

Indian Scenario in Context with IFRS

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Introduction

International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation financial statements of public companies. The mission of IASB is to develop, in the public interest, understandability, reliability, relevance, comparability and International Financial Reporting Standards (IFRS) for general purpose financial statements.

The present era of globalization and liberalization has shrunk the geographical barriers of commerce. The whole world has literally become flat. One can see the cross-border economic activities happening in a swift way. The entity are listed on major stock exchanges of the world. Capital markets have also spread their wings across the globe, leading to free flow of domestic and foreign direct investments to different parts of the world.

Given these scenarios, a common and uniformly accepted Financial Reporting System, supported by strong governance practices and a firm regulatory framework, strengthens the economic development of any country. As investors have also become global, financial statements of entities of different countries should be comparable on prescribed common parameters. A common set of financial statements help investors better understand investment opportunities worldwide as against financial statements of different standards unique to each country.

IFRS - Indian Context

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 potent and transparent financial reporting by any corporate.

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. The ICAI as the accounting standard - setting body in the country has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. Indian Accounting Standards have withstood the test of time. As the

world continues to globalize, discussion on convergence 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. As the world continues to globalize, discussion on convergence of Indian GAAP with IFRS has increased significantly. A few developments are set forth hereunder -

- * Formation of IFRS Task Force by the Council of ICAI
- * Recommendation of the IFRS Task Force submitted to the Council

- * Full adoption of IFRS from accounting period commencing on or after 1st April, 2011

- * Proposed to be applicable to listed entities and public interest entities such as banks, insurance companies and large sized entities

- * Involvement of various regulators (MCA, RBI, IRDA, Tax authorities and SEBI)

- * Draft Schedule VI and Accounting Standard 1 (Exposure Draft) consistent with IFRSs

- * Convergence Strategy presented by Technical Directorate of ICAI on 02.02.2009:

- ICAI has begun the process of issuing IFRS equivalent AS with following proposed changes:

1. Removal of alternative treatments
2. Additional disclosures, where required
3. AS number will continue but IFRS number will be given in parenthesis
4. IFRICs will be issued as appendices - ICAI has constituted a Group in liaison with government & regulatory authorities and this group has constituted separate core groups to identify inconsistencies between IFRS and various relevant acts.

Benefits of adopting IFRS

The adoption of IFRS is expected to have a significant impact on all stakeholders, such as regulators, professionals, preparers of financial statements, analysts, users of financial information and so on.

(1) The Economy: The convergence with IFRS benefits the economy as a whole by accelerating growth of international business. It strengthens the economy with a strong and efficient capital market, where cost of

capital becomes cheaper, leading to inflow of international investment into the country.

(2) **The Investors:** Convergence with IFRS facilitates those investors who want to expand their cross-border business operations. For this purpose, investors want information that is relevant, reliable, timely and comparable across locations. Convergence with international standards will mean a clear understanding of financial statements by investors.

(3) **The Industry:** Entities can raise capital from foreign markets at lower cost only if they can create trust and confidence in the minds of the foreign investors through "True and Fair" presentation of their financial statements by adopting globally acceptable standards.

(4) **The Accounting Professionals:** Convergence benefits accounting professionals who can offer their services to different parts of the world. It offers diverse opportunities to accounting professionals in any part of the globe, as the same accounting practices prevail throughout the world.

Challenges in adopting IFRS

- * Regulatory endorsement and acceptance
- * Shortage of skilled resources
- * Huge cost of enhancement of IT systems
- * Acceptance by tax authorities
- * Managing market expectations and investor relationships
- * Managing day to day business issues - MIS, tax planning, performance indicators, mergers and acquisitions, etc.

Key Divergences

The key divergences between Indian GAAP and IFRS have arisen due to :-

- * Conceptual differences
- * Legal

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and regulatory requirements

- * Present economic conditions
- * Level of preparedness

Implementation Phase in India

The applicability of International Financial Reporting Standards for convergence of Indian entities would be in several phases as the issues involved in one-shot adoption are complex. For example, there are issues to be addressed, which may impact tax revenue collection in the Indian scenario. Also to be sorted is the applicability of IFRS to Small and Medium Scale Enterprises, pending deliberations by various authorities. Hence, in the first phase, ICAI has submitted a suggested list of companies that come under different parameters for adoption of IFRS standards. These entities include companies listed with BSE/NSE Sensex, insurance companies, mutual funds, entities with a capital base of over 50 million dollars outside India, companies that are publicly accountable with an aggregate borrowing of over Rs. 1,000 crores and such others.

Training on IFRS

India has a large number of accounting professionals. ICAI has already taken the initiatives for a comprehensive capacity building programme to prepare the CA profession for this transition. A large number of professionals have already undergone training and this process is being accelerated by the ICAI.

To summarize, convergence is inevitable. The timeline is tight. The need of the hour is co-ordinated and continuous efforts by all concerned to make the process a grand success.