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Challenges of IFRS Implementation in India

MOHAMMAD SHAMIM AHMAD ANSARI
(Research Scholar, Department of Commerce, DSE, Delhi University)

ANURAG SHARMA
CA, CS, M.Com, B.Com (H)
(Asst. Professor Dyal Singh College, University of Delhi)

LAXMI DEVI
M.Com, B.Com (H)
(Asst. Professor Gargi College, University of Delhi)
Delhi (India)

Abstract:
India has been identified as one of the potential emerging economy in the world and been considered as a profitable avenue for the global investment that has drastically changed the economic as well as legal environment in the economy which led to integrate its Financial Reporting with the rest of the economies of the world so that the global investors can understand and compare the financial data of the companies with the global companies. In the present scenario of globalization, the world is no more a spherical globe; it has become a flat boundary less village. A large figure of Multinational Corporations is setting up their business units in different nations mainly in emerging economies that has prompted to recognize the benefits of having commonly accepted and understood financial reporting standards (Haribhakti, 2008). In this scenario of globalization, India cannot isolate itself from the developments taking place worldwide.

Keywords: *Challenges, Economics, Emerging economy, IFRS*

1. Introduction

International Financial Accounting Standards (IFRS), formerly known as International Accounting Standards (IAS) are the Standards, Interpretations and Framework for the Preparation and Presentation of Financial statements developed by the International Accounting Standards Board (IASB) earlier known as International Accounting Standard Committee (IASC) as an independent body. On April 1 2001 the new IASB took over the responsibility of setting International Accounting Standards from IASC. It has since then continued to develop standards called as the new standards IFRS. It is a set of international accounting and reporting standards that endeavors to harmonize company's financial information, improve the transparency of reporting, and ensure that investors receive more relevant, accurate and consistent reports across the globe. Many countries have recognized the need for adoption of IFRS and are stepping towards its implementation whilst others are more passive in their approach, perhaps having issues too complex to resolve or have not comprehended the importance of IFRS.

Last decade has witnesses various changes of conducting business across the world but the major concern has been the financial reporting of business activities and events that underwent a major change. This was significantly noticed in 2005 when European Union officially adopted International Financial Reporting Standard (IFRS) and made it mandatory for certain class of companies to report Consolidated Financial Statement in conformity with IFRS W.E.F. January 1, 2005. However, many companies in Europe and Asia, before 2005, were allowed to adopt International Accounting Standard (IAS) as substitute to their local GAAP but such adoption was not mandatory. But it was legally

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adopted by EU in 2005 only that led other countries with developed capital market to adopt or move towards the convergence of National Accounting Standard with the IFRS for Financial Reporting purpose. The need to communicate the financial performance to the global investors to increase the global trade pushed many countries to adopt the IFRS in to or converge their Accounting Standard with IFRS with minor changes ensuring their suitability with economic, legal and social environments. India is no longer an exception.

2. IFRS- In Global Context

Currently, about 120 countries use IFRS in some way, and 90 of those require them and fully confirm to IFRS regulations. IFRS are maintained by the IFRS Foundation. The mission of the IFRS Foundation is to "bring transparency, accountability and efficiency to financial markets around the world". Not only does the IFRS foundation supply and, monitor these standards, but it also provides suggestion and advice to those who deviate from the practice guidelines.

The goal with IFRS is to make international comparisons as easy as possible. This is difficult because, to a large extent, each country has its own set of rules. For example, US GAAP is different from Canadian GAAP. Synchronizing accounting standards across the globe is an ongoing process in the International accounting community.

3. IFRS- In Indian Context

The drastic shift in the economic environment in India during last decade has led to increased attention towards accounting standards as a means to ensuring potential and transparent financial reporting by the corporate entities. ICAI, as a premier accounting authority in India, has been entrusted with the task of Standard setting and played a leadership role by establishing ASB in 1977. The ICAI as the accounting standard - formulating body has always made efforts to setup high quality Accounting Standards and the institute is quite successful in doing so. With the continuous globalization, the need of uniform global standards has given rise to the discussion on convergence of national accounting standards of ICAI with International Financial Reporting Standards. As a result, the ASB of ICAI formulates the Accounting Standards based on International Financial Reporting Standards. However, these accounting standards have remained sensitive to local conditions, including both the legal and economic environments. Likewise, Accounting Standards issued by the institute (ICAI) depart from corresponding International Financial Reporting Standards with a view to ensure consistency with legal and economic environment of India. Council of the ICAI opined in May 2006 to adopt IFRS and a IFRS task force was set up to provide a road map for convergence and it decided to converge with IFRS from the accounting period commencing on or after 1 April 2011. In India, Ministry of Corporate Affairs carried out the process of convergence of Indian Accounting Standards with IFRS after a wide range of consultative process with all the stakeholders in pursuance of G-20 commitment and as a result thirty nine Indian Accounting Standards converged with IFRS (called IND AS) have been modified.

India is the first country to comply with the whole of core principles of IFRS including the controversial IFRS-15: "Revenue from contracts with customers' and IFRS-9: "Financial Instruments' through mandatory implementation of IND AS-115:"Revenue Recognition" and Ind-AS-109: "Financial /instruments". Soon after the long-awaited roadmap for implementing the Accounting Standards (Ind-AS) was announced in /January 2016, the Ministry of Corporate Affairs (MCA), moved quickly and notified its phase-wise roadmap for the adoption of Ind AS- India's Accounting Standards, converged with the IFRS. The notification of Ind AS is a positive development and places India well at the center of high quality financial reporting. The MCA issued a notification on 16 February 2016, announcing the Companies (Indian Accounting Standards) Rules, 2015, for the application of Ind AS. The application of Ind AS is based on the listing status and net worth of a company. Ind AS will first apply to companies with a net worth equal to or exceeding 500 crore INR beginning April 1, 2016. This will also require comparative Ind AS information for the period of

April 1, 2015 to March 31, 2016. Listed companies as well as others with a net worth equal to or exceeding 250 crore INR will follow these new accounting norms from April 1, 2017 onwards. From April 2015, companies covered in the first phase will have to take a closer look at the details of the notified 39 new Indian Accounting Standards. It is important to note that Ind AS will also apply to subsidiaries, joint ventures, associates as well as holding companies of the entities covered in the roadmap. Further, companies whose securities are listed or in the process of listing on the Small and Medium Enterprises (SME) exchanges along with insurance companies, banking companies and non-banking finance companies (NBFC) have been put out of the ambit of this requirement. However, any company, except insurance companies, banking companies and non-banking fiancé companies (NBFCs), which is/isn't covered in the roadmap can voluntarily adopt Ind AS for the financial statements for accounting periods beginning on or after April 1, 2015, with the comparative for the periods ending March 31, 2015 or thereafter. Companies (Indian Accounting Standards) Rules, 2015 states that once a company opts to follow the Ind AS, it will be required to follow the same for all the subsequent financial statements.

4. Literature Review

Shrivastava, Rawat, & Maheswari did study entitled of "A Study on Challenges and Prospects of IFRS in Indian Accounting System" in the year of June 2015. The main objective of the paper was to study the implications of IFRS in India and the problems to be confronted by Indian Corporate. They concluded that despite of bringing excellence in financial reporting to the corporate house, the challenge of transition from historical cost to fair value method has raised a concern to specify a particular benchmark to arrive at fair value of the assets.

Siqi Li carried out a study entitled of "Does Mandatory Adoption of International Financial Reporting Standards in the European Union Reduce the cost of Equity Capital" in the year 2010. The author surveyed 1084 European Union firms during the period of (1995-2006), concluded that on average, the IFRS mandate significantly reduces the cost of equity for mandatory adopters. However, he pointed out, the reduction in cost of capital is present only in countries with strong legal enforcement and that increased disclosures and enhanced information comparability.

McGee & Preobragenskaya presented a paper entitled of "Problems of Implementing International Accounting Standard in a Transition Economy: A Case Study of Russia" in the year 2004. They analyzed the problems and challenges to be faced by Russian firms by using various literature followed by structured questionnaire and interview of Russian accounting experts on various aspects of accounting reform in Russia. They found that the basic problem to be faced by adopting IAS (IFRS) is the lack of knowledge of international standards on the part of the clients that retain the services of the large accounting firms and concluded that, low level of IAS (now IFRS) knowledge makes it more difficult for any accounting firm to provide the proper services. However, they agreed that, with the passage of time, the said problem will shrink in importance, as the accounting firms train their clients and as a new crop of accounting graduates take their places in the accounting departments of these enterprises.

Kaur and Kumar did study entitled of "IFRS AND INDIA: PROBLEMS AND CHALLENGES" in the year 2014. They discussed the utilities, problems and challenges of IFRS adoption in India. They found that the differences in local GAAP and IFRS are very wide and deep routed that compelled the regulatory authority to undergo for various awareness program that is time-consuming process, furthermore, Lack of training facilities and academic courses on IFRS would also pose challenge in India and the shifting from historical cost to fair value measurement could bring a lot of instability and prejudice to the financial statements and such valuation may need valuation expert which is a costly affair.

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Vinayagamoorthy did study on "Opportunities and Challenges in Adopting IFRS in India" in the year 2014. The author reviewed various international journals and articles and demonstrated that effective enforcement mechanism is a function of ensuring high-quality corporate financial reporting environment. Thus, merely adopting international accounting and auditing standards are not enough. In the concluding remark the author suggested that auditors must act independently and judiciously to ensure that financial statements comply with applicable Accounting Standards and depicts a true and fair position of the enterprise's financial condition and Regulators, both self-regulatory organizations and statutory regulators, must implement arrangements for efficient monitoring of regulatory compliance and consistently take appropriate actions against violators.

Holger Daske, Luzi Hail, Christian Leuz, Rodrigo S. Verdi (2008), did study on "Mandatory IFRS Reporting Around the World: Early Evidence on the Economic Consequences" they demonstrated that the capital-market benefit exist only in countries with strict enforcement regimes and institutional environments that provide strong reporting incentives by using large sample of firms that are mandated to adopt IFRS. Furthermore, the effects are weaker when local GAAPs are closer to IFRS, in countries with an IFRS convergence strategy, and in industries with higher voluntary adoption rates. The magnitude of capital market effects are more noticeable for firms that voluntarily switch to IFRS, both in the period in which they switch and when IFRS becomes mandatory. They pointed out that many countries have made concurrent efforts to improve enforcement and governance regimes.

Abd-Elsalam and Weetman (2003) sought to present a more general understanding of well a country deals with the implementation of IFRS, specially in case of emerging capital market such as Egypt. The above mentioned study concluded that the problem of lack of familiarity has been noticed greater in countries where the IFRS approach is very different to the domestic Accounting Standards. In these countries, the problem of unfamiliarity with IFRS can be overcome through effective training courses and the ploughing of technical support.

Charalambos and Georgakopoulou (2007) demonstrated that Greek Accounting System (GAS) is typically characterized as stakeholder oriented and tax driven while International Accounting Standards (IAS) is more shareholder oriented and independent of tax reporting considerations that may significantly affect the managers' flexibility in valuing assets at the lowest amount possible to minimize the tax liability. Further, their study shows that the requirement of two different accounting systems in consolidated and in individual accounts would create inefficiency resulting into extra costs and complexity, thus, creating barriers for corporate development and impairing competition between companies. The cost pertaining to the adoption of IFRS is significant as the training program for staffs across the company and mandating the companies to adapt to the new way to operate their businesses is a costly as well as time-consuming process.

KPMG Report (2006) "Perceptions and Realities" the significant message from the survey conducted reveals that companies face a real risk that their financial performance as reported under IFRS will be misunderstood or misinterpreted by the market. None of the surveyed analysts felt very confident about their ability to distinguish between changes in a company's reported result due to changes in underlying business performance and those that directly relate to the adoption of IFRS.

Larson and Street (2004) "Convergence with IFRS in an Expanding Europe: Progress and Obstacles Identified by Large Accounting Firm's Survey" This study examined the progress and perceived impediments to convergence in 17 European countries directly affected by the EU's decision. They utilize data collected by the six largest international accounting firms during 2002 convergence survey and analyzed subsequent events and studies. The authors identified two most significant impediments to convergence by the survey- (1) the complicated nature of particular IFRS (including financial instruments) and (2) tax-orientation of many national accounting systems. Further, they pointed out other barriers to convergence that include underdeveloped national capital markets, insufficient

guidance on first-time application of IFRS, and limited experience with certain types of transactions (eg; pensions). **(Stittle, 2004)** article supported the same view and concluded that for most other EU countries, the adoption of IASs would cause a significant upheaval in accounting policies and in the preparation of annual financial statements as compared to UK. His finding shows that the introduction of IASs should bring long-term benefits but a number of reporting challenges and confusions would exist at initial stage.

Ramanna & Sletten (2009) did study entitled of "Why do Countries Adopt International Financial Reporting Standards?" This paper studies the variations in the decision to adopt International Financial Reporting Standards (IFRS). The author took a sample of 102 non-European Union countries and found that there is evidence that more powerful countries are less likely to adopt IFRS, as they are reluctant to surrender Standard-setting authority to an international body. There is also evidence that the likelihood of IFRS adoption at first increases and then decreases in the quality of countries' domestic governance institutions.

Undavia (2016) "IFRS & India- Benefits, Problems & Challenges" This paper discussed the procedural aspects of adoption of IFRS in India, the benefits of adoption and the issues and challenges faced by the Indian stakeholders as well as its impact on Indian Corporate community. The author has surveyed various available literatures and took up secondary data from the authorized Annual Reports and official websites of ICAI and IFRS, various relevant Journals and Research Papers, diagnostic study reports and newspaper articles. The author in this paper concluded that Convergence to IFRS is expected to improve the relevance, reliability and comparability of financial reports across the boundaries of country and thus benefit the global investors in long run but on the other side lack of required number of IFRS trained accountants & auditors and absence of Financial Reporting Compliance Monitoring Board would pose a greater challenge in the initial period.

5. Problems and Challenges

IFRS are formulated by International Accounting Standard Board (IASB). However, the responsibility of convergence with IFRS vests with local government and accounting & regulatory bodies, such as the ICAI in India. Thus ICAI need to invest in infrastructure to ensure compliance with IFRS. India has several constraints and practical challenges to adoption and compliance with IFRS which requires comprehensive planning and effective follow-up. Previous studies have highlighted several challenges that will be faced on the way of IFRS compliance. Few of these have been listed as below:

Difference in Indian GAAP and IFRS

Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS and its impact among the preparers and users of financial statements.

Training and Education

Lack of training facilities and academic courses on IFRS will also pose challenge in India. There is a need to impart education and training on IFRS and its application as currently the available courses of Financial Accounting follows the Indian GAAP.

Legal Consideration

Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.

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Taxation EFFECT

IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change that may affect the decision making of management as well as users of financial statements. Thus the taxation laws need comprehensive amendments to address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS which is a biggest challenge on the part of government.

Fair value Measurement

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 instability and prejudice 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.

6. Conclusion

This chapter summarizes the extensive review of literature as to the problems of IFRS implementation in emerging countries. There has been an extensive effort to review the available literature to have a proper insight as to the specific aspect of IFRS. During this study it was observed that there are dearth of quality literature available on the Indian perspective. During this research due care was taken to analyze the literature available on the emerging countries, to the extent possible, similar to India. The IFRS becoming a global reporting practice, therefore, India id keen to converge its AS with the IFRS to align with global market. This study tries to analyze the information available on convergence hindrances in the process of convergence with IFRS in India and the practical prognosis of these hindrances. Hence, it can be concluded that overall a comprehensive step need to be taken for ensuring smooth implementation of Ind-AS. The following points are recommended based on the available literature to tackle the problems to be faced by the Indian Corporate Houses.

1. The solution to the problem of professionalization of finance is that all stakeholders in the organization should be trained and current course curriculum of Accounting should be restructured in conformity with IFRS in the Universities.
2. Indian firms will have to ensure that existing business reporting model is amended to suit the requirements of IFRS. Further, effective control system has to be put in place to ensure smooth transition with least business disruption.
3. Indian firms have to gear-up the process of hiring professional trainers to train their staffs in IFRS framework and consultants to consult in IFRS complexities.
4. To ensure the proper functioning of new evaluation framework a Monitoring Body is required to be set up by the Indian lawmakers and Accounting Body (ICAI). Such monitoring body should be assigned the task of monitoring the compliance of Ind-AS and must play the advisory role for such dilemma.
5. Indian firms must begin assessing the impact of IFRS and should formulate a comprehensive plan to avoid the disruption of smooth functioning of business.
6. Indian taxation system should be restructured in such a manner which will be in sync with the IFRS.

IFRS adoption in India is inevitable. Indian government and accounting body are taking every possible step for a smooth transition process. In this regard, self-regulation is the answer which will ensure a complete and smooth adoption procedure. Awareness and proper training should contribute to that process. Only enforcement mechanism is not enough but an advisory role is also required. With all these systems in place, the IFRS adoption in India will become very smooth and accurate.