International Journal of Business and Management Invention (IJBMI)
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org || Volume 8 Issue 07 Series. IV || July 2019 || PP 34-40

Harmonisation Of Accounting Standards Through International Financial Reporting Standard (Ifrs)– Benefits, Prospects, Challenges And Applicability Of Ind As (Indian Accounting Standard)

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ABSTRACT: *The international harmonization of accounting standards has become essential because of the diverse accounting standards adopted across various countries and its impact on the globalisation. Uniform set of international standards for financial reporting are needed through different countries for better comparability of the financial statements and reports. Convergence of the country's accounting standards with International Financial Reporting Standard (IFRS) establishes the setting for the global financial reporting framework. But adopting or converging towards IFRS would come with cost and effort. Convergence of Indian accounting standards with global IFRS has brought numerous challenges. The companies reporting need to change their internal information systems, procedures and practices. This paper provides an understanding about the concept, objectives and benefits of the international financial reporting language i.e. IFRS. The paper tries to understand the comprehensive challenges faced while convergence with IFRS. Also through this paper, the challenges and risks specific to India for convergence of Indian GAAP with IFRS are enumerated. The roadmap for the applicability of Indian Accounting standard (IND AS) for Indian business entities and the difficulties in the implementing them have been briefly covered in the paper.*

Keywords: *Accounting standards; IFRS; IASB; ICAI; Convergence.*

Date of Submission: 28-07-2019 Date of acceptance: 10-08-2019

I. INTRODUCTION

With the increasing trend towards the internationalisation of business and integration of financial markets, the need for international harmonisation of accounting rules is strengthened (Atrill 2011)[1].Uniform set of international standards for financial reporting through various countries are necessary for improved comparability of the financial statements. However complete adoption of global accounting standards is not feasible owing to the differences in the economic, legal, cultural, social and political environment in different nations. The quantifiable differences can be eliminated through the standardization of accounting policies and internationally accepted accounting standards play a major role in this entire process. By adopting International Financial Reporting Standards (IFRS), financial statements are presented on the same basis as that of the foreign countries. IFRS are accounting rules and guidelines governing the reporting of different types of accounting transactions and events in financial statements. The main objective of IFRS development is harmonizationin financial reporting to augment the utility of accounting information across various countries. Harmonization narrows the differences in various accounting systems and reduces the undesirable alternative practices in financial reporting. IFRS simplifies and provides uniform accounting procedures for companies having subsidiaries in different countries with one reporting language.

In the year1973, the International Accounting Standards Committee (IASC) was set up, to achieve the harmonisation of global accounting standards. IASC had developed the International Accounting Standards (IAS). The main objective of IASC was to promote the worldwide acceptance of the IAS. The need to harmonise the accounting standards in different countries was proposed by IASB. In the year 2001, IASC was re-formed and renamed as the International Accounting Standards Board (IASB). The IASB has been at the front towards achieving harmonisation of the accounting standards in the globalised economies. IASB is an accounting standard establishing body with the professionals working independently. The IASB has established the single set of global accounting standards known as International Financial Accounting Standards (IFRS).

International financial reporting standards are high-quality set of globally accepted accounting standards to prepare the financial statements of public entities centred upon principles. IFRS are used for the preparation of financial statements by the companies throughout the world. This helps in bringing uniformity, and achieving harmonization of the accounting set of principles and practices at the international level. IFRS are investor friendly and principle based standards providing a global accounting language. IFRS lets better communication across various countries.

Various steps have been taken to make Indian Accounting standard (IND AS) convergent with International Financial Reporting Standard (IFRS). The Institute of Chartered Accountant of India (ICAI) as the member of the International Federation of Accountants (IFAC) facilitates the global harmonisation of the multiple accounting standards. Accordingly, while framing the Accounting Standards, the Accounting Standards Board (ASB) as per the conditions prevailing in India, integrates the International Accounting Standards (IASs) of the IASC. It also considers and integrates IFRS issued by the IASB and integrates them.

Rationale behind convergence towards IFRS

IFRS is becoming the global language of financial reporting extensively being used across the developed and developing nations. In the market globalization, countries have opened up their economies by integrating with other countries through trade and business in international markets in the form of foreign direct investments, merger and acquisition, joint ventures, franchising etc. The business entities have seen a swift shift and are being required to review, redefine and reassess their business strategies, organisation structures and accounting processes in the fast changing business world. The challenge facing global organisations is the on-going alignment of local business processes with global corporate strategies as they continuously adapt how they do things to compete successfully. (Hopper 2007)[2]

The global companies have subsidiaries in various countries and they raise capital for various investment opportunities and for the diversification of their business throughout the world. With different countries having their sets of accounting standards, results of reporting becomes complex with different basis in the financial statements. Accepting a single set of standards allows company to use common reporting language and thereby helping the large companies to provide the investors and auditors with a cohesive view of the financial statements. Global standards are desirable for the global markets and multinational companies transacting across borders.

The usage of IFRS continues to grow for better transparency, efficiency and accountability around the expanding financial markets thereby leading to long-term financial growth in the global economy. The benefits from adoption of IFRS to the global economies can be summarised as follows:

- Improved transparency,
- Ease of regulation of securities markets,
- Better access to global capital markets to procure capital from abroad,
- Better cross border listing and more investment in those countries which have adopted IFRS Standards,
- Elimination of the multiple reporting practices and following a single set of global practice,
- quality of financial reporting improves and thereby improves the reliability onthe financial statements,
- Global comparability of financial statements and making comparisons easier for businesses with subsidiaries in different countries.
- Better financial information for the stakeholders,
- Increased business efficiency,
- Better communications with international investors,
- Improved credibility of domestic markets in the foreign markets.

Convergence with IFRS

For the internationalisation of businesses and accounting, creation of the financial reporting rules for a worldwide market started in the year 2005. The adoption or convergence of accounting standards achieves the objective of setting up uniform set of superior quality accounting standards which are to be used globally. Convergence focuses on several factors based on the belief that having a single set of accounting requirement would lessen the differences between national GAAPs of various countries, increase the comparability of different entities' accounting numbers, thereby contribute to capital flow across national borders and increased competitiveness of companies and benefiting the stakeholders. Adoption or convergence of IFRS with national GAAP brings uniformity and fairness in accounting information.

Adoptionmeans using IFRS as issued by IASB. It means that the country applying IFRS would be fully complaint with the IFRS and guidelines given by the IASB. Adoption of IFRS by any country would ensure that the business enterprises are following the IFRS by the companies while preparing their consolidated financial statements for the purpose of financial reporting where the presentation note and auditor's report indicate that the financial records are prepared on the basis of IFRSs.

Convergence with IFRS means to accomplish harmony with IFRSs issued by IASB and to remove diversities between countries own accounting standards by designing and formulating national accounting standard that they comply with IFRS with certain modifications. It doesn't mean adopting IFRS as it is. Convergence means preparation of the standards which have been set up by various standard setters by adopting the international standards, fully or partially to make them appropriate and specific for their country's environment. Due to certain carve-outs, carve-ins (deviations from IFRS) and removal of some options from IFRS, the converged standards are not considered as equivalent to IFRS.

Challenges involved in adopting or converging with IFRS

Adopting or converging towards IFRS would come with cost and effort. The companies, reporting need to change their internal information systems, procedures and practices; investors and others users of financial statements need to be aware, how the information informed has been calculated and accounting professionals would need to make changes into their accounting procedures. These will require a fundamental review and amending various laws and thus initial costs could be significant. Several challenges on the way of IFRS convergence are:

1. Lack of Knowledge and awareness about IFRS and differences with GAAP

There is not sufficient awareness of IFRS and its effect amongst the users of financial statements. IFRS being principles based, rather than rules-based, requires numerous changes in the professional procedures by the accountants. Convergence or its adoption means that the whole set of financial statements has to be changed as the differences are going to be wide. This is going to bring about a change in financial statement leading to various complexities. Also, there is little guidance with regard to the specific interpretation and application of the standards. Moreover, in certain situations, management will be required to exercise a significant amount of judgment in applying the standards and less focus on rules. The external auditors will have to spend more time reviewing, understanding and evaluating management's application of the standards to vouch that the standards were applied properly, especially in the initial years of adoption.

2. Training and Education

Proper training facilities, academic courses providing knowledge in IFRS for imparting education on IFRS and its application is another challenge. The companies, business entities, auditors, various regulators and the investment community need to be made skilled to understand and then apply and make the interpretation of IFRS processes. Adequate training to the stakeholders such as chief financial officers, accountants, auditors, tax authorities etc. is to be provided to understand and implement IFRS. Even though, the IFRS foundation is providing various online IFRS courses and ICAI is arranging IFRS training programs for its members, chartered accountants and other interested parties, there are still fewer professionally trained experts.

The audit firms have to audit the fair value accounting instead of cost concept accounting leading to difficulty. Audit firms may also face challenges in procedures, and hiring and training personnel possessing knowledge appropriate to perform audits of IFRS. More intensive training, conferences, seminars, workshops from the experts would be needed to get the required talent level for effective adoption and smooth convergence of IFRS.

3. Legal and Regulatory Amendments

In order to adapt to IFRS, amendments in existing regulations of the country would be needed as laws and standards are always specific to the settings of the country. It would be required to check if the IFRS are suitable to be applied as per the requirements of a country. The major areas of concern would be to check the compatibility of country's laws with IFRS in various matters like formats and presentation requirements, ambiguity about the taxation of various accounting items arising after convergence.

Convergence is going to have an impact on most of the financial statement items and thereby the taxation liabilities are going to massively change. The taxation laws need to recommend the treatment of tax liabilities rising due to the change and make proper amendments.

4. Fair Value Measurement:

IFRS uses fair value accounting (reflecting the true worth of assets) as a measurement base for determining the figures for assets and liabilities. Fair value is based on transaction between market participants and different participants may value an asset or liability using different method, arriving at different values. It involves hard work in arriving at the fair value using the services of valuation experts who find it difficult to shift from historical method to fair value method. Moreover, adjustments to fair value results in gains or losses which are reflected in the income statements. Whether this can be included in computing distributable profit is also debatable issue. These market participants work on the hypothetical transaction assumption. Financial reporting is unlikely to be improved by using measurements concepts based on hypothetical transactions with assumed market participants whose characteristics differ greatly across nations, cultures, economies and political boundaries.

5. Financial reporting and information system:

The financial accounting and reporting done as per the standards issued by ICAI needs to be amended to suit the requirements of IFRS to be able to providedependable data for reporting. The reporting information systems has to be made according to the new requirements related to fixed assets, segment disclosures information, related party transactions etc. The accounting areas that are going to be more intricate are business combinations, financial instruments due to fair value accounting. These will impact earnings and it is important to have a suitable information system which is capable of addressing these differences.

6. High cost of convergence for SMEs:

The process of convergence to IFRS is a challenge for SMEs due to scarcity of financial resources and professional expertise. For them, cost exceeds its benefits due to convergence with the IFRS. In India, Ind AS is not mandatory for SMEs.

Despite the difficulties, many countries are adopting or converging with IFRS as much as possible in recent years in a procedural way. To avoid from converging or accepting IFRS may prove risky given the strong case for harmonizing accounting principles and standards at the international level.

Convergence to International Financial Reporting Standards in India (IFRS) – Indian Accounting Standard (IND AS)

The set of accounting standards that are converged with International Financial Reporting Standards are known as Indian Accounting Standards. Indian Accounting Standards are set of Standards based upon the IFRS issued by the International Accounting Standards Board (IASB). India has chosen a path to converge rather than adoption of the IFRS. Ind AS are issued under the supervision and control of Accounting Standards Board (ASB).

With the developments taking place in various countries which had set up timelines for converging towards IFRS, in July 2007, the ICAI had set a target that India should converge towards IFRS in a definite time frame for all listed, public interest and large-sized entities from April 2011 in a phased manner as per the roadmap drafted by the Ministry of Corporate Affairs (MCA), Government of India. ICAI has been constantly taking up the issues regarding convergence with NACAS (National Advisory Committee on Accounting Standards) which is set up by MCA. Several regulators like Reserve Bank of India (RBI), IRDA (Insurance Regulatory and Development Authority of India) and Securities and Exchange Board of India (SEBI) are also involved in this process. NACAS, thereafter recommends the final standards to the MCA. Then the Indian Accounting Standards are given the name and are numbered according to their corresponding International Financial Reporting Standard.In the finally recommended Ind AS, there are some carve outs, carve –ins and removal of certain options from IFRS due to certain conceptual issues and the legal, economic and regulatory environment prevailing in the country. Cave –outs are the treatment in Ind AS which is different as compared to IFRS. Carve – Ins are the additional guidance notes put in Ind AS, which are not there in IFRS. These carve outs and deviations have been for the differences in application of accounting practices prevailing in India. The MCA and the ICAI work with the IASB to reduce these carve-outs as much as possible.

ICAI has issued thirty nine Indian Accounting Standards which have been notified under Companies Act, 2013 by Ministry of corporate Affairs applicable to the companies (based upon their net worth) from the financial year 2015-16 on voluntary basis and from 2016-17 on a mandatory basis. The MCA had notified the Indian version of IFRS in the year 2015 and in the year 2016. The roadmap provides a phase-wise schedule for the adoption as per the company's net worth.

Benefits of Convergence to IFRS for India

For the development of the financial economy, various Indian firms are raising capital from overseas investors, so national GAAPs may not be enough to communicate firm's economic information to overseas investors. It becomes imperative but at the same time costly for enterprises operating overseas to convert their financial statements for the international reporting purposes. This becomes the reasons to adopt or converge to IFRS as these standards are understood across the world. Some of the benefits of convergence and impact of Ind AS are as follows:

1. Ind AS would bring financial reporting in India at par with the international financial reporting. The converged Indian Accounting Standards would provide distinction in financial reporting making the Indian financial statements simple, comparable and as per the international standards.
2. Ind AS will improve comparability of financial information of Indian companies with global competitors as reports of all corporate are available in standardized form.
3. Historical costs will be replaced by fair values in several balance sheet items, which will enable the entities to know their true worth. By providing transparent and comparable financial information, reporting as per these

standards will provide push to cross-border acquisitions; enable group consolidation and alliances with foreign entities, and lowering the cost of integration in post-acquisition periods.
4. Accounting professionals having expertise in these Standards would also get global recognition playing significant role in Indian and international financial reporting system.
5. It shall also increase and upgrade India's prospects in terms of foreign investments. India’s marketability for the business growth globally would also enhance.
6. International acceptability of the financial statements through all stock exchanges will facilitate entry of any Indian company to any stock exchange worldwide for better financial investments.

Applicability of Indian Accounting Standards to the Companies

The Ministry of Corporate Affairs (MCA) has notified the phase-wise convergence to Ind AS beginning from the accounting period 2016-17. Ind AS has to be implemented by particular classes of companies. These companies shall adopt the Ind AS depending upon their net worth and the listing status. The roadmap for Ind AS implementation is summarised as follows:

Phases Of Implementation Of Ind As:

PHASE I **1st April 2016**	**PHASE II** **1st April 2017**	**PHASE III** **1st April 2018**	**PHASE IV** **1st April 2019**
All listed Companies with : Net Worth >=₹ 500 crore as on 31st March 2017	All remaining listed companies and all unlisted companies with : Net Worth >=₹ 250 crore as on 31st March 2018	Schedule Commercial Banks (Excluding RRB and Urban Co-operative Banks) Insurer/ Insurance Companies Lending Refinancing Institutions and Non-Banking Finance Companies (NBFC) with : Net Worth >=₹ 500 Crore	NBFCs whose securities are listed or are in the process of listing with : Net worth < ₹ 500 crore Unlisted NBFCs with: Net worth >=₹ 250 crore but < ₹ 500 crore.

Phase I Mandatory Applicability from Accounting Period beginning on or after 1st April 2016

Indian Accounting Standards have been made mandatorily applicable to the following companies from 1 April 2016 onwards:

- Companies listed or which are in the process of getting the company listed on any stock exchange of India or outside India
- and such company have the net worth of more than or equal to ₹ 500 crore.
- Unlisted Companies which have net worth of or more than or equal to ₹ 500 crore.
- Parent company or the subsidiary company or associate companies or the joint venture of companies above companies.

Ind AS had been applicable on mandatory basis from 1st April 2016 to all listed companies or unlisted companies. Provided the net worth of such companies are more than or equal to ₹ 500 crores. Net worth is to be found for previous three financial years i.e. 31st March of 2014, 2015 and 2016.

Phase II Mandatory applicability from accounting period beginning on or after 1st April 2017

Indian Accounting Standards have been made applicable to the following companies on the mandatory basis, from 1 April 2017 onwards:

- Companies listed or which are in process of getting themselves listed on stock exchange of India and outside India,
- above mentioned companies have the net worth of less than ₹ 500 crore ,other than companies which are listed on the Small Medium Exchanges.
- Unlisted companies which have net worth of more than ₹ 250 crore but net worth less than ₹ 500 crore.
- Parent company or the subsidiary company or associate companies of above companies or the joint venture of above companies.

Ind AS are applicable on mandatory basis from 1 April 2017 for the listed company or for the company in the process of being listed, as on 31March 2016. Provided, the net worth of such company is more than ₹ 250 crores but less than ₹ 500 crores on any of the above dates. Net worth is to be calculated and checked for the 31st March of 2014, 2015, 2016 and 2017, i.e. four previous financial years.

Phase III Applicability to insurance, banking and non-banking financial companies:

Initially, Indian Accounting Standards were to be made mandatory for the scheduled commercial banks, Non- Banking Financial Companies (NBFCs), and Insurance companies from 1st April 2018 whose net worth will be more than or will be equal to ₹ 500 crores w.e.f. 1st April 2018.

Phase IV Applicability to NBFCs

NBFC whose net worth is more than or equal to 250 crores but less than 500 crores shall haveto mandatorily prepare the financial statements as per IndAS w.e.f1st April 2019.

Challenges in applicability of IND AS

The Reserve Bank of India (RBI) had deferred the implementation of Ind AS to 1 April 2019, for banks on 5 April 2018. This has also been deferred for another year to the year 2020 till further notification comes from the central bank on account of the requisite legislative delays. The implementation of Indian AS by scheduled commercial banks necessitates various legislative amendments in the financial statements (amendment to the Banking Regulation Act, 1949) to make them compatible with disclosures required by Ind AS and increased preparatory work required by the country's banks. For example, as per IFRS 9 (Financial Instruments), Expected Credit Losses (ECL)Framework,banks need to make provisions at the time they feel that the loan is likely to arise (considering the past, current and forecast information)and not like earlier framework, where, to recognise the credit losses, evidence of the loss must have been apparentto wait for the actual defaults from the borrower. This ways, there can be huge initial credit losses as the provisioning requirements of IFRS 9 (financial Instruments) are different for financial reporting purposes. This will lead to timely recognitionand provisioning of the credit losses.

Ind AS for insurance companies, the implementation date has also been deferred by two years on account of legislative amendments needed.

Some points regarding the calculation of Net Worth and applicability of IND AS :

- As per section 2(57) of the Companies Act, 2013, net worth is determined on the basis of the standalone accounts of the company as on 31 March 2014 or first audited period ending after that date.It is the sum total value of the paid-up share capital with all the reserves (out of the profits and securities premium account), after subtracting the accumulated losses, miscellaneous deferred expenditure and unwritten off miscellaneous expenditure. The amount calculated does not include revaluation reserves, written-back depreciation.
- Ind AS will be applicable to both consolidated financial statements and the stand-alone financial statements of company notified in the roadmap. This is helpful as companies will not have to maintain dual accounting systems.
- If Ind AS are being applicable to a company then they shall be applied to all its subsidiaries, holding companies, associated companies regardless of qualification of such companies.

II. CONCLUSION

Globalisation leads to growth, helping the companies to raise funds from offshore international capital market, therefore necessitating harmonised global standards. The implementation of reporting under IND AS and IFRS will affect the various performance indicators of the business entities. Business enterprises will need to ensure that they make policy decisions after thoughtful communication with the affected parties and they properly identify the risks and check the internal controls for the effective convergence. The several presentation and numerous disclosure requirements of the financial statements are also going to significantly increase. Internally, within the businesses, successfulInd AS implementation may significantly have impact on entities accounting processes, business contracts, taxation etc.

Various countries are converging on the IFRS, formulated by IASB. The major drawback of convergence to IFRS includes its cost, effort, different social, economic, accounting, legal and technical environment of different countries and the speed at which these adaptations shall take place. Researchers have demonstrated that important differences among countries and cultures can affect reporting even within common standards. IFRS will not eliminate these real economic and cultural differences. Thus step-by-step planning, requiring a comprehensive strategic evaluation of resources and training, establishing sustainable processes, smoothening project management and then the efficient incorporation of the changes into regular business processes would be necessary to produce meaningful information and the desirable results.

All those affected due to these changes with respect of financial reporting will need to perform the duty of harmonization and convergence. Implementing the international standards or IFRS would require various amendments in the accounting formats, accounting policies, legal policy changes and all-embracing disclosure requirements. The cost and efforts of implementing IFRS could be set-off by the advantages one would derive after compliance with IFRS. Complete convergence will be achieved after taxation related issues and many company law related issues are properly sorted. This would require increasing the awareness levels of the financial community across various nations, accounting professionals are supposed to acquire requisite expertise of the international standard. The technical and legal readiness of industry will help in the smooth switch to IFRS.

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Deepa Sahai Garg" Harmonisation Of Accounting Standards Through International Financial Reporting Standard (Ifrs)– Benefits, Prospects, Challenges And Applicability Of Ind As (Indian Accounting Standard)" International Journal of Business and Management Invention (IJBMI), vol. 08, no. 07, 2019, pp 34-40