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A study on challenges and prospects of IFRS in India

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ABSTRACT

As a wave of globalization is sweeping the world, organizations across the global cannot remain unaffected. In Indian business firms are presenting financial statements in different format as per requirements of countries. It will become cumbersome to make different format. The introduction of IFRS solved this problem. International Financial Reporting Standard (IFRS) are designed as a common global language for business affairs, so that company accounts are understandable and comparable across international boundaries. These standards are issued by the International Accounting Standards Board (IASB), a committee comprising of 16 members from different countries. Presently there are two sets of accounting standards that are accepted for internationally are namely, the US GAAP Generally Accepted Accounting Principles and International Financial Reporting Standard (IFRS) issued by IASB. In modern era of globalization in which Indian economy has also bloomed adapting IFRS would make Indian business at par with other global business and increase the scope of foreign investment in Indian market. India also decided to converge with IFRS by developing a standard called Ind. AS. This paper explains the applicability of IFRS, upcoming challenges and its adoption in India. It also discusses the implementation and prospects of Ind. AS in India.

Keywords:- Ind. AS, IFRS, IASB

Introduction

Globalization has cut down the boundaries and made the world a global village. It has also resulted in the expansion of business activity leading to the rapid growth of international capital markets, cross-border mergers and acquisition and free –flow of funds amongst different nation in the form of foreign investment, joint ventures etc. India is one of the emerging economy in the world. For the economic development foreign direct investment is needed, to facilitate the investment climate it wants to integrate its financial reporting with rest of the economies of the global so that investors from outside will understand the financial results and financial position of companies. Therefore, financial statement produced in one country are used in other country more and more frequently this has raised the issue of harmonization of accounting policies, presentation disclose etc.

Ball (2006) stated that many developing countries where the quality of local governance institutions is low the decision to adept IFRS will be beneficial ⁽¹⁾

IFRS:- International Financial Reporting Standard (IFRS) are a set of accounting standards developed by the IASB that is becoming the global standard for the preparation and disclosure of public company financial statements. IFRS being a single set of worldwide standards simplified accounting procedures by allowing a company to use one reporting language that will be recognized globally.^[2]

Objective of Study:-

1. To comprehend the applicability implication and prospects of IFRS.
2. To embrace the challenges faced by corporate firm in adopting IFRS and Ind AS.

Research Methodology

The present work is fusion of descriptive and exploratory research work. The research is purely secondary and the information collected through various websites, journals, and books.

Challenges for International Financial Reporting Standard

The challenges in implementation of IFRS in India are being discussed here under:-

Fair Values Accounting

The use of fair value accounting can bring volatility and subjectively to the financial statements, it is very difficult to arrive at the fair value and valuation experts also feel difficulty to shift from historical method to fair value method adjustments to fair value results in gains or losses which are reflected in income statements.

Kavshik datta did study entitled of similarities and differences a comparison of IFRS, USGAAP and India GAAP” in the year of May 2009. The main objective of this study recognizes that there are indeed many advantages and challenges arising from convergences to various stakeholders^[3]

Translation of the International Standards

The Translation of the international standards in another major challenge in the adoption and implementation of the standards. Translations of ten find it difficult to convey the real meaning of the English text in the translated standards.

These issues which are adding to the difficulty of translation include:

- The use of lengthy English Sentences.
- Inconsistent use of terminology.
- The use of the same terminology to describe different concepts.

Potential Knowledge shortfall:-

The increasing Proliferation and complexity of global issues, transactions, financial products, and standards present new challenges to the accountancy profession to ensure that it has the requisite knowledge and skills to carry out its responsibilities. Only very few professional accountants have a detailed knowledge of IFRS and the requisite skills to apply them.

Srivastava, Anubha, Bhutani, Prerna, did study entitled of “IFRS in India, Challenges and opportunities” in the year of 2012. The main aim this study to this paper is an attempt to find out up to what extent IFRS has been adopted by the organizations, what challenges and opportunities companies are facing regarding IFRS, and what are the measures that can be taken to make the process smooth and flawless It is focuses on the awareness and adoption of IFRS and in India ^[4]

Education and Training

Education and training also a biggest hurdles in implementing IFRS, is that lack of training facilities and academic courses on IFRS in India.

IFRS foundation already offering Online. IFRS program, diploma and certificate courses and also. The institute of chartered Accountants of India (ICAI) has started IFRS Training programs for its members.

- **Auditing**

Another effected sector is the audit firms in India who have to audit the fair value accounting as per IFRS without adequate guidance at present these audit firms are doing the audit as per the cost concept accounting.

- **Other regulatory changes**

In addition to the direct tax implications covered by CDS, the regulators would also need to make conforming changes to other regulation such as indirect taxes particularly when India is implemented goods and services Tax (GST).

Bhattacharjee, did study entitle of “problems and Adoptim and Application of International Financial Reporting Standards (IFRS) in Bangladesh in the year of 2009. The main objective of this study to prospects of IFRS adoption and their impact of financial reporting ^[5]

Prospect For International Financial Reporting Standards In India

- Implementation of IFRS converged Indian Accounting Standards would help in being excellence in financial reporting, as these standards are based on the promise that the financial reporting, as these standards are based on the premise that the financial statements should be transparent and should faithfully represent the actual financial position and performance of the entity.
- Convergence with IFRS makes accounting information more reliable, relevant, timely and comparable across different legal frameworks and requirements as it would then be prepared using a common set of accounting standards thus facilitating those who want to invest outside India.

Paramashivaiah & puttaswamy (2014) highlighted various factors that delayed IFRS adoption in India. He suggested about the legal and regulatory frame work to be amended soon and aggressive a academic input and training shall be provided rapidly to overcome the talent crunch in this new accounting and reporting regime ^[6]

- Industry which is in the process to convergence with IFRS will be benefited because of
- Increased confidence in the minds of the foreign investors.
- Decreased burden in financial reporting.
- It reads to lower cost of preparing the financial statement using different sets of accounting standards.
- SEC has allowed foreign firms to report under IFRS only, without requiring any U.S. GAAP adjustments.
- IFRS has resulted in improvements to the quality and consistency of financial reporting across the European Union.
- IFRS enhance global ability and improve transparency of results. More than 12000 companies in almost 100 nations have adopted IFRS, including listed companies in the European Union. Other countries, including Canada and India one expected to transition to IFRS by 2011. Some estimate that the number of countries requiring or accepting IFRS could grow to 50 in the next few years.

[7]

Conclusion:-

All the discussions make a bone explain how convergence with IFRS would help industry grow and is advantageous to the corporate house in the country. Accounting standards at par with IFRS so that Indian corporate and the accounting professional reap the benefits of global accounting standards irrespective of various challenges, adoption of converged IFRS in India will significantly change the contents of corporate financial statements as a result of more refined measurement of performance and state of affairs, disclosers leading to greater transparency and comparability. More over the International comparability also improves benefiting the industrial and capital markets in the country.

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