

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN INDIA: CURRENT SCENARIO AND PROSPECTS

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ABSTRACT

International financial reporting standards (IFRS) are the group of international standards or rules issued by the International Accounting Standards Board. India was adhering to traditional accounting standards popularly known as Indian General Accepted Accounting Principles (Indian GAAP). But to keep the promises made at G20 India developed Indian accounting standards in the year 2011, keeping the needs of local businesses in mind. India decided to adopt IFRS in a phased and well-planned manner. Till now India has mixed experience regarding adoption of IFRS. A lot of studies have been conducted to figure out these experiences. This paper attempts to explore experiences of Indian companies in implementing IFRS and the role of education for successful implementation of IFRS. It is discovered that different companies or industries have different experiences. Some companies find IFRS useful and beneficial while others find these burdensome. The education in relation to IFRS is still in early stages, being introduced at preliminary stages within the last decade. But after the complete inculcation of these new standards into the education system, the successful implementation of IFRS can be ensured.

Keywords: IFRS (International Financial Reporting Standards), GAAP (Generally Accepted Accounting Practices), Accounting Standards

Introduction

Before 1991 the condition of our economy was very deprived. So, in 1991 New Economic Policy was introduced at national level and there were three major components of this policy i.e. Liberalization, Privatization and Globalization. Globalization simply means linking one country's economy with the economy of other countries and making the world a small town. As it has amended down the boundaries and made the world small which leads to expansion of business activity. This in turn leads to expansion of business activities at international level like growth of international capital market and helps in free flow of funds. These developments at the international level had brought major changes in accounting practices and policies. A new set of rules IFRS (International Financial Reporting Standards) had been introduced by the successors of the International Accounting Standard Committee. These standards are being introduced in order to have the common business language which in turn off says business expansion at global level. Traditionally accounting means recording and maintaining the books. But after globalization it means an information system with an analytic

discipline. In the year 2008, G20 took place and it was decided that all member countries will modify their existing accounting standards i.e. Generally Accepted Accounting Practices (GAAP) to International Financial Reporting Standards (IFRS), provided by IASB (Indian Accounting Standard Board). The reason was provided that having IFRSs in all countries, will standardize the disclosure practices in all member countries, which further will improve the flow of capital along with other resources. All countries thus got to indulge in successful implementation of IFRS in their respective countries. The countries were compelled to modify or completely change their respective accounting standards prevailing at that time. India decided to apply IFRS in a phased manner keeping in mind the needs and requirements of local businesses. In India, Ind AS was developed in 2011, keeping the promises in mind, made at G20. Till now India has mixed experience regarding adoption of IFRS. A lot of studies have been conducted to figure out these experiences. This paper will attempt to explore the present scenario of IFRS in India. Moreover, with the changes in practical aspects of an educational domain, the change in traditional curriculum becomes

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important. Furthermore, the education at initial stages can prove significant for understanding the new concepts clearly and deeply. This argument does apply to International Financial Reporting Standards (IFRS) as well. Therefore, the role of education cannot be ignored in successful implementation of IFRS in India.

Objectives

1. To explore the fallouts and challenges of implementing IFRS in Indian companies.
2. To understand the role of Education in the accounting domain for overcoming the challenges.

Research Methodology

This study provides the review of papers on “IFRS in India” published across the two databases with full text options in 35 journals from 2011-2021. The Literature search was based on the key descriptor “Scenario of IFRS in India” for the list of databases. The database examined for the keywords and the terms mentioned in the title abstract. The period of study was March 2011- February 2021. Initially 45 papers were shortlisted out of which 35 papers were utilised for review articles. The final set of articles was codified on the different parameters such as basic themes and key issues involved.

IFRS in Indian Companies

Akhtar and Tripathi (2014) attempted to find out the impact of IFRS norms on the ratios of Indian companies. For this purpose, they conducted the experiment on the three companies which are already using the IFRS norms for reporting. They made the nine hypotheses for collecting the data and concluded that IFRS brings major change in financial statements and IFRS make companies’ positions more reliable and trustworthy as the investors are ready to invest in the companies. It also gives benefits to the government and makes the auditor more comfortable. Kamath and Desai (2014) observed the impact of IFRS adoption on the financial activities of Indian companies. They consider four major areas of the financial activities that are financial risk, investing activities, operating activities and debt covenants. For this study they took the samples of 8

companies who voluntarily follow the IFRS norms. They concluded that there is significant improvement in the investment and the operating activities but there is no improvement in the financial risk and debt covenants due to adoption of IFRS norms

Nadia and Rosa (2014) studied the impact of IFRS-7 and IFRS-9 on the liquidity in banks. The main objective of their study was to see whether IFRS improves the position of the banks or not. They concluded that the IFRS-7 and IFRS-9 does have much effect on the banking sector due to lack of guidance and framework and the banks hesitate to follow the new rules. Kamarajugadda and Sireesha (2015) examined the difference between the Indian GAAP based and IFRS based financial ratios. After taking ratios of 10 Indian companies following the IFRS reporting standards, they concluded that IFRS adoption brings more reliability in financial ratios and leads to increase in liquidity, profitability and valuation ratios. Moreover, they also claimed that IFRS helps the companies and provides opportunities for capital maintenance and protection against failure risk. Kalara and Vardia (2016) claimed that after the implementation of IFRS there is a lot of improvement seen in the company’s profitability.

Kantaya and Panduranga (2017) undertook the comparative study between the balance sheet prepared under the traditional and IFRS norms. For this purpose, they selected the Indian IT companies who adopted the IFRS norms that are WIPRO and INFOSYS. They concluded that total assets and total equity under IFRS are higher than that of traditional accounting practices, while on the other hand total liabilities are lesser under IFRS.

Gupta, Akhter and Chaklader (2017) studied the impact of IFRS adoption upon the key financial ratio of Indian company WIPRO. According to them there would be a high chance of suitable and fast growth of the company due to different IFRS norms for revenue and accrued expenses. Ordia and Bhanawat (2017) conducted the study on selected Indian listed companies for examining the implementation of IFRS norms on the wealth of the shareholders. They concluded that there is a significant difference between the traditional accounting practices and IFRS but there is no effect

on the wealth of shareholders.

Tripathi, Mehta and Chaudhary (2019) ascertained the impact of IFRS implementation on the automobile industry. For this purpose, they conducted the experiment on 6 automobiles companies and concluded that almost all the companies show significant increases in their profits but some of the companies face liquidity crises. Amrutha Selvam and Kathiravan (2019) examined the impact on accounting ratios due to convergence to IFRS in India. For their study they took the sample size of 100 companies and concluded that there is considerable change in profitability and equity of firms and the companies who followed IFRS are still in progress. Pavithran, Selvam, Miencha, Jayapal and Kathiravan (2020) scrutinized the impact of IFRS on the pharmaceutical companies. For their study they took the sample size of 11 listed companies having net worth of Rs. 500 million following IFRS on the first phase. They determined that IFRS adoption has a significant impact on profitability and leverage ratios of the companies in comparison to the Indian GAAP.

IFRS in India -Issues and Challenges

Generally Indian companies have not yet officially dedicated themselves to approving the IFRS Standards. So, Jain (2011) tried to discern the problems faced by stakeholders in adoption of IFRS in India and suggested that the accountants, law makers and regulators have to work like a team to overcome such problems. Moreover, Rohini (2011) administered a study about the reaction and attitude of Indian investors towards the IFRS norms. For this purpose, the author took the sample size of 50 investors of Chennai city and concluded that although investors believe that the IFRS would bring positive outcome for their investments, they are not familiar with the IFRS procedure and implementation. Mulyadi, Soepriyanto and Anwar (2012) provided in their study that the companies face major challenges related to taxation needs while adopting IFRS. There is a mismatch between IFRS and traditional income tax laws in India. For income tax purposes companies are compelled to maintain accounting books as per Indian GAAP. Misra and Aggarwal (2014) conferred about the process of

IFRS adoption in India, benefits, challenges and steps to overcome the challenges. They discuss the road map declared by MCA for smooth progress and adoption of IFRS. Moreover, they explained that for the accomplishment of IFRS in India it will require efforts of government, regulatory authorities collectively in order to make the IFRS successful and also there should be necessary changes in the taxation system and in the other laws of the country.

Gupta (2014) took the primary data for their study and collected data from accounting professionals from two districts of Punjab. Their results indicate that for successful implementation of IFRS, there is a need for a systematic approach to make the organisation and the investor ready for change. Srivastava and Gupta (2014) conducted the study about how the companies perceive the implementation of IFRS and the changes, challenges faced by them while implementing the IFRS. They determined that the respondents faced many problems and often hesitate to adopt IFRS because of lack of guidance. Moreover, there are major differences between the financial statements prepared under GAAP and IFRS norms. In the similar vein, Dhankar, Chaklader and Gupta (2015) tried to figure out the problems and challenges that public sector banks may face in India towards the implementation of IFRS. For their study they prepared a questionnaire regarding various aspects of IFRS implementation. They concluded that the impact of adopting the IFRS standards is significant as most of the company's scrutinized equity is as high as above the expectations. But the major challenge was the lack of implementation guidance of IFRS for the employees. Das and Saha (2017) administered a study to observe the perceptions of the investors regarding adoption of IFRS norms. They determined that investors do believe that the IFRS would bring positive change and help them for easy and accurate decision-making regarding investments as all the companies will be following the same reporting system.

Srivats (2018) stated that there is a lot of progress towards the IFRS implementation in India. The companies slowly and gradually have started following the IFRS norms, as they believe that the

IFRS brings lots of changes and helps them to expand their business at global level. Gupta and Gaur (2019) tried to analyse the effectiveness and successfulness of IFRS for Indian companies and impact of IFRS on Indian companies. For this purpose, they prepared a questionnaire and collected data from CA Professionals. It was observed that the majority of the respondents believes that IFRS brings improvements, effectiveness, transparency in Indian companies and it will affect the Indian companies in future and will change the status of companies, if all the companies will follow it properly. Verma and Krishnan (2019) provided that IFRS is not popular among the Indian companies and the companies hesitate to follow the new accounting standards. Zala (2020) claimed that IFRS adoption brings out the major challenges among the Indian companies, because there are lots of differences between the IFRS norms and the prevalent standards. It was mentioned earlier that IFRS norms should be followed within the short span but it was not the case as the work is still going on. Puri, Singh and Garg (2021) examined the perception of accounting professionals towards the awareness and adoption of IFRS. For this purpose, they took the sample size of 199 participants and provided that comparatively males are more aware about the IFRS implementation and advantages. They believed that IFRS is beneficial to attract the foreign investors.

Accounting Education and IFRS

Finance and Financial information are the essential constituents of the capital market. In the day to day life all the investors have to deal with investment of money and understanding the information for this they require financial information. Due to globalization and liberalization, financial information and knowledge become the need of the hour. About 10 years ago, the subject of IFRS was introduced in the syllabus at undergraduate and postgraduate level. But still the majority of accounting studies follows and teaches the traditional accounts because of improper practical implementation of IFRS in Indian companies. But with the passage of time and with proper implementation of IFRS standards in the companies, our education related to accounting will go through

a lot of changes. If we talk about the companies who are forced by law to apply these standards, they do suffer because of lack of knowledge about implementing IFRS in their accounting policies and practices. They need to spend money on the training of their staff members, which can result in more expenditure than the generation of the income while implementing IFRS (Kanakraju, 2015).

Moreover, it is very important for the investors and professionals to have complete knowledge of IFRS in order to make their business more efficient and expand their business at global level. Because after globalization the economies of different countries are related to each other and the trade market has also expanded. Accountants and Professionals should be well competent with all the rules and regulations as they are the frontline for introducing the changes in the organization which in turn directly affects the economy of the country (Kampani and Vadera, 2019). The study of IFRS being very important in the field of education of accounting and auditing, there are many career opportunities which are available to students. The Association of Chartered Certified Accountants has launched diploma courses in order to develop knowledge and understanding of IFRS among the students of Accounts. The Association of Chartered Certified Accountants also teamed up with many educational institutions in order to create awareness and provide knowledge about the IFRS among the students. According to an empirical study conducted by Patro and Gupta (2012) the acceptance and implementation of IFRS can be determined by the need and interest of the students. If the students are interested and knowledgeable about this concept then implementation of this concept becomes easy. So, one can clearly argue that the successful implementation of IFRS can be ensured by developing educational courses in the same domain.

Conclusion

Globalization is the procedure correlated with interlinking the economies of different worlds and promotes openness that in turns helps in unrestricted flow of goods and services and promotes business at international level. In the same direction, the International Accounting Standard Board introduced

the accounting standards known as IFRS. All member countries thus got to indulge in successful implementation of IFRS in their respective countries. In India, it was decided to apply IFRS in phased manners starting from April 1, 2011. ICAI along with other accounting related agencies of the country developed new accounting standards known as IND-AD aligning with IFRS. India has mixed experience till now related to applicability of IFRS. There are companies who are experiencing positive outcomes of the implementation of accounting standards, but few industries are still reluctant to apply IFRS as they face certain challenges for applying them. It cannot be denied that the adoption of IFRS is not an option but compulsion. So, for successful implementation of IFRS education system can play a vital role. Education system may help the managers and other professionals of the companies to know more and better about the IFRS standards from very initial levels in their academic years. So, the educational institutions had to revise the curriculum as per IFRS at graduate and postgraduate level. Specialised courses can also be started to ensure deeper knowledge about IFRS. In the end, we conclude that the IFRS standards are complex but its implementation could become easy with the help of making certain changes in the education system.

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