CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

IN INDIAN PROSPECTS

Mahesh Kumar Mishra*1, Rajendra Gouda*2, Dr. YD Nayak*3

*1 Assistant Professor Of Commerce, Khallikote Unitary University, Berhampur, India.
*2 Assistant Professor Of Commerce, Model Degree College, Nabarangpur, Odisha, India.

ABSTRACT

India is one of the emerging economies in the world. For economic development, foreign direct investment (FDI) is needed, to facilitate the investment climate. “There is a need to integrate its financial reporting with rest of the economies of the globe so that investors from outside will appreciate the financial results and financial positions of the companies. This will provide uniformity and comparability of financial statements with the financial statements prepared in other countries. The basic objectives of the study are to understand the implications of importance of IFRS in the present situation and the process in adopting IFRS and to understand how International Financial Reporting Standards will affect the Indian corporate. IFRS has its own advantages and offers a chance for India to align and integrate with common International Accounting standard which will save the cost which has to be incurred by MNCs and internationally listed corporate for maintaining dual accounting and reporting system. It will also provide opportunity for small and mid-sized industries and institutions to transact with counterparts across the globe and harvest efficiencies and broader exposure.”

Keywords: Indian Accounting Standard, IFRS, FDI.

I. INTRODUCTION

India is one of the emerging economies in the world. For economic development, foreign direct investment (FDI) is needed, to facilitate the investment climate. “There is a need to integrate its financial reporting with rest of the economies of the globe so that investors from outside will appreciate the financial results and financial positions of the companies. This will provide uniformity and comparability of financial statements with the financial statements prepared in other countries. At present, Indian companies are preparing their financial statements as per Generally Accepted Accounting Principles in India (Indian GAAP). These Principles are based on IFRS issued by International Accounting Standard Board (IASB). However these principles were modified substantially as per Indian laws and practices. The IFRSs issued by International Accounting Standard Board (IASB) are being followed in more than 114 countries of the world. However the major economies like, USA, Japan and India are yet to follow these Standards. The objective of the following the IFRSs is to speak one accounting language all over the world.”

The Idea of global harmonization of Accounting Standards stems from lack of comparability of financial statements across the world. “In particular, a company having presence in different countries has to prepare financial reports as per Generally Accepted Accounting Principles of the country of operations and then it is required to reconcile all such reports for the purpose of consolidation as per Accounting Standards of the country to which the parent company belongs. The need to communicate across the borders has increased with the increase in global trade and globalization of capital markets. Company in one country is borrowing in the capital market of another country. Therefore, financial statements produced in one country are used in other country more and more frequently; this has raised the issue of harmonization of accounting policies, presentation, disclosure, etc. Harmonization in the accounting context may be defined as the process aimed at enhancing the comparability of financial statement produced in different countries accounting regulation. Investors would like to direct their capital to the most efficient and productive companies globally, provided they are in a position to understand their accounting reports/financial reports. Further rationale behind the harmonization is that, it will enhance the comparability of financial statement. This makes them easier to use across the border.”

IFRS are International Financial Reporting Standards, which are issued by the International Accounting Standards Board (IASB), a committee compromising of Fourteen members, from nine different countries, which
work together to develop global accounting standards. “The aim of this committee is to build universal standards that are transparent, enforceable, logical, and of high quality. Nearly a hundred countries make use of IFRS. These countries include the European Union, Australia and South Africa. While some countries require all companies to stick to IFRS, while others merely try to synchronize their own country’s standards to be similar. India is yet to implement IFRS. India will adopt the globally accepted International Financial Reporting Standards (IFRS) by 2011, a move that will integrate the accounting system with the rest of the world. According to the Institute of Chartered Accountants of India (ICAI) President, Mr. Ved Jain, “A common accounting standard is in the interest of the investors who are exploring investment opportunities in other geographical areas as well”. Thus, these moves by India will harmonize its Accounting Standards with the internationally accepted accounting standards, which will lead to a globally accepted Accounting System for the companies in India. After stimulating the appetite for the need of harmonizing the international Accounting Standards to reach a global uniform of financial reporting practices, the IASC was launched in London in 1973.”

II. OBJECTIVES OF THE STUDY

The basic objectives of the study are to understand the implications of importance of IFRS in the present situation and the process in adopting IFRS and to understand how International Financial Reporting Standards will affect the Indian corporate.

III. RESEARCH METHODOLOGY

The present work is blends of descriptive and exploratory research work where the reasons and challenges will be find out to follow the IFRS procedures. The research work will also provide an insight on the future prospects and concept of IFRS. The data will be purely secondary and will be collected through various websites and journals, as well as published books.

IV. ROLE OF ACCOUNTING STANDARDS

In today's complex economic environment, the financial reporting has become critical from the point of view of allocation of economic resources. For proper allocation of economic resources, it is imperative that financial information contained in the financial reports of Corporate is reliable, comparable and transparent so that the present and potential Investors and Creditors and other users can make rational investment, credit and similar decisions. This is achievable only if the financial reports are prepared and presented using high-quality Accounting Standards. By laying down rules and criteria for accounting measurements, Accounting Standards seek to bring about uniformity in Accounting Practices while providing a reasonable degree of flexibility to take cognizance of differences in circumstances of different enterprises. Accounting Standards are formulated with a view to harmonize different accounting policies and practices. The objective of Accounting Standards is, therefore, to reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises with a view to provide meaningful information to various users of financial statements to enable them to make informed economic decisions. The Accounting profession owes a responsibility for formulating Accounting Standards in order to satisfy the huge expectations of the society, in relation to reliable, credible and transparent financial reporting. It should also be noted that meaningful and transparent financial reporting serves an enterprise favorably in the long run since it establishes the creditability of an enterprise in the eyes of the Investors, Regulators and other users. Further, information about a particular Enterprise is greatly useful if it can be compared with similar information about other enterprises and with similar information about the same enterprise for some other period or some other point in time. Comparability between Enterprises and consistency in the application of methods over time increases the informational value of comparisons of relative economic opportunities or performance. The Investors and Creditors often use information for assessing their prospects for cash flows from investments in or loans to an enterprise.

V. ROLE OF INDIAN ACCOUNTING STANDARDS IN GLOBAL FINANCIAL REPORTING

A question is sometimes raised in certain quarters about the need for formulation of separate Accounting Standards in a country when International Accounting Standards (IASs) exist. As mentioned earlier, various countries, such as, USA, Japan and India, have their own national Accounting Standards keeping in view their respective laws. Customs, usages and economic environment attempts have been made to harmonize the
Accounting Standards between different countries; yet, in view of the fact that Accounting Standards are influenced by law, customs, usages and economic environment in a country, various countries use International Accounting Standards as the minimum benchmark for setting their own national Accounting Standards. In view of the above, in India, the Council of the Institute of Chartered Accountants of India, decided to set up the Accounting Standards Board (ASB) in 1977. While formulating Accounting Standards in India, the ASB considers the International Accounting Standards and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. With the issuance of new Accounting Standards (ASs), the Indian accounting practices have almost come at par with the International Accounting Standards. Work on some other Indian Accounting Standards corresponding to IASs is under progress. So far, the Institute of Chartered Accountants of India has issued 32 Accounting Standards (ASs). With the rapid liberalization process in India, in the last decade, there is a huge presence of multinational enterprises in India. Further, Indian companies are also approaching foreign markets. This has generated an interest in Indian GAAPs by all concerned. In this context, the role of Indian ASs, which is becoming closer to IASs, has assumed a great significance from the point of view of global financial reporting. Since the Accounting Standards (ASs) in India are based on the International Accounting Standards, they play an important role in the global financial reporting. Indian companies using these Accounting Standards are experiencing lesser difficulties to tap the foreign countries, as the Accounting Standards (ASs) in India are closer to the International Accounting Standards (IFRS).

VI. REGULATORY CULTURE IN INDIA

1.10-1 Legal Recognition of Accounting Standards issued by ICAI under the Companies Act (2013): The Companies Act (2013) provides the basic requirements for financial reporting of all companies in India. The Act requires the preparation, presentation, publication, and disclosure of financial statements, as well as an audit of all companies by a member-in-practice certified by the Institute of Chartered Accountants of India (ICAI). Under the Act, the Central Government has the power, by notification in the Official Gazette, to constitute the National Advisory Committee on Accounting Standards to advise the Central Government on the formulation and lying down of Accounting Standards for adoption by companies or class of companies. For this purpose, the Act requires the committee to consider Accounting Standards issued by ICAI when recommending Accounting Standards to the Government. While, as stated earlier, ICAI bases its Accounting Standards on the corresponding IAS/IFRS, the committee also specifically considers any deviations from and reasons, if any, for them – the corresponding IAS/IFRS when reviewing ICAI accounting standards. Where the committee is not satisfied by any deviation, it requests ICAI to amend the standard to comply with IFRS. ICAI generally deviates from the corresponding IAS/IFRS because of the following factors:

- Legal and regulatory environment prevailing in the country;
- Alternatives permitted in IFRS would lead to incomparable financial information;
- Economic environment within the country;
- Level of preparedness of industry.

The committee has recommended to the Government all 29 Accounting Standards issued by ICAI, with the exception of accounting standard No. 8 on accounting for research and development (which has already been withdrawn pursuant to accounting standard No. 26 on intangible assets)

**The Institute of Chartered Accountants of India as a regulator:** “ICAI requires its members to ensure compliance with all the Accounting Standards that it issues while discharging their attesting function. Further, ICAI members are required to follow a detailed code of ethics, as prescribed under the Chartered Accountants Act (1949). The ICAI council is also entrusted with the disciplinary powers that are exercised through its disciplinary committee. The extensive changes have been introduced into the Act through the Chartered Accountants (Amendment) Act (2006), which has made the ICAI disciplinary mechanism more stringent. ICAI, with a view to further improving and strengthening financial reporting practices in India, has also constituted the Financial Reporting Review Board. The board reviews general purpose financial statements of certain selected enterprises with a view to ensuring compliance with, inter alia, the accounting standards. In cases, where non-compliance is observed, appropriate action is taken by ICAI and/or the case is referred to an
The economic environment of the country, which is different as compared to other countries, required the decision of convergence rather than adoption was taken after the detailed analysis of IFRSs requirements and against the chartered accountant. The Institute of Chartered Accountants of India (ICAI) being the accounting standards-setting body in India, way back in 2006, initiated the process of moving towards the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) with a view to enhance acceptability and transparency of the financial information communicated by the Indian corporate through their financial statements. This move towards IFRS was subsequently accepted by the Government of India. The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRSs requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS-converged Indian Accounting Standards (Indian AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. These changes have been made considering various factors, such as various terminology related changes have been made to make it consistent with the terminology used in law, e.g., ‘Statement of Profit and Loss’ in place of ‘Statement of Comprehensive Income’ and ‘Balance Sheet’ in place of ‘Statement of Financial Position’. Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS.

VII. APPROACHES TO IFRS-CONVERGED INDIAN ACCOUNTING STANDARDS (INDIAN AS)

The Institute of Chartered Accountants of India (ICAI) introduced a peer review of audit firms by establishing an 11-member peer review board in March 2002. The peer review board provides guidance on enhancing the quality of services provided by ICAI members. In the first phase, peer review focuses on the review of firms that audit major Enterprises at least once in a three-year period. The peer review does not lead to any disciplinary or regulatory mechanism. Peer review certification is either given or not given according to the findings of the review. Peer reviewers are practitioners with at least 15 years’ audit experience. The Chartered Accountants (Amendment) Act (2006) created a quality review board to replace the peer review board; the new board will be making recommendations to the ICAI council on the formulation of standards regarding the quality of services provided by the members. Further, the proposed Quality Review Board would also review the quality of services provided by ICAI members, including audit services, and guide ICAI members in improving the quality of services and compliance with the various statutory and other regulatory requirements. The findings of the Quality Review Board may lead to disciplinary action against the chartered accountant.

VIII. GOVERNMENT OF INDIA COMMITMENT TO IFRS CONVERGED IND AS

As per the original roadmap for implementation of "IFRS-converged Indian AS issued by the Government of India, initially Indian ASs was expected to be implemented from the year 2011. However, keeping in view the fact that certain issues including tax issues were still to be addressed, the Ministry of Corporate Affairs decided to postpone the date of implementation of Indian AS. Pursuant to the announcement made by the Finance Minister of India in his Budget Speech in July 2014, various steps have been taken to facilitate the implementation of IFRS-converged Indian Accounting Standards (Indian AS). Moving in this direction, the Affairs (MCA) has issued the Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 covering the revised roadmap of implementation of Indian AS for companies other than Banking companies, Insurance Companies and NBFCs and Indian Accounting Standards (Indian AS).

IX. CONCLUSION

IFRS has its own advantages and offers a chance for India to align and integrate with common International Accounting standard which will save the cost which has to be incurred by MNCs and internationally listed corporate for maintaining dual accounting and reporting system. It will also provide opportunity for small and mid-sized industries and institutions to transact with counterparts across the Globe and harvest efficiencies and broader exposure. Successful implementation of IFRS needs extensive and on-going support from professional accounting bodies like Institute of Chartered Accountants of India (ICAI). They can contribute to the effective implementation of IFRS through requirements that hold their members responsible for observing
due care in implementing these standards Therefore, an IFRS implementation program needs to adequately assess the state of readiness of relevant professional accountancy organizations in the country so that the necessary resources are available to ensure competent and continuous support from such organizations. Integrating IFRS into professional examination like, Chartered Accountancy, Cost and Management Accountancy, Company Secretary and university accounting education. There should be hiring and training of staff/faculty knowledgeable in IFRS and massive publication of accounting textbooks. Educational institutions must alter their teachings to account for the foreseen transition to IFRS and to adequately prepare students. This is because businesses will depend on universities and the accounting professions to bridge.”

X. REFERENCES

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