STUDY OF IFRS IMPLEMENTATION FOR DIFFERENT SECTORS AND COMPANY-TYPES IN INDIAN COMPANIES WITH REFERENCE TO VIDARBHA BASED INDUSTRIES

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Abstract: The need for standard common accounting standard has been felt since the companies have been started working internationally. The international efforts in setting these uniform accounting standards lead to the International Financial Reporting Standards. As we know that India has been the first preferred destination for FDI. Many Indian companies have become global especially after the liberalization policy of the central government in 1991-92. It has therefore become necessary to review the status of IFRS implementation in India and especially in Vidarbha based industries. Any new system brings difficulties and challenges in its adoption with the advantages. The researcher therefore felt the need to understand the implementation status of IFRS in India. Apart from this in our country there are various laws for different sectors and companies. Hence the researcher tried to focus on the IFRS implementation for various sectors and different types of companies. The present study will enable in understanding the various issues obstructing the IFRS implementation, the road map and the utilization of the benefits of IFRS convergence by the Indian companies.

Key Words: GAAP, IFRS, Uniform Accounting Standards, IAS

Introduction: GAAP are the common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP are a combination of accounting standards set by the Accounting Standard Setting Boards and the commonly accepted ways of recording and reporting accounting information. The Council of the ICAI and Accounting Standard Board formulate the Accounting Standards in India. So far The Institute of Chartered Accountants of India has issued 32 Accounting Standards which are numbered from AS-1 to AS-7 and AS-9 to AS-32. Out of this AS 8 is merged with AS-26 and hence not separately considered now.

Financial reporting standards
Different countries have been using different financial reporting standards as per requirements of their country. These variations create inconsistencies in financial reporting across various countries. Due to globalization of business regulators, investors, large companies and auditing firms started to feel the importance of common standards in all areas of the financial reporting systems. The industrialized nations started to create standards for use of developing and smaller nations which could not establish their own accounting standards. This process of setting the international standard started few decades ago.

International Financial Reporting standard:
IFRS is a single set of high quality, transparent, easy to understand and enforceable global accounting standards that require comparable information in financial statements and reporting to help participants in the world’s capital markets and other users to make their economic decisions” All participants in the capital markets have shown their interest to accept a single set of global, uniform and robust accounting standards. Various international efforts to develop a core set of accounting standards failed to implement the IFRS across the world as per the deadlines. However there is continuous increase in the companies which started the use of IFRS for the preparation of financial statements especially the publicly held companies. The amendments to - International Accounting Standards (IAS) 39: Financial Instruments: Recognition and Measurement have gained acceptance and attraction in all major regions of the world.

Composition of IFRS:
International Financial Reporting Standards comprises of
- International Financial Reporting Standards (IFRS) - standards issued after 2001
- International Accounting Standards (IAS) - standards issued before 2001
- Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC) - issued after 2001
- Standing Interpretations Committee (SIC) - issued before 2001
Table 1: List of IFRS

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 1</td>
<td>First-time Adoption of International Financial Reporting Standards</td>
</tr>
<tr>
<td>IFRS 2</td>
<td>Share-based Payment</td>
</tr>
<tr>
<td>IFRS 3</td>
<td>Business Combinations</td>
</tr>
<tr>
<td>IFRS 4</td>
<td>Insurance Contracts</td>
</tr>
<tr>
<td>IFRS 5</td>
<td>Non-current Assets Held for Sale and Discontinued Operations</td>
</tr>
<tr>
<td>IFRS 6</td>
<td>Exploration for and evaluation of Mineral Resources</td>
</tr>
<tr>
<td>IFRS 7</td>
<td>Financial Instruments: Disclosures</td>
</tr>
<tr>
<td>IFRS 8</td>
<td>Operating Segments</td>
</tr>
</tbody>
</table>


[B] IFRS in India:
In India Accounting Standards Board (ASB) formulates and issues accounting standards. These standards are in line with IFRS except for a few instances. As per the opinion of Council of the Institute of Chartered Accountants of India (ICAI) in May 2006 ASB supported the adoption of IFRS. India also decided to converge to International Financial Reporting Standards (IFRS). The IFRS task force which was set up in India to provide a road map has it decided to converge the IFRS with effect from 1 April 2011. Ministry of Corporate Affairs carried out the process of convergence of Indian Accounting Standards with IFRS. This decision was taken after various consultations with all the stakeholders in Indian Industry and economy. Those thirty five Indian Accounting Standards converged with International Financial Reporting Standards are called as IND-AS.

Table 2: The Earlier Initiation of IFRS implementation Plan in India w.e.f. April 2011

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Phase I</th>
<th>Phase II</th>
<th>Phase III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance sheet</td>
<td>1st April 2011</td>
<td>1st April 2012</td>
<td>1st April 2013</td>
</tr>
<tr>
<td>NSE-NIFTY 50 Companies</td>
<td>All insurance companies</td>
<td>Companies listed or not having a net worth between 500-1000 crores as on March 31, 2009</td>
<td>Listed companies having a net worth of less than 500 crores as on March 31, 2009</td>
</tr>
<tr>
<td>BSE-SENSEX 30 Companies</td>
<td>All scheduled commercial Banks</td>
<td>Urban Cooperative Banks having net worth 200 to 300 crores</td>
<td></td>
</tr>
<tr>
<td>Companies whose shares are listed outside India</td>
<td>Urban cooperative Banks having net worth in excess of 300 crores</td>
<td>NBFCs: Unlisted but having net worth between 500 to 1000 crores</td>
<td></td>
</tr>
<tr>
<td>Companies listed or not having turnover more than 1000 crores</td>
<td>NBFCs-NIFTY 50 or SENSEX30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NBFCs listed or not having net worth exceeding 1000 crores</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: IFRS not applicable for
a. Unlisted companies having a net worth of Rs 500 crores or less and whose shares or other securities are not listed on stock exchange outside India.
b. SMEs

Source: https://www.iasplus.com/en/standards/ifrs/ifrs1
Despite planning and the efforts of MCA, ICAI the implementation targets could not be met and hence MCA extended the date to 2018.

[C] Purpose of Selecting the Topic under Study
Looking at the present scenario of the world economy and the position of India convergence with IFRS is strongly recommended. The convergence of Indian Accounting Standards with IFRS would enable Indian companies to give a world level uniform accounting statement of compliance with IFRS in their financial recordings. However this transition to IFRS will not be smooth and it would be a painful process. The adoption of universally accepted GAAP also has many challenges. The challenges include bringing awareness about IFRS and its impact. To implement IFRS would need changes in formats of accounts, change in different accounting policies and more extensive disclosure requirements. Therefore all stakeholders with financial reporting also should share the responsibility of international harmonization and IFRS convergence.

Convergence of IFRS and GAAP will lead to achieve harmony with IFRS and maintain national accounting standards in such a way that they comply with the International Accounting Standards. This transition would enable Indian companies to be fully IFRS compliant and give a compliance with IFRS which is unreserved and explicit statement in their financial statements. The two important aspects are Time and cost as India is running against time for implementation and there will be higher initial cost of convergence.

Many countries had set different implementation targets for these new accounting standards. All stakeholders of the industry and the regulation bodies are facing some issues and difficulties for its implementation though there are many advantages. In the era of globalization various companies are divided in different kind considering their revenue, types of ownership. The Companies vary from Proprietor, Cooperative, SME, Medium scale, large scale to Multinational.

Apart from these the companies are divided based on the sectors of the operation; Manufacturing, IT, Services, FMCG and so on. The scope of our study is confined to Vidarbha and the objectives are to highlight the implications of adopting IFRS in different sectors and companies of Vidarbha after analyzing the provisions of IFRS, challenges which such adoption will pose and in the end provide suggestions to overcome such challenges.

From the above discussion we summarize that:
IFRS is the need of the hour though there are some issues in its implementation. The issues of different sectors and types of companies are different. The challenges in implementation of these different types of companies and sectors may also vary.

In Vidarbha based industries time and cost are two important criteria to consider the implementation of IFRS.

- Hence it becomes now necessary to understand the challenges and issues these units faced while deciding and implementing the IFRS in their reporting standard.
- It is also important to understand what are the different issues the different sectors come across while implementation of IFRS.
- Proposed paper study specifically targets the impact of these new accounting standards on the basis of the perceptions of accounting professionals, especially chartered accountants, on different types of the companies and the sectors.

In light of the above discussions, the researcher has proposed following topic for study.

“Study of IFRS implementation for different Sectors and Company –Types in Indian Companies with reference to Vidarbha”

[D] Objectives of the Study

- To know the perceptions of Chartered Accountants (CA) and persons from Finance Department about the installation of IFRS in India. The various regulation bodies and stakeholders from the company, accounting professional had been studying the different aspects of the IFRS implementation in the country. However there is not much study carried out about implementation and its effects on the industries. The researcher hence thought of knowing the perceptions of CAs and accounting professionals about various aspects of IFRS.
- To analyze the suitability of IFRS in different company types with Indian Perspective. There are various ambiguities regarding awareness of IFRS. Different stakeholders feel that the IFRS is suitable only for big corporate or MNCs. Some scholars however also endorse its suitability for all types of companies. The pros and cons as discussed by various professionals do not lead to some convergence. The initial cost of installations and other hurdles restrict the implementation. According to the draft plan, the ministry wants to implement the international financial reporting standards (IFRS) beginning with companies that have a net worth of over Rs 1,000 crore from April 1, 2015. In the second phase, both listed and unlisted companies with a net worth of over Rs 500 crore but less than Rs 1,000 crore will have to converge with the international accounting standards from the financial year beginning April 1, 2016.

The researcher therefore felt the need to analyze the suitability of IFRS for different company –type wise in Indian perspective.

- To understand the utility of IFRS in different sectors of Industry.
  The earlier initiation of IFRS implementation in India has different phase wise planning in India. The plan itself has different deadlines for various sectors. The banking sectors and the listed companies have given priority. The IT sector is most global sector as of today whereas other sectors operate locally.
  Under the circumstances it becomes relevant to understand the importance of IFRS implementation in different sectors of the industry. Also it is necessary to know the factors restricting the implementations.

[E] Period of Study:
By Twentieth century many countries of the world realized the importance of a single set of high quality, transparent, understandable and enforceable global accounting standards. This standard requires transparent and comparable information in financial statements and reporting to help all stakeholders, users and participants of world’s capital markets to make economic decisions.
According to the researcher, the IFRS though planned in phased manner for its implementation was not being implemented as desired in most types and sectors of the companies in India.

The regulating authorities considered the IFRS implementation and the target were set in May 2006. The Indian Finance regulating authorities and ministry of corporate affairs have accepted and planned the implementation phase as 2011. Hence the researcher found that the period of study from 2006-2012 as the most appropriate period as.

[F] Sampling Frame:
The data for the paper collected from the primary source by questionnaire and personal interviews of the chartered accountants: Who are working as practitioner and as Finance executives in different organizations of Vidarbha based organisations. The judgmental sampling method was used for the selection of Chartered accountants for questionnaire. Out of total 150 randomly selected chartered accountants 115 CAs responded. For the survey the close ended questionnaire was sent. The response was sought on the following close ended questionnaire prepared for the present paper study.

1. In your opinion is IFRS suitable from Indian Companies Perspective.
2. IFRS is more suitable for which type of companies out of followings.
3. Which sectors have more utility of IFRS implementations among the mentioned below?
4. Will there be positive effects of IFRS implementation in the big corporate companies?

[G] Data analysis and Hypothesis testing:
Following two hypotheses are designed for the study.

**Hypothesis 1** = “IFRS suitability for Indian companies is independent of type of companies.” In other words IFRS is suitable for Indian companies and has no relation with the types of companies in Vidarbha.

**Hypothesis 2** = “IFRS is suitable for all sectors of the business and has no relation with the types of companies.”

The Researcher has used simple statistical techniques for the purpose of the said study by applying the Chi square test, degree of Freedom.

1. **Suitability of IFRS for Indian Companies**
   Question: Suitability of IFRS in Indian companies perspective.

Different existing studies reflect the pros and cons of IFRS implementation with respect to Indian companies. To study the suitability of IFRS for Indian companies, a table below is prepared to focus on company type wise distribution of respondents. The null hypothesis framed and tested is as below.

\[
H_0 = “IFRS suitability for Indian companies is independent of type of companies.” \text{In other words IFRS is suitable for Indian companies and has no relation with the types of companies in Vidarbha.}
\]

**Table 3: Suitability of IFRS for Indian Companies**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Suitability of IFRS for Indian Companies</th>
<th>Proprietary</th>
<th>Cooperative</th>
<th>SME</th>
<th>Medium Scale</th>
<th>Large Scale</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agree</td>
<td>37</td>
<td>3</td>
<td>42</td>
<td>13</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Can't Say</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Disagree</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>41</td>
<td>3</td>
<td>46</td>
<td>18</td>
<td>7</td>
<td>115</td>
</tr>
</tbody>
</table>

\[
\text{Chi-sq. }=11.76, \text{ DF}=8 \hspace{1cm} (\text{Source: Survey})
\]
At 8 degree of freedom, the calculated value of chi square i.e., $X^2 = 11.76$ and the Table value at 5 % probability is 15.507. As the table value $T_c >$ calculated Chi sq. $X^2$, therefore the difference is not significant. Hence the null hypothesis is accepted.

The suitability of IFRS in Vidarbha industries is independent of the type of companies. In other words the IFRS is suitable for all types of companies in Vidarbha.

2. Suitability of IFRS for different Sectors: Company –Type wise Respondents

Question: IFRS is more suitable for which sector.

Table below gives the company type wise Respondents for studying the suitability of IFRS for different sectors. IFRS may be more suitable to different sector as compared to other.

$H_2 = "IFRS is suitable for all sectors of the business and has no relation with the types of companies."$

**Table No. 4: Company -Type Wise Distribution**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>IFRS is suitable for which Sector</th>
<th>Proprietary</th>
<th>Cooperative</th>
<th>SME</th>
<th>Medium Scale</th>
<th>Large Scale</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IT</td>
<td>7</td>
<td>0</td>
<td>7</td>
<td>2</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>Manufacturing</td>
<td>26</td>
<td>1</td>
<td>29</td>
<td>11</td>
<td>7</td>
<td>74</td>
</tr>
<tr>
<td>3</td>
<td>FMCG</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>Service</td>
<td>5</td>
<td>1</td>
<td>5</td>
<td>4</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>5</td>
<td>Others</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>41</td>
<td>3</td>
<td>46</td>
<td>18</td>
<td>7</td>
<td>115</td>
</tr>
</tbody>
</table>

Chi-sq. =10.18, DF=16 (Source: Survey)
At 16 degree of freedom, the calculated value of chi square i.e. $X^2 = 10.18$ and the Table value at 5% probability is 26.296. As the table value $T_c >$ calculated Chi sq. $X^2$; therefore the difference is not significant. Hence the null hypothesis is accepted.

The IFRS is suitable for all sectors of industries in Vidarbha and has no relation with the type of companies.

[H] Findings and Conclusions:

- The transition from Indian Accounting Standards to IFRS compatible would enable Indian entities to be fully IFRS compliant and give a world level uniform and explicit statement in their financial statements.
- The accounting professionals will need to learn the new standard, and will lead to consistency in accounting practices.
- The convergence of IFRS with GAAP will provide clarity, simplification, Transparency and Comparability between different countries on standard accounting and financial reporting
- With IFRS there would be global enhancement of ability and transparency of financial reporting with which users will be able to secure international boarder listing.
- Different countries have their own set of GAAP and regulatory body sets of each different rule which becomes the hurdle of companies to adopt uniform accounting standard for whole world.
- Necessary road map for IFRS has been prepared for its implementation of IFRS by MCA and ICAI in India.
- The researcher tried to understand the opinion of chartered accountants of the region about the utility of IFRS. The results of the survey are more positive towards its utility. More than 87% CAs have approved the benefits of IFRS for Indian companies.
- The findings of the survey reveal that the IFRS is suitable for almost all types of companies. More than 90% accounting professionals (chartered accountants) favored new standards implementation in SME also.
- The study also gives clear indication that the IFRS implementation is useful for all sectors of business. During testing of IFRS it is revealed that the implementations are most suitable to the manufacturing industries. However the standards are suitable for all other sectors also. The hypothesis testing reveals that the suitability of has no relation with the type of companies.
- Helping the MNCs to Prepare Consolidated Financial Statements: The MNCs which are operating in different countries of the world are finding it difficult to prepare consolidated financial statements due to different accounting rules and practices in different countries of the world.
- Reducing Costs and Time: The Indian companies which operate in two or more countries need to prepare separate financial statements for each country. This repetition leads to wasting time and money. Thus, the implementation of uniform accounting practice will reduce time and cost of financial reporting of companies operating in more than 2 nations.
- Better Quality of Information: The implementation of uniform accounting practice will provide better quality of financial information.
- Amendments to the existing law: There are inconsistencies in the Companies Act 1956, SEBI regulations, banking laws and regulations. These inconsistencies cause major challenges. The reporting requirements in India are governed by various regulators and their provisions override other laws. IFRS does not recognize such overriding laws.
- Time required for implementation: In other countries, regulators released final interpretations in advance of IFRS deadline and provided step-by-step transition road maps for companies. However ICAI took long time to finalize the standard which increased the confusion around standard interpretation.
- To adopt the International Financial Reporting Standards it is necessary that Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to work as a team for a smooth adoption.

[1] The challenges being faced by Indian corporate for implementing IFRS are:

Awareness of international practices, lack of training facilities and academic courses, inconsistencies with the existing tax laws, use of fair value as a measurement base for valuing most of the items of financial statements in IFRS and transparent disclosure system in IFRS.
[I] Suggestions and Recommendations for Future:

1. The study reveals that the new multinational companies working in different sectors are establishing their operations in India. So the need of better accounting standard practices is more important in the present industrial situation in all sectors. It is therefore necessary for all industries to have better transparent and uniform accounting standard to compete with upcoming industries and hence there is necessity for the existing industries to implement the IFRS at the earliest.

2. Not much printed literature is available on IFRS. The training facilities about IFRS are very much insufficient. The ICAI has good infrastructure and potential to start the training facilities. It will be in the interest of entire accounting fraternity and also the industry if ICAI focus on this area.

3. Since IFRS is not implemented in maximum number of companies in Vidarbha, it is difficult to analyze the positive effects of IFRS implementation in the industries. Hence there is further scope for the future researchers to study the effects of IFRS.

[J] Utility of the Study

1. Indian economy is one of the fastest growing economies of the world. India is the most desired and attracted destination for FDI in the world. Various aspects including LPG and thus the freedom of FDI by the Indian Government has been attracting many multinational global organizations to India. As we know the requirement of common accounting standard, is of more concern in the era of globalization or for organizations operating in multi nations.

2. The study has brought out the useful information about the implementation status and utility of IFRS in the different company types and different sectors. Hence the study will be helpful to all sectors and company types. The number of stakeholders in the process, including the accounting professionals, the Chartered accountants, and the management of the companies might use the information for decision making and implementation.

3. It may be useful for government and regulatory bodies while monitoring and analyzing the implementation and encouraging the implementation of IFRS.

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