



# Research Inspiration

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## A STUDY ON OPPORTUNITIES AND PROBLEMS OF IFRS IN INDIA

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### ABSTRACT

*In the present era of globalization, the World has become an economic village. All the countries of the world are dependent on each other and trading with each other for fulfillment of their needs. For making it more convenient world requires a common accounting language. The Globalization and development of technologies like E-commerce have made it compulsory to adopt a transparent and unified accounting language which is suitable for all countries for dealing with each other.*

*IFRS refers to International Financial Reporting Standards. These are applied while preparing the Balance sheet and other profitability statements of a Company and are developed by IASB. These have already been applied more than hundred countries and would soon be used across the Globe. The present study is an attempt to study opportunities and problems of IFRS in India.*

**KEY WORDS:** - IFRS, Globalization, Accounting Standards, Financial Statements, IASB.

### **INTRODUCTION: -**

Institute of Chartered Accountant of India (ICAI) is the Accounting Standards formulating Body in our country. It has established and amended accounting standards whenever need arises in Indian Accounting system. Business organizations and Accounting system prevailing in any country play a major role in its development. In 21<sup>st</sup> century India is developing very rapidly. After Globalization many changes have been taken place in our accounting system to be at par with the world economy. Indian Accounting Standards are also not an untouched area. India is trading with



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almost all countries in the world and to trade across the world accounting system must be harmonized and this is possible only through unified accounting standards.

Development of E-Commerce has made it essential to have globally accepted financial reporting system. IFRS is international Financial Reporting system issued by IASB. These are used in preparation of balance sheet and statement of profitability.

## LITERATURE REVIEW:-

Dr. Preeti Shrivastava, D.S. Rawat, & Dr. Deepti Maheshwari did study entitled “A study on challenges and prospects of IFRS in Indian Accounting System.” in the year 2015. The study focuses on the implications of IFRS in the present situation and process in adopting IFRS.

Bhattacharjee in his study entitled “Problems of adoption and application of IFRS in Bangladesh” in the year 2009 focused on financial reporting environment of Bangladesh considering the underlying institutional and economic factors.

Dr. N.V. Kavitha in her study entitled “A study of IFRS in India” in the year 2014 shown Impact of IFRS on Indian corporate.

## OBJECTIVE OF STUDY:-

- To identify problems and opportunities in implications of IFRS in India.

## RESEARCH METHODOLOGY:-

The study is based on descriptive and explorative research. The data for study is collected from secondary sources like international Research journals, Reference Books, Different websites.

## INDIAN ACCOUNTING STANDARDS:-

Economic development of any country is fully depending on a sound and effective financial reporting system. Development of accounting standards is the most important step in developing accounting as a business language. These standards are not rigid they are flexible and can be modified according to the changes in economic environment, social, and technological developments.



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The main purpose of these standards is harmonization of accounting policies and practices followed by businesses to standardize the diverse accounting policies at both national and international level. The main aim of Indian Accounting standards is to ensure the consistency, uniformity and comparability of financial statements. It helps accountants follow uniform practices and accounting policies and auditors in auditing the accounts. The Indian Accounting Standards are issued by Institute of Chartered Accountant of India (ICAI).

## **INTERNATIONAL ACCOUNTING STANDARDS:-**

The need for harmonization of accounting policies is both at national level and at international level. Investment analysts and other users of financial reports incur extra cost of analysis when the reports are prepared according to different standards in different countries. Accounting reports will significantly lose credibility if a company reports different profit numbers in different countries for given transactions. Thus there is a need for development and acceptance of global accounting standards. Now India will have two set of accounting Standards viz. Existing accounting standard under Companies (Accounting Standard) Rules, 2006 and IFRS Converged Indian Accounting Standard. The Indian Accounting Standards are named and numbered in the same way as the corresponding IFRS.

## **IFRS AS GLOBAL STANDARDS:-**

A number of multinational companies are establishing their businesses in various countries with emerging economies and vice versa. The entities in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated consistent with this World-wide trend. Industrial analysts and Investors would like to compare financial statements based on similar Accounting Standard, and this has led to the growing support for an internationally accepted set of Accounting Standard for cross border fillings.

The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates



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confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalization of capital markets call for a single set of high quality accounting standards. High standards of financial reporting gain the trust, investors place in financial and non-financial information. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue conversion of national accounting standards with IFRS.

## IMPLICATIONS OF IFRS IN INDIA:-

The professional bodies in the field of accounting all over the world have already declared a conceptual framework of accounting to satisfy the varying information needs of various users by preparing a common set of financial reports/statements. This had led to the evolution of accounting standards and it is the function of accounting standard to provide a rational framework. In future the Indian Accountancy profession is expected to play a significant role not only in International financial reporting by playing an influential role in the formulation of IFRS before their finalization.

It is expected that IFRS adoption worldwide will be beneficial to investors and other users of financial statements, by reducing the cost of company's alternative investments and increasing the quality of information. The Companies are also expected to benefits, as investors will be more willing to provide financing. Changing the Accounting Laws is not as easy task. It takes ample time, money and efforts for framing new laws and applying the same as a result of which countries were not in favor of IFRS earlier.

But with the advent of Globalization the whole scenario has changed many companies are interested in investing in foreign countries or in raising capital from foreign countries but are hindered by the fact that Accounting laws in home country and the foreign country differ significantly as a result of which they are unable to transact. The only option left for the company is to restate its accounts as per laws of the foreign country but this in itself are a very time and money consuming effort.



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## OPPORTUNITIES:-

Conversion with IFRS has gained momentum in recent years all over the World. More than 110 countries including European Union, Australia, China, New Zealand, and Russia currently require or permit the use of IFRS. Apart from India, countries like Japan, Sri Lanka, Canada and Korea have also committed to adopt IFRS from 2011. United States of America has announced its intention to adopt IFRS from 2014 and it also permits foreign private filers in the U.S. Stock Exchanges to file IFRS complied Financial Statement, without requiring the presentation of reconciliation statement. Implementation of IFRS converted Indian Accounting Standard would help to bring excellence in 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. IFRS has resulted in improvements to the quality and consistency of financial reporting across the European Union

At present picture, no country can insulate itself from rest of the world. The main purpose of ICAI is always to comply with the IFRS to the extent possible with the objective to formulate sound financial reporting standards. The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRS and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. The Preface to the Statements of Accounting Standards, issued by the ICAI, categorically recognizes the same. Now, as the world globalizes, it has become imperative for India also to make a formal strategy for convergence with IFRS with the objective to harmonize with globally accepted accounting standards.

ICAI, being a premier accounting body in the country, took upon itself the leadership role by establishing ASB, more than twenty five years back, to fall in line with the international and national expectations. Today, accounting standards issued by the Institute have come a long way.

Accounting standards are at par with IFRS so that the 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 measurements of performance and state of affairs and enhanced



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disclosures leading to greater transparency and comparability overall the results are consistent with the view that mandatory IFRS adoption improves information comparability across countries. In particular results indicate a significant increase in the similarity facet of cross country comparability in the post IFRS period.

## PROBLEMS AND SOLUTIONS:-

Each country has its own set of rules and regulations for accounting and financial reporting. therefore, when an enterprise decide to raise capital from the markets other than the country in which it is located the rules and regulations of that country will apply and this in turn will require that the enterprise is in a position to understand the difference between the rules governing financial reporting in the foreign country as compared to its own country of origin.

Setting up of International Accounting Standards committee (IASC) in 1973 was the important step in the process of harmonization and standardization of accounting practices. This committee has come up with its conceptual framework to develop accounting standards, to review existing standards and to assist in developing national accounting standards. The International Accounting Standards Committee aims at ensuring uniformity in financial reporting at global level. The member countries either adopt these standards or use it as a basis for developing national accounting standards.

So as encourage free trade of money so that companies can invest/raise money from other countries, the whole world has now started the process of adoption /convergence with IFRS. All countries in the European Union have already implemented IFRS from 2005 and the whole world is expected to adhere with IFRS norms. The paradigm shift in the economic environment in India during last few years has led to increasing attention being devoted to accounting standards as a means towards ensuring transparent financial reporting by any corporate.

The international Organization of Securities Commission (IOSC), which is an international organization of stock exchanges of the world, has endorsed the standards developed by IASC. This





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has given boost to International Accounting Standards because the financial statements will have to be prepared as per these standards, if shares are to be listed on stock exchanges of other countries.

Transition of Indian companies from Indian Accounting Standards (IAS) to international financial reporting system (IFRS) will be difficult but not impossible. At the initial stage implication of IFRS in Indian Accounting system may face many hurdles and problems. But slowly and gradually it will be implemented all over India and in all organizations. This can be made possible by categorizing Business organizations in various levels depending upon their capital contribution, state assistance, nature of production, contribution in international trade etc. initially it can be compulsory for large scale companies which are important at national and international level. After this it can be spread throughout the country by making it compulsory for all companies. Just like Indian Accounting Standards are compulsory for all business organizations in the country, IFRS can be compulsory for all the companies. It will be implemented but slowly and gradually.

## CONCLUSION: -

As the world continues to globalize, discussion on conversion of national accounting standards with International Financial Reporting Standards (IFRS) has increased significantly. At present, the ASB of ICAI formulates the AS based on IFRS. However, these standards remain sensitive to local conditions, including the legal and economic environment. Accordingly, AS issued by ICAI depart from corresponding IFRS in order to ensure consistency with legal, regulatory and economic environment of India. At present India is moving towards conversion of international financial reporting system at par with Global changing scenario. It will take time for Indian economy to be familiar and to adopt international financial reporting system.

There are many factors like environmental, political, and demographic which make our country very different from other countries in the world. Our Gross Domestic product (GDP) contribution is more from primary sector as compared to Secondary and tertiary sector. So transition



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