consistency in statutory reporting.

II. Develops international linkages

Comparison and benchmarking of financial data with international competitors would be possible. Adoption of IFRS will make cross border acquisitions and joint venture possible, and also provide access to foreign capital. This is because majority of stock exchanges require financial information presented according to the IFRS.

III. Edge to the companies

Early adoption of IFRS may offer an edge to the companies over their competitors as they can claim early adoption. This, in turn, will enhance the brand value of the company. The companies can trade their shares and securities on stock exchanges world-wide. For this, most of the stock exchanges require financial statements prepared under IFRS.

IV. Convergence on a common platform

Another major benefit of convergence is that the management of a company can view all the companies in a group on a common platform. This will reduce the time and efforts involved to adjust the accounts in order to comply with the requirements of the national GAAP.

V. Fair transparency in financial data

Business acquisition would be reflected at fair value in IFRS rather than the carrying values. This would ensure greater transparency in the financial statements.

VI. Boost the growth of service sector

The implementation of IFRS in the corporate would require trained accountants, auditors, valuers and actuaries. This will boost the growth of the service sector also as India can emerge as an accounting services hub. Moreover, a single set of accounting standards worldwide would ensure that auditing firms standardize their training and quality of work is maintained globally.

8. CONCLUSION

Ensuring a high quality corporate financial reporting environment depends on effective Control & Enforcement Mechanism. Merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure. Top Management should ensure that the Financial Statements are prepared in compliance with the IFRS. Auditors and Accountants should prepare and audit Financial Statements in compliance with IFRS. Regulators and Law Makers must implement efficient monitoring system of regulatory compliance of IFRS. Along with this the Regulators should ensure that proper changes are to be made in existing laws for IFRS adoption process.

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