



## INTERNATIONAL FINANCIAL REPORTING STANDARDS {IFRS}: AN IMPLEMENTATION IN INDIA

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### **Abstract**

Indian system an orgingsation by the development financial International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external. IFRS began as an attempt to harmonies accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. They are sometimes still called by the original name of International Accounting Standards (IAS). IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On 1 April 2001, the new International Accounting Standards Board took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards International Financial Reporting Standards (IFRS). Requirements of IFRS consists a Statement of Financial Position, a Statement of Comprehensive Income separate statements comprising an Income Statement and separately a Statement of Comprehensive Income, which reconciles Profit or Loss on the Income statement to total comprehensive income, a Statement of Changes in Equity (SOCE), a Cash Flow Statement or Statement of Cash Flows & notes, including a summary of the significant accounting policies. US GAAP-IFRS Differences Identifier Tool provides a more in-depth review of differences between US GAAP and IFRS. The Identifier Tool was developed as a resource for companies that need to analyze the numerous accounting decisions and changes inherent in a conversion to IFRS. Conversion is of course more than just an accounting exercise, and identifying accounting differences is only the first step in the process. Successfully converting to IFRS also entails ongoing project management, systems and process change analysis, tax considerations and a review of all company agreements that are based on financial data and measures. Assurance, tax and advisory professionals are available to share their experiences and to assist companies in analyzing all aspects of the conversion process, from the earliest diagnostic stages through ultimate adoption of the international standards.

**Keywords :***IFRS, Accounting System In India.*

### **Introduction**

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, U.S. GAAP are different from Canadian GAAP. Synchronizing accounting standards across the globe is an ongoing process in the international accounting community. The financial statements of some firms are designed to hide rather than reveal information. Investors should steer clear of companies that lack transparency in their business operations, financial statements or strategies. Companies with inscrutable financials and complex business structures are riskier and less valuable investments.

### **Transparency Is Assurance**

The word "transparent" can be used to describe high-quality financial statements. The term has quickly become a part of business vocabulary. Dictionaries offer many definitions for the word, but those synonyms relevant to financial reporting are: "easily understood," "very clear," "frank" and "candid." Consider two companies with the same market capitalization, overall market-risk exposure and financial leverage. Assume that both also have the same earnings, earnings growth rate and similar returns on capital. The difference is that Company X is a single-

business company with easy-to-understand financial statements. Company Y, by contrast, has numerous businesses and subsidiaries with complex financials. Which one will have more value? Odds are good the market will value Company X more highly. Because of its complex and opaque financial statements, Company Y's value will be discounted. The reason is simple: less information means less certainty for investors. When financial statements are not transparent, investors can never be sure about a company's real fundamentals and true risk. For instance, a firm's growth prospects are related to how it invests. It's difficult, if not impossible, to evaluate a company's investment performance if its investments are funneled through holding companies, hiding from view. Lack of transparency may also obscure the company's debt level. If a company hides its debt, investors can't estimate their exposure to bankruptcy risk. High-profile cases of financial shenanigans, such as those at Enron and Tyco, showed everyone that managers employ fuzzy financials and complex business structures to hide unpleasant news. Lack of transparency can mean nasty surprises to come. The reasons for inaccurate financial reporting are varied. A small but dangerous minority of companies actively intends to defraud investors. Other companies may release information that is misleading but technically conforms to legal standards.

### **Transparency Pays**

Mounting evidence suggests that the market gives a higher value to firms that are upfront with investors and analysts. Transparency pays, according to Robert Eccles, author of "The Value Reporting Revolution" (2001). Eccles shows that companies with fuller disclosure win more trust from investors. Relevant and reliable information means less risk to investors and thus a lower cost of capital, which naturally translates into higher valuations. The key finding is that companies that share the key metrics and performance indicators that investors consider important are more valuable than those companies that keep information to themselves. Of course, there are two ways to interpret this evidence. One is that the market rewards more transparent companies with higher valuations because the risk of unpleasant surprises is believed to be lower. The other interpretation is that companies with good results usually release their earnings earlier. Companies that are doing well have nothing to hide and are eager to publicize their good performance as widely as possible. It is in their interest to be transparent and forthcoming with information, so that the market can upgrade their fair value. Further evidence suggests that the tendency among investors to mark down complexity explains the conglomerate discount. Relative to single-market or pure play firms, conglomerates could be discounted. The positive reaction associated with spin-offs and divestment can be viewed as evidence that the market rewards transparency. Naturally, there could be other reasons for the conglomerate discount. It could be the lack of focus of these companies and the inefficiencies that follow. Or it could be that the absence of market prices for the separate businesses makes it harder for investors to assess value.

### **IFRS – What It Is?**

International Financial Reporting Standards (IFRS) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB). The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting. Having an international standard is especially important for large companies that have subsidiaries in different countries. Adopting a single set of world-wide standards will simplify accounting procedures by allowing a company to use one reporting language throughout. A single standard will also provide investors and auditors with a cohesive view of finances. Currently, over 100 countries permit or require IFRS for public companies, with more countries expected to transition to IFRS by 2015. Proponents of IFRS as an international standard maintain that the cost of implementing IFRS could be offset by the potential for compliance to improve credit ratings. IFRS is sometimes confused with IAS (International Accounting Standards), which are older standards that IFRS has replaced.

### **GAAP**

Generally Accepted Accounting Principles (GAAP) refers to a widely accepted set of rules, standards, conventions, and procedures for reporting financial info. In USA this set of rules has been established by the Financial Accounting Standards Board (FASB). GAAP is an amalgamation of authoritative standards and the

usually accepted methods of recording and reporting info on accounting. As explained by Investopedia, GAAP are enforced on the companies so as to provide the investors with least possible level of reliability in the financial statements used while analyzing companies for investment purposes. The things covered by GAAP include revenue recognition, measuring outstanding share, and classification of items on balance sheet.

### **IAS**

Standards for the preparation and presentation of financial statements created by the International Accounting Standards Committee (IASC). They were first written in 1973, and stopped when the International Accounting Standards Board (IASB) took over their creation in 2001. IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On April 1, 2001, the new IASB took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards International Financial Reporting Standards (IFRS)..

### **IASC**

The International Accounting Standards Committee (IASC) is an independent private-sector organization that in its own words is a “body working to achieve uniformity in the accounting principles that are used by businesses and other organizations for financial reporting around the world.” As stated in its constitution the IASC’s goals are to “formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance,” and to “work for the improvement and harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements.”

### **IFRS Conversion Is More Than An Accounting Change**

Many areas of a company outside of the finance function may be impacted, including:

1. Information technology.
2. Group structures.
3. Direct and indirect taxes.
4. Strategic plans (IPOs, investor relations, executive compensation).

### **IFRS Roadmap Overview**

The MCA roadmap has provided specific dates for adoption of IFRS in India on the basis of a company’s net worth as indicated by the exchange on which they are traded. The IFRS conversion roadmap for Banks and Insurance companies will follow separately.

1. Phase 1 companies are required to start reporting IFRS results from the first quarter of year beginning 1 April, 2011. Also, depending on how a company elects to present comparative information in the first year, the actual date of transition could be as early as 1 April 2010. • Non-listed companies with net worth of less than INR 500 crore and other small and medium-sized companies (SMCs) have been given an option to continue to either follow non converged standards (hereinafter referred to as “Indian GAAP”) or to adopt IFRS.
2. The core group and its sub-group 1, constituted by the MCA for IFRS convergence, shall determine IFRS conversion roadmap for banking and insurance companies separately by 28 February 2010.
3. The draft of the Companies (Amendments) Bill, proposing for changes to the Companies Act, 1956, will be prepared by February, 2010.
4. The Institute of Chartered Accountants of India (ICAI) has submitted to the MCA revised Schedule VI to the Companies Act, 1956. The NACAS shall review the draft and submit a revised Schedule VI to the MCA by 31 January 2010. Amendments to Schedule XIV will also be carried out in a time bound manner.
5. Convergence of all the accounting standards with IFRS will be completed by the ICAI by 31 March 2010 and the NACAS will submit its final recommendations to MCA by 30 April 2010.

6. The full abbreviation of the term “IFRS” is international financial reporting standard (IFRS). IFRS has been developed by International accounting standard board (IASB). As per IASB “IFRS refers to a set of international accounting standard stating how particular type of transactions and other events should be reported in financial statement” or, in other words IFRS refers to guidelines and rules that companies and organizations are required to follow in preparing and presenting their financial statements. Thus, IFRS are the rules, guidelines, standards set by IASB that companies and organizations across the world will follow uniformly and transparently in their preparation and presentations of financial statements.

### **Need For IFRS In India**

Following are the arguments in favour of IFRS implementation in India

1. Globalization of Economies: Since today most of economies have been globalized and India is also not the exception. This has created the need for a uniform practice to bring more transparency and for satisfying the need for wider and demanding users.
2. For Raising Capital from Overseas: Indian companies are raising capital from overseas which requires all information in International standard understandable to them.
3. For Better Comparability of Financial Statements: For better comparability of financial statements it is necessary that accounting practices in different countries of the world are uniform.
4. For 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.
5. To Comply with Increasing Corporate Awareness: today corporate awareness and corporate governance requirements have increased many folds which require an advanced and uniform accounting practice.
6. For Reducing Costs and Time: The Indian companies which are operating in two or more countries of the world are preparing financial statements separately for each country which is wasting time and money. Thus, the implementation of uniform accounting practice will reduce time and cost considerably.
7. Better Quality of Information: the implementation of uniform accounting practice will provide much better quality of information.

### **Significant Differences Between International Accounting Standard (Ias), Indian Gaap And Us Gaap**

1. IAS US GAAP INDIAN GAAP :Financial statements Balance sheet, statement of profit and loss, statement of cash flow and statement of changes in shareholders’ equity Balance sheet, statement of profit and loss, statement of cash flow and statement of changes in shareholders equity and a statement of comprehensive income Balance sheet, profit and loss accounts with relevant accounting policies and notes (for listed company exceeding turnover 5 crores also cash flow statement) .
2. Classification of current assets: Distinction between current and non-current assets is optional; Distinction between current and non-current assets is not required.
3. Offset of assets and liabilities offset of assets and liabilities is not permissible offset of assets and liabilities is permissible in some cases offset of assets and liabilities is not permissible.
4. Income statement does not provide format for income statement statement of profit and loss may either be presented in single- step format or multi -step format does not provide format for income statement.
5. Cash flow statement: Both direct and indirect methods are permissible Both direct and indirect methods are permissible however for listed companies, indirect method has been prescribed .
6. Fixed assets revaluation upward revaluation is permissible Upward revaluation is not permissible
7. Revenue recognition: No industry specific guidance Provides industry specific guidance No industry specific guidance.
8. Interim financial reporting not mandatory to prepare interim financial reporting Except few cases, Not mandatory to prepare interim financial reporting Quarterly interim financial reporting is necessary for listed companies.



### **Initiation of IFRS Implementation In India**

IFRS has not been made applicable to all companies till now; rather it is spreading its wings in phased manner. In India the Institute of chartered accountant (ICAI) is taking key initiatives in IFRS implementation. The implementation plan for implementing IFRS in India may be briefed as follows: Year: 2011 Year: 2012 Year: 2013 Year: 2014 NSE-NIFTY 50 Companies All insurance companies Companies listed or not having a net worth between 500-1000 crores Listed Companies having a net worth of less than 500 crores BSE-SENSEX 30 Companies All scheduled commercial Banks Urban cooperative Banks having net worth 200 to 300 crores Companies whose shares are listed outside India Urban cooperative Banks having net worth in excess of 300 crores NBFCs: all Listed Companies listed or not having turnover more than 1000 crores NBFCs-NIFTY 50 or SENSEX 30 NBFCs: Unlisted but having net worth between 500 to 1000 crores NBFCs listed or not having net worth exceeding 1000 crores

### **Key Benefits of IFRS Implementation In India**

1. IFRS provides better financial information for the shareholders and regulatory system.
2. IFRS enhance global ability and improve transparency of results.
3. With the use of IFRS users can increase ability to secure cross boarder listing.
4. With the help of IFRS one can improve management of global operations and better access the capital market.
5. IFRS eliminates of multiple reporting, likewise Tata, Birla and Ambani firstly register in India and then outside India before implementing IFRS system.
6. IFRS facilitate global investment opportunities inbound and outbound and also reduced cost of capital.
7. Reduce barriers to enter global market and lowered the risk associated with dual filings of accounts.
8. IFRS provides new and enhanced services especially in the field of business process outsourcing (BPO) and professional services firms.
9. With the help of IFRS one can conduct once-only review of financial reporting and information system for control.
10. Uniform accounting standard enabled investors to understand investment opportunity as against two different set of national accounting standard.
11. With the help of IFRS corporate and investors would know it's true worth because fair valuation is mandated for many balance sheet items.

### **Challenges Faced By Ifosys In Its IFRS Implementation**

1. Implementation IFRS not only impact account department but it impact all business process.
2. The issues like, increase new risk, include change to the system, implementation of new system, modification to business process, enhance reporting requirement.
3. IFRS also impact the role and responsibility of employee in organization.
4. IFRS is a principle based while us GAAP is rule based system.
5. It is a time consuming process and required additional resources to meet.
6. The shortage of IFRS trained employees and under estimation of time required.
7. Lack of co-ordination between group entities, poorly defined roles and organization structures and the limited knowledge transfer • Failure to effectively communication between stakeholders including boards, audit committees.
8. Investors and analysts.
9. The IFRS also impacts the change of the retention of key employees.
10. Inability to interpret the principle based standards and adopting the appropriate accounting policies.

### **Recommendations And Measures For IFRS Implementation In India**

1. Proper education and training of employees about IFRS.
2. The government of our country needs to format a separate committee for IFRS process and feedback.
3. IFRS eliminates of multiple reporting, likewise Tata, Birla and Ambani firstly register in India and then outside India before implementing IFRS system.

4. IFRS facilitate global investment opportunities inbound and outbound and also reduced cost of Capital.
5. Reduce barriers to enter global market and lowered the risk associated with dual filings of accounts.
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8. Uniform accounting standard enabled investors to understand investment opportunity as against two different set of national accounting standard.
9. With the help of IFRS corporate and investors would know it's true worth because fair valuation is mandated for many balance sheet items.
10. IFRS should be implementing in phased manner.
11. Government needs to take serious action regarding mandatory adaptation of IFRS.
12. IFRS should be added in college system as a college syllabus so that the management student could be a good IFRS expert in future.
13. IFRS system should be user friendly.
14. Extensive survey and research need to carry out before implementation of IFRS system.
15. Identifying the areas of GAAP differences and making a decision on selection of the exemptions to be applied.
16. Analyzing complex topics like Financial Instruments and drawing up the necessary disclosures.
17. Identifying changes required in the existing financial reporting system to confirm with IFRS requirements.
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