JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

A Study on Challenges and Utilities of IFRS Adoption from stakeholders' perspective

Dr.Kalavathi K

Associate Professor

Head of Department of Commerce

IDSG Govt College

Chikkamagaluru-577102

KARNATAKA

Email:kalaksmt@gmail.com

Phone:9448743153

Abstract: This paper presents both challenges and benefits of IFRS Adoption in India from stakeholders' point of view. Main stakeholders such as ICAI, ASB, Business Entities, Shareholders, Government, Stock Markets and Accounting and Auditing professionals face numerous challenges in shifting from one accounting standards and practices to another accounting procedure and practices. The process of changing an accounting practice is not appeared to be an easy task, as it involves many aspects mainly convergence of the native accounting standards to new global set of standards that demands continuous work by concerned authorities and study of the implications of new set of standards. In this regard, in India, the Institute of Chartered Accountants of India (ICAI) took the responsibilities of convergence and completed it satisfactorily within stipulated time period and suggested phase wise implementation date. Still the country could not able to meet its original implementation schedule. These factors are highlighted in the paper.

Key words: IFRS Adoption, Challenges, Stakeholders of IFRS adoption, Benefits of IFRS.

1. Introduction;

Accounting and Auditing people a country or a corporate entity face tough situation when it's Government take a decision to shift from its existing set of standards to a new set of standards, numerous issues are involved that need to be identified and managed. Prominently, two issues are to be resolved i.e., those appear before implementation of new standards and those need to be managed after implementation. Pre implementation challenges are the issues that a country or an entity encounters in the process of shifting to a new set of standards and post implementation issues are recognized as impacts of shifting to new set of standards that may appear in the form of difficulties and benefits. In India, as the original implementation process (i.e., from 1, April 2011) delayed business entities got much time to adjust themselves to new set of standards and to make preparations based impact assessment as the entities such as Infosys Technologies, Dr. Reddy's Laboratories, Bharati Airtel, Tcs and TATA power are presenting IFRS complied financial statements along with financial statements based on Indian GAAPs. This way presenting their financial statements using both accounting standards provides corporate entities enough bases to adjust to new accounting procedures and practices. Hence, it is necessary for Indian entities specifically those covered under implementation schedule, to understand IFRS and the benefits of adoption and to take necessary steps towards moving to new set accounting standards.

2. Objectives of the study: the study objectives are;

- Highlight IFRS implementation/ Adoption procedure in India
- Identify the challenges of IFRS
- Identify expected benefits of IFRS

3. Methodology;

The study is based on the data collected from secondary sources. No statistical tools are used for analysis purpose, because, the work is exploratory in nature and relevant issues are identified and analyzed in a more general way. Hence, focus of the Study is concentrated in exploring the things relevant to understand IFRS in Indian context.

4.Stakeholders of IFRS:

Stakeholders of IFRS also called beneficiaries of IFRS are accounting standard setters, Government and regulators, stock markets, investing community, accounting and auditing professionals and corporate entities. Therefore, in the study, risks of IFRS adoption or benefits are assessed from the view point of these stakeholders.

4.1Accounting standard setters; In India, being a premier accounting body the Institute of Chartered Accountants of India formulate and issues accounting standards from time to time based on the corporate, economic, legal and political environment prevailing in the country. Considering India's commitment to converge Indian GAAPs with IFRSs, it assumed the responsibility of convergence process and completed the task and come out with 42 Indian standards that are converged with IFRS. Convergence process seems to be an ongoing process because IFRSs themselves undergo many changes. Here, there is a need to continuously update or make modifications in the converged standards. Hence regular observance of the pronouncements made by the International Accounting Standards Board (IASB) and making appropriate corrections in Indian accounting standards are expected which is a challenging job to the ICAI.

The ICAI also perform the work of organizing training programmes, workshops and conferences as and when it feels necessary, to acquaint IFRSs skills essentially among accounting and auditing community who are most directly affected by IFRS issue. It has taken numerous efforts to make them familiar about the process.

4.2Government and Regulators; Ministry of Corporate Affairs (MCA) is the main authority that resolves the accounting issue and finalizes the entire process of issuance of accounting standards. There is one more authority at the government level called National Advisory Committee on Accounting Standards (NACAS) responsible for the approval of the accounting standards and recommending for final issue. Therefore, it continuously monitors the work of setting and issuing accounting standards and therefore, as and when the draft of accounting standards are framed originally or modified by the ICAI, the same will be sent to NACAS for its approval. Then the exposure drafts of the standards are issued by the authority to the public for comments. Based on the public (i.e., Comments made by accounting and auditing people, corporate people, tax authorities etc.) comments on the exposure draft of the standards, the NACAS will recommend the standards to the MCA for final issue through its website. The same procedure is followed for convergence process where in, Country-specific accounting standards are aligned with IFRS. Important thing that could be observed here in convergence process is that enough time is involved from the preparation of draft of each standard until its final issuance. Formulation of an accounting standard would not happen all of a sudden within a short period of time. Hence, convergence of all Indian standards to IFRSs is a time consuming job and challenging one. While converging each and every standard with IFRS, a detailed and step by step procedure is required. In this process of convergence, due non willingness of the corporate entities to shift to new accounting regime, Government might experience political and corporate lobbies that delayed the process and scheduled timely implementation may not be achieved.

Accounting framework, in India, is deeply affected and it is governed by entity specific laws and regulations such as the Companies Act 1956, the Income tax Act 1961, SEBI guidelines, and RBI rules etc. Compliance of accounting standards and financial statements of entities are regulated by the requirements of these laws. Hence while implementing new accounting practices, required amendments are need to be done to these Acts that demands more time in shifting to IFRS. It is a troublesome work and also enough time consuming to make amendments to concerned Acts. It is a challenging job to the government as it required to be passed in the parliament. Certain amendment Bills to different Acts are pending that cause for the delayed implementation of IFRS .For example, Banking laws (Amendment)Bill, 2011, the Companies Bill 2009, Direct Taxes Code Bill 2010 are pending that are to be passed.

4.3 Stock markets; In India, Stock market operations are regulated by the Securities Exchange Board of India (SEBI) established in the year 1982. It has two main intentions of achieving development of stock markets and to protect interests of investors. It formulates laws, rules and guidelines to achieve the same. Necessary changes need to be made in SEBI rules and guidelines whenever accounting changes are made by the government.

4.4 Investing Community; Satisfying Investing community is the mail goal of corporate entities through publishing reliable, relevant, consistent and comparable financial information. Investing community expect more reliable, comparable, understandable and transparent financial information from corporate entities as their investment decisions are directly affected by the quality of financial information reported by the entities. Their investing interest is also affected by the accounting practice followed by the entities. Hence, they should be educated about new reporting procedure as it affects financial position and financial performance of the entities. They should know about new set of globally accepted standards so that they can read and understand the accounting reports of entities prepared by following new set of standards.

4.5 Accounting and auditing professionals; Adoption of IFRS poses big challenge to these people and hence**,** updating their accounting knowledge is required as they have to comply with new standards while preparing the financial statements of business entities. They should undergo proper training and collect relevant IFRS material to familiarize themselves with new accounting procedures and to get them acquainted with new standards. At the same time their professional opportunities seems to be widened and may get wider global chances of employment prospects.

4.6 Corporate Entities; In India, those entities that are covered under I phase of implementation process (i.e., entities whether listed or unlisted having a net worth in excess of rupees 1000 crore, as per new revised road map) are the first adopters and should prepare consolidated financial statements using new standards. Those entities that are covered under I phase get prepared for the change and update their accounting mechanism to observe with new standards. Implementation program is to be designed and pre- implementation preparations and post implementation assessment is required based on the experiences of those entities already using IFRS as their reporting standards.

5.0 IFRS implementation challenges in India;

- Creating awareness about new accounting practice and procedures, its necessity and significance among different stakeholders.
- Achieving necessary amendments to Companies Act, Income Tax Act, SEBI guidelines, RBI rules etc
- Accounting and auditing people are expected to update their accounting skills as they are the preparers of financial statements of entities as per new standards and it is a challenging issue for them to address the interpretation of the application issues and need to be well informed. They should undergo training and workshops to be prepared for IFRS.
- Accounting and finance mechanism and IT systems of business entities are to be updated that may demand further investment for IFRS adoption.
- Corporate entities are the major stakeholders to be affected by IFRS in various grounds.

It is assumed that some more challenges that Indian corporate entities may observe are due to differences in the types of economies, political systems and legal structure of the country with that of those advanced countries that initiated the global standards. As in India, financial market is not so well developed and the Indian corporate may find difficulty in determining the fair values of assets and liabilities.

6.0 Utilities of IFRS Adoption: It is perceived that several benefits are assumed to be derived by following common accounting standards/Practices/ procedures by all companies of all countries i.e., observing IAS/IFRS in the preparation and presentation of financial statements;

- It improves the quality of financial reporting of reporting entities and they can produce and publish more reliable**,** transparent, comparable financial information can be presented.

- It increases cross-border listings and thereby helps the entities to raise off-shore capital and by that way integration of capital markets at international level could be achieved.

- It stimulates the attitude of international investing among investing community leading to off-shore capital movement.

- It avoids the problem of multiple reporting by the corporate entities that are having cross-border operations and thus reduces the costs of compliance of financial reports prepared using different accounting practices.

- It enables the Entities to mobilize capital at reduced costs as uniform accounting practice by all entities of different countries makes the availability of capital at cheaper rates creating competition among capital markets.

- It enhances the reputation or image of the entities that are complying IFRS in their reporting.
- It facilitates achieving overall economic growth of the nation in the long run.
- Enhanced mobility of accounting and auditing professionals among different nations of the world as their professional opportunities would broaden. With their expertise, they can serve in various parts of the world.

7.0 Rationale of convergence Process and role of ICAI in this regard;

Being an emerging economy, our country is committed to converging its accounting standards with International Accounting Standards/ International Financial Reporting Standards. As a result, in the year 2006, the Prime Minister of India has announced that the government will introduce comprehensive new company legislation aligning Indian accounting standards with IFRSs. In this regard, the Ministry of Corporate Affairs has decided to convergence after a series of discussions with legal and regulatory authorities like Reserve Bank of India, Securities and Exchange Board of India and others. A high-powered core group has been set up by the ministry under the chairmanship of secretary of MCA to study the impacts of IFRSs and to understand the level of preparedness of Indian corporate entities for converging with IFRSs. In this connection, ICAI was given the responsibility of managing the whole convergence process and to ensure smooth convergence. Initially, the ICAI has set up a task force to explore the possibility of adopting all IFRSs in full without any modifications as Indian standards but later decided to converge by making modifications to IFRSs to reflect the Indian conditions. In the way of convergence, the Accounting Standard Board (constituent body of ICAI) formed a Task Force in the year 2006 to identify the approach for convergence with IFRS and also to design the roadmap for convergence with IFRS. Since then the council is making intensive efforts for smooth convergence by analyzing various phases of convergence. Initially it has identified the legal and regulatory requirements which arise due to convergence with IFRS and also recommended changes in the respective Acts. It has submitted its recommendations to the respective authorities like RBI, SEBI, NACAS, and Insurance Regulatory and Development Authority (IRDA) and thus set the way to a smooth transition process.

Considering the difficulties in achieving convergence with IFRS by all corporate entities at one stretch, ICAI suggested phased implementation process and formed three phases to reach full convergence. It also took capacity building programmes to prepare the accounting and auditing professionals and hence, organized many training programmes and workshops. It has a website dedicated to IFRS to present current status of standards to comply with IFRS. (http:// ifrs.icai.org/#)

8.0 Procedure of Convergence in India;

Accounting Standards are set of rules and guidelines that guide in the preparation and presentation of financial statements by the corporate entities. Therefore, maintaining High quality accounting standards in the country help flow of financial information from business entities to wide range of users/ stakeholders like investors, creditors, regulators and auditors, employees and the general public. General utilities of accounting standards are that they help to standardize the diverse accounting policies and provide the comparability of financial statements within an entity and also across entities, enable the presentation of high quality, transparent and comparable information in financial statements and help in reducing accounting alternatives and thereby eliminate subjectivity in financial statements

It is the prime responsibility of the Institute of Chartered Accountants of India through the Accounting Standards Board to formulate accounting standards applicable to the Indian corporate entities and hence, Accounting Standards mean the standards of accounting formulated and issued by the Institute of Chartered Accountants of India. Accounting Standards issued by the ICAI were initially recommendatory in nature (e.g.:AS-25 Interim Financial Reporting is not mandatory, but is required to prepare and present an interim financial report, it should comply with this standard) but thereafter the council started insisting its members to report on whether the enterprise subject to audit had followed a mandatory accounting standards.

The responsibility of convergence has been assigned to ICAI and the council took efforts to converge Indian accounting standards with IFRSs for accounting periods commencing on or after 1st April 2011 in a phased manner and The inception of the idea of convergence of Indian GAAP with IFRSs was made by Prime Minister Dr. Manmohan Singh by committing in G20 Summit held on September 2009 in Pittsburgh to align Indian accounting standards with IFRSs by 2011.In India the task of IFRS convergence has been primarily carried out by the Ministry of Corporate Affairs through the participative and consultative support of all the concerned stakeholders such as ICAI, ASB of ICAI, NACAS and many others. Proposed the road map to IFRS and submitted it to the Ministry of Corporate Affairs(MCA) for smooth transition to IFRSs. The council has taken up the matter of convergence with the National advisory Committee on Accounting Standards(NACAS) & various regulators such as Reserve Bank of India(RBI),Securities Exchange Board of India(SEBI), &Insurance Regulatory Development Authority(IRDA),Central Board of Direct Taxes(CBDT),International Accounting Standards Board(IASB) the issues of IFRS which are supporting the ICAI in its endeavors towards convergence specifically in preparation of draft of IND AS.

India opted convergence to IFRSs rather than outright adoption of IFRSs keeping in view the legal and economic conditions of the nation. Convergence means to be as close to IFRSs by narrowing the differences between IFRS and Indian accounting standards, making some permissible changes ,namely removing options permitted under IFRSs, prescribing disclosures in addition to those required under IFRSs and also making many other changes which may result to deviations which would be taken up with the IASB. India decided IFRS convergence instead of adoption because IFRSs issued by IASB are not country specific and hence adoption of IFRSs as they are might cause practical difficulties. This lead to departures in IFRSs mainly due to changes in the legal, regulatory and economic environment prevailing in the country.

10.0 Conclusion; Even though, India deferred the implementation date, it could not set back from its original commitment because the convergence process is already completed and a few number of Indian companies are reporting their financial information using two sets of standards one being the existing Indian standards and the other one is IFRS .Just necessary will is required on the part of the Government to strictly impose the implementation date. Moreover, a number of Multi-National Companies doing their business operations in the county and many Indian companies expanded their operations outside India. Uniform reporting practices are inevitably adopted by the entities which may further increase the number of joint ventures, mergers and acquisitions, diversifications and expansions. In this regard experienced professionals should work in an integrated manner for smooth transition from local set of standards to international standards and the transformation is required to be achieved in different phase that is already suggested by ICAI.

Country specific impact assessment is required as it cannot be assumed with the experience of other countries that are already using IFRS. Accounting practices of different countries differ in many ways due to changes in corporate, legal, economic and political aspects. Hence, taking account of the experiences of Indian companies that are giving IFRS financial reporting, that to based on their size, nature of operations and ownership pattern, more specific implications of IFRS on the financial performance and financial position of the entities could be made. It may convince and push the other entities to try IFRS as early as possible.

References:

Sl. No	Author.	Publisher/web address	*Title of the article/paper/book etc.*
1.	Asish K Bhattacharyya	http://www.business-standard.com/article/economy-policy/asish-k-bhattacharyya-delay-in-adoption-of-ifrs-a-blessing-in-disguise-112070900023_1.html	*Delay in adoption of IFRS: A blessing in disguise*
2	K. R. SRIVATS	http://www.thehindubusinessline.com/economy/full-adoption-of-ifrs-will-bolster-foreign-flows-iasb-chairman/article5764478.ece	*Full adoption of IFRS will bolster foreign flows: IASB Chairman*
3		http://www.accountancyage.com/aa/news/2027245/india-delay-ifrs-introduction#disqus_thread	*India likely to delay IFRS introduction*
4	CA Pradeep G Bajoria	http://taxguru.in/finance/ifrs-indian-context.html	*IFRS in Indian context*
5	Jamil Khatri, Partner & Head of Accounting Advisory Services, KPMG (India)	http://thefirm.moneycontrol.com/story_page.php?autono=563966	*Delayed IFRS: Impact on GDR Issuers*
6		http://pib.nic.in/newsite/erelease.aspx?relid=81233	*Delay in Implementation of IFRS* *Moving to IFRS: delays and more delays*
7		http://pwc.blogs.com/ifrs/2011/06/moving-to-ifrs-delays-and-more-delays.html	*Press Release - Proposed New Roadmap for Implementation of Ind AS converged with IFRS - (24-03-2014)*

8		http://www.iasplus.com/en/news/2014/04/icai-roadmap	*International Accounting Standards Board* *Popular Articles About International Accounting Standards Board*
9		http://www.bilkulonline.com/gujarat-news/political/6156-move-towards-new-frontiers-bang-the-icai-ahmedabad-chapter	*Move Towards New Frontiers" bang the ICAI Ahmedabad Chapter*
10		http://en.wikipedia.org/wiki/International_Financial_Reporting_Standards -	*Moving Ahead towards Implementation of IFRS- converged Indian Accounting Standards (Ind AS)*
11		http://articles.economictimes.indiatimes.com/keyword/international-accounting-standards-board	*IFRS updates*
12		http://www.lncofirm.com/ind-as-ifrs.php	*Effective dates of IFRSs and amendments*
13		http://www.iasplus.com/en/othernews/new-and-revised/march-2013	*New and revised pronouncements as at 31 March 2013*
14		http://www.ifrsbox.com/top-5-ifrs-2014-2013-changes/	*Top 5 IFRS 2014 and 2013 Changes*
15		http://en.wikipedia.org/wiki/List_of_International_Financial_Reporting_Standards	*List of International Financial Reporting Standards*
16		http://www.cpeonline.com/seminar/seminar/ifrs-2014%3A-an-update-of-recent-changes	*IFRS 2015: An Update of Recent Changes* *Overview:*

17		http://www.seeitmarket.com/financial-accounting-standards-ias-and-ifrs-changes-2013-2014/	*Financial Accounting Standards: IAS and IFRS Changes in 2013 and 2014*
18		http://www.icai.org/new_post.html?post_id=11015	*ICAI Press Release - Online Comments on Exposure Drafts issued by ICAI on the new Ind ASs corresponding to new/ revised IFRSs issued by the IASB. - (08-10-2014)*
19		http://www.icai.org/post.html?post_id=7680	*Exposure Drafts of Indian Accounting Standards issued by Accounting Standards Board*
20		http://www.ifrs.org/Current-Projects/IASB-Projects/Business-Combinations/Pages/The-revised-IFRS-3-and-amended-IAS-27.aspx	*Exposure Draft of the Agriculture: Bearer Plants (Amendments to Ind AS 16) (corresponding to Bearer Plants: Amendments to IAS 16) (Comments to be received by October 15, 2014)*
21		http://post.jagran.com/flashback-2014-corporate-affairs-ministry-dishes-out-sweet-and-sour-regulatory-cocktail-this-year-1419585732	*FLASHBACK 2014: Corporate Affairs Ministry dishes out sweet and sour regulatory cocktail this year*
22	Benny Antony	http://www.deccanherald.com/content/446134/fraud-reporting-norms-auditors-may.html	*Fraud reporting norms by auditors may be diluted*

23		http://www.thehindubusinessline.com/economy/policy/accounting-panel-to-complete-ifrs-convergence-report-by-novemberend/article6431732.ece	*Accounting panel to complete IFRS convergence report by November-end*
24	Deepak Patel	http://www.business-standard.com/article/economy-policy/few-companies-may-switch-to-new-accounting-norms-115010300657_1.html	*Few companies may switch to new accounting norms*
25		http://www.newindianexpress.com/business/news/Early-voluntary-adoption-of-Ind-AS-may-be-difficult/2015/01/04/article2603215.ece	*Adoption of IFRS by country*
26		http://www.ey.com/IN/en/Issues/IFRS/MCA-roadmap-for-IFRS-conversion-in-India---Discontinuing-use-of-IFRS	*MCA roadmap for IFRS conversion in IndiaDiscontinuing use of IFRS*
27		http://astrazure.com/event/ifrsmasterclass/	*IFRS IMPLEMENTATION MASTERCLASS*
28		http://www.ey.com/IN/en/Issues/IFRS/MCA-roadmap-for-IFRS-conversion-in-India---Phase-approach	*MCA roadmap for IFRS conversion in IndiaRoadmap outlines a phase approach to IFRS adoption*
29	Shruti Srivastava	http://archive.indianexpress.com/news/indian-companies-likely-to-shift-to-ifrs-from-april-2015/1184894/	*Indian companies likely to shift to IFRS from April 2015*

30	Neha Pal	http://archive.financialexpress.com/news/Companies-adopt-IFRS-norms-ahead-of-time/351954	*Companies adopt IFRS norms ahead of time*
31		http://www.ey.com/IN/en/Issues/IFRS/Overview--IFRS-becomes-mandatory-in-India	*India's new accounting standards: "Ind-AS"*
32	Ram Kesh Guptha	httprepository.christuniversity.in33051IFRS_Final1.pdf	*IMPACT ON ECONOMIC ACTIVITIES BY ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS BY INDIAN COMPANIES*
33		*http:// ifrs.icai.org/#*	*Concept paper on convergence process*