

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN INDIAN CORPORATE SECTOR

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Abstract *The goal of this article is to track the evolution of the Indian business community's embrace of International Financial Reporting Standards (IFRS). The goal of this IFRS is to guarantee that the users of financial statements are to be prepared in the accordance with IFRS, as well as interim financial reports prepared by such an entity that relate to a portion of the exercise covered by such financial statements, receive useful and accurate information. The Institute of Chartered Accountants of India (ICAI) was created by the Indian government through the ICAI Act, 1949, which aimed to standardise accounting procedures throughout the country. The ICAI formed the Accounting Standard Board in that same year to assist and standardise India's varying approaches to accounting. The Indian accounting community has devised a three-step process, which can be summarised as follows: first, the impact of IFRS is evaluated; second, preparations are made for its adoption; and third, IFRS is fully implemented. Convergence of IFRS is demonstrated in its next section. Finally, this article outlines the procedures by which the Indian business sector has adopted IFRS.*

Keywords *ICAI, IFRS, Corporate Sector, Accounting Standard Board*

INTRODUCTION

In 1959, the groundwork was laid for what would become known as International Accounting Standards (IAS). The International Accounting Standard-Setting Process began by (Choi, Frost & Meek, 1999). In 1973, the International Accounting Standards Committee (IASC) was established as the culmination of the efforts of both accounting and non-accounting organisations. A total of 22 trustees, led by former US Federal Reserve Chairman Paul A. Volcker, govern IASC. Major accounting firms, private financial institutions and companies, central and development banks and other international and professional organisations all make contributions to the IASC Foundation. The IASC reorganised in 1997 with the goal of harmonising different national accounting standards and practices into a single set of high-quality global accounting standards. From 1973 to 2000, it was responsible for issuing what are now known as International Accounting Standards. The Worldwide Accounting Standards Board (IASB) took over disseminating international accounting standards after the IASC was disbanded in 2001. The International Accounting Standards Board (IASB) is an autonomous organisation with representatives from nine nations and a wide range of professional specialisations. The IASB publishes IFRS, the updated version of IAS. It adopted all of the IAS that had previously been released by IASC (from 1 to 41), agreed to revise the existing IAS, and resolved that any future standards would be known as IFRS. The IASB is updating

the IAS and replacing some of them with the new IFRS. It's also worth noting that other Standards interpretations have been published. The term "IFRSs" is used to describe the full corpus of pronouncements issued by the IASB and the IASC. This IFRS was created to guarantee that readers of financial statements prepared in accordance with IFRS and interim financial reports, covering a portion of the exercise covered by such financial statements, receive useful and accurate information. As a result of the Asian financial crises in 1997–1998 and the subsequent push to embrace worldwide accounting standards, a large number of nations did so, either without modification or with very minor adjustments. Australia, European Union states, Hong Kong, Austria, Finland, France, Russia, Sweden, Germany, UK, Singapore, Taiwan, Pakistan, Malaysia, Russia, South Africa, Turkey, Mauritius, etc. are just some of the more than 150 countries that have approved or mandated the application of IFRS for their domestic listed companies as of 2010. The United States, too, is preparing to adopt IFRS. IFRS is rapidly becoming more important and overshadowing regional accounting standards due to the growth of the global financial market. Since global financial markets are becoming more integrated and investors want more uniformity in the financial reporting of multinational firms, it is necessary to globalise IFRS. The Indian government has mandated the use of IFRS commencing with financial statements for periods beginning on or after April 1, 2011, per a statement released by the ICAI. In addition, the current accounting standards have been updated to align with IFRS.

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In addition, the banking sector is not yet fully on board with the new IFRS frontiers that are applicable in India.

LITERATURE REVIEW

Detailed disclosures required by IFRS have improved financial statement transparency and comparability, according to the results of a literature review conducted by Houque (2018). Kim (2013) conducted an empirical study on the value relevance of the information reported by Russian public companies and found that top Russian companies listed on the London Stock Exchange that used IFRS to report their financials, outperformed their domestic peers that used Russian accounting standards. The study concluded that if IFRS were made mandatory in Russia, it would lead to higher quality data. Serkan et al. (2013) used financial ratios and accounting figures to examine the impact of IFRS on the financial reporting of 140 companies traded on the Istanbul Stock Exchange, Turkey. Findings showed a statistically significant disparity between financial statements prepared in accordance with local GAAP and IFRS. Discrepancies in inventory, fixed assets, long-term liabilities and stockholders' equity were uncovered. According to Fito et al. (2012) research on the effects of IFRS in Spain, their conclusions are congruent with those of the previous study. According to research by Lueg et al. (2014), implementing IFRS has led to a significant improvement in profitability ratios in the United Kingdom. Also, Gastn et al. (2010) compared Spain and United Kingdom and concluded that IFRS adoption had a larger quantitative impact in the latter. According to Lantoo and Sahlstrom (2009), the implementation of IFRS in continental Europe led to changes in financial ratios as a result of fair valuation and stricter restrictions on specific accounting concerns. Fearnley and Gray (2015) used data from 66 European enterprises to conclude that cultural values are a major institutional determinant of measurement decisions on investment attributes in IAS 40.

Tsalavoutas and Evans (2010) examined the effect of IFRS on 238 Greek businesses using Gray's comparability index. They discovered that gearing and liquidity ratios were significantly affected by IFRS, as were financial condition and reported performance. Average effects on gearing and liquidity were negative, but those on shareholders' equity and net income were favourable. Companies whose auditors were not one of the "Big 4" had a much more severe impact on liquidity and net income. Also, the effect on gearing was far higher for these businesses than for those that used one of the Big 4 accounting firms. The analysis by Jaruga et al. suggests that a company's transition to IFRS and the fair value option may not automatically lead to an increase in shareholders' equity because it identifies a large percentage of enterprises with material negative changes (2007).

Adoption of IFRS

The Indian government passed the ICAI Act, 1949, to establish the ICAI and standardise accounting standards across the country. In 1977, the Institute of Chartered Accountants of India (ICAI) established the Accounting Standard Board to bring uniformity to India's many different approaches to accounting. The accounting experts of India developed a three-stage procedure, which can be briefly summarised as follows:

Step 1 – The first stage is to conduct an IFRS impact analysis. At this stage, the company will evaluate how the adoption of IFRS will affect its Accounting and Reporting practices, operational infrastructure and core business. Following this, the company will identify the crucial conversion dates as outlined by the IFRS training plan. When the training programme is ready, the company will need to determine which of the IFRS will be applicable, as well as the differences between its current financial reporting practices and IFRS.

Step 2 – IFRS implementation preparations are the second stage of the procedure. The company will then revamp its internal reporting mechanisms. First, IFRS addresses the process of adopting and implementing IFRS for the first time.

Step 3 – The last phase entails doing what has to be done to put IFRS into effect. The first part of this process entails creating a Balance Sheet as of the IFRS conversion date.

The IASB is updating the IAS and replacing some of them with the new IFRS. It's also worth noting that other standard interpretations have been published. The term "IFRSs" is used to describe the full corpus of pronouncements issued by the IASB and the IASC. Many countries accepted IAS in their whole or with minimal revisions after the 1997–1998 Asian crises, which provided motivation for supporting such standards.

List of Adopted IFRS are as under: List of Adopted Ind AS from IAS IFRS Details:

Indian Accounting Standard (Ind AS) 1 Presentation of Financial Statements.

Indian Accounting Standard (Ind AS) 2 Inventories.

Indian Accounting Standard (Ind AS) 7 Statement of Cash Flows.

Indian Accounting Standard (Ind AS) 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Indian Accounting Standard (Ind AS) 10 Events after the Reporting Period.

Indian Accounting Standard (Ind AS) 12 Income Taxes.
 Indian Accounting Standard (Ind AS) 16 Property, Plant and Equipment.
 Indian Accounting Standard (Ind AS) 17 Leases.
 Indian Accounting Standard (Ind AS) 19 Employee Benefits.
 Indian Accounting Standard (Ind AS) 20 Accounting for Government Grants and Disclosure of Government Assistance.
 Indian Accounting Standard (Ind AS) 21 The Effects of Changes in Foreign Exchange Rates.
 Indian Accounting Standard (Ind AS) 23 Borrowing Costs.
 Indian Accounting Standard (Ind AS) 24 Related Party Disclosures.
 Indian Accounting Standard (Ind AS) 27 Separate Financial Statements.
 Indian Accounting Standard (Ind AS) 28 Investments in Associates and Joint Ventures.
 Indian Accounting Standard (Ind AS) 29 Financial Reporting in Hyperinflationary Economies.
 Indian Accounting Standard (Ind AS) 32 Financial Instruments: Presentation.
 Indian Accounting Standard (Ind AS) 33 Earnings per Share
 Indian Accounting Standard (Ind AS) 34 Interim Financial Reporting.
 Indian Accounting Standard (Ind AS) 36 Impairment of Assets.
 Indian Accounting Standard (Ind AS) 37 Provisions, Contingent Liabilities and Contingent Assets.
 Indian Accounting Standard (Ind AS) 38 Intangible Assets.
 Indian Accounting Standard (Ind AS) 40 Investment Property.
 Indian Accounting Standard (Ind AS) 41 Agriculture.

Indian Perception

One of the risks of IFRS convergence without proper involvement of all stakeholders and adequate regulatory adjustments is that financial statements issued using the 'converged' Indian standards may still not completely conform to IFRS, despite the fact that they are widely acknowledged. This would be very unfortunate because Indian companies that are subject to disclosure requirements to present financial statements in accordance with IFRS to stakeholders outside India (foreign stock exchanges, foreign regulators, foreign investors and foreign alliance partners) would still be required to reconcile with converged IFRS financial statements prepared using the Indian framework. In the early stages of the convergence, it is important to create a regulatory framework and supporting infrastructure that would aid and facilitate the adoption of IFRS. Because of the

difficulty and length of the transition to IFRS, the Board of Directors, the Audit Committee and top management must all be fully on board and committed to the process. Given the difficulty of the work at hand, it is imperative that all involved parties make concerted efforts to ensure that their convergence plans are crafted with the goal of "doing it once, but doing it correctly" in mind.

Roadmap for Indian Adoption of IFRS

Financial statements prepared by Indian banks after 1 April 2011 must be in accordance with IFRS, as mandated by the Reserve Bank of India.

Phase-I: If the fiscal year begins on or after 1 April 2011, the following types of companies will adjust their beginning balance sheets to conform to the notified accounting rules that are convergent with IFRS. It's worth noting that these businesses are:

- Companies comprising the NSE – Nifty 50.
- Companies comprising the BSE Sensex 30.
- Businesses whose shares or other instruments are traded on stock markets outside India.

Companies, listed or unlisted, with a net worth exceeding Rs. 1,000 crores.

Phase-II: The companies with a net worth between Rs. 500 crores and Rs. 1,000 crores, whether listed or not, would convert their initial balance sheet as of April 1, 2013 to comply with the published accounting standards that are converged with IFRS if their financial year begins on or after April 1, 2013.

Phase-III: Listed firms having a net value of Rs. 500 crores or less will convert their initial balance sheet as of April 1, 2014, in accordance with the published accounting standards that are convergent with IFRS, if their financial year begins on or after April 1, 2014, whichever is later. When the accounting year ends on a date other than March 31, the opening Balance Sheet will be converted in connection to the first Balance Sheet that is made after March 31. The following categories of companies will not be required to follow the notified accounting standards that are converged with the IFRS, but will be required to follow only the notified accounting standards that are not converged with the IFRS, although they may voluntarily adopt the converged standards. These businesses include:

- Non-listed enterprises with a net worth of less than Rs. 500 Crores whose shares or other securities are not listed on Stock Exchanges outside India.
- Small and Medium-sized Businesses. Due to several unsolved difficulties, notably tax-related, regulatory,

legal and economic issues, the MCA's aforementioned roadmap could not be implemented on April 1, 2011, therefore the date has been pushed back.

IFRS Scenario in Indian Corporate Sector

The IFRS began as an effort to unify accounting throughout the European Union, but the value of harmonisation quickly made the notion appealing around the globe. Sometimes they are still referred to by its original name, IAS. Between 1973 and 2001, the Board of the IASC released IASs. On 1 April 2001, the new IASB assumed responsibility for establishing IAS from the IASC. The new Board incorporated current IAS and Standing Interpretations Committee standards at its first meeting (SICS). The IASB has continued to develop new standards, dubbing them "International Financial Reporting Standards." In the absence of a Standard or Interpretation that applies directly to a transaction, management must use its best judgement to create and implement an accounting policy that yields reliable information. IAS 8.11 requires management to examine the definitions, recognition criteria and measurement concepts for assets, liabilities, revenues and expenses in the Framework when making this determination.

The ICAI has recently published a concept paper titled Convergence with IFRS in India, which outlines the plan for adoption of IFRS in India as of April 1, 2011. A recent notification from the ministry of corporate affairs (MCA) confirming the objective for convergence with IFRS in India by 2011 lends credence to this. Even in the United States, there is on-going controversy surrounding the replacement of US GAAP with IFRS. Adoption of IFRS by Indian corporations will be extremely difficult but also potentially lucrative. The adoption of IFRS is projected to yield major benefits for the Indian corporate sector. The European Union's experience demonstrates the claimed advantages of adopting IFRS. In general, the majority of investors, financial statement preparers and auditors agreed that IFRS improved the quality of financial statements and that the implementation of IFRS was a positive step for EU financial reporting (2007 ICAEW Report on EU Implementation of IFRS and the Fair Value Directive). There are expected to be numerous advantages for corporations in the Indian context. These consist of Enhancement of financial information and performance comparability with global peers and industry norms. This would result in more transparent financial reporting of a company's activities, to the advantage of investors, consumers and other key stakeholders in India and abroad. Indian corporations will need to educate investors and analysts on the causes of this volatility in order to

strengthen financial statement transparency and credibility. A monumental step: the adoption of Indian accounting standards (IASB chief Hans Hoogervorst). The IASB is optimistic that India would achieve "complete convergence" with IFRS within the next five to six years. IFRS, a set of globally acknowledged standards produced by the IASB, is intended to serve as a uniform worldwide language for business affairs so that company financial statements can be compared across international borders. Hans Hoogervorst, Chairman of the IASB, praised National Advisory Committee on Accounting Standards (NACAS) and the CA Institute for their efforts in advancing India in accounting. He stated that the adoption of Ind AS (Indian Accounting Standards), if not fully IFRS, is a significant and transparent step forward. "There is a great deal of progress (towards full convergence), as well as a great deal of challenges, but they are all clear". Hoogervorst stated as much during an ICAI-IFRS Foundation Trustees joint stakeholders' meeting in the nation's capital.

Only Seven Carve-Outs: India established a new framework of accounting standards (Ind AS) on April 1, 2018 that converges with IFRS but does not fully adopt them. The introduction of Ind AS by banks will commence on April 1, 2018. India has departed from IFRS in a variety of areas, including leasing, revenue recognition, foreign currency convertible bonds, current liabilities and bargain purchases. "We are completely aware of the distinctions between IFRS and Ind AS". This is useful since it allows us to discuss the issue and determine how to eliminate them in the future, as Hoogervorst stated. Amarjit Chopra, chairman of the NACAS, emphasised that India has been establishing accounting standards since 1978 and that the carve outs adopted for convergence with IFRS were well reviewed and clarified. "Over the years, we have learned that certain exceptions will need to be addressed". We may be forced into a scenario where there are no exceptions. Who knows, within the next five years, we may be able to state that IFRS has been implemented in all but name. This requires the assistance of regulators, Chopra stated. Chopra, who as president of the CA Institute in 2010-2011 was instrumental in the establishment of Ind AS, stated that the industry has now enthusiastically embraced Ind AS implementation (as of April 1, 2016), which is a great development. Within the next year, we should be able to raise the bar even higher. Chopra stated that the RBI would not deviate from the previously scheduled deadline of April 1, 2018 for the adoption of Ind AS among banks. This scenario is exacerbated by the dearth of people with relevant valuation abilities who can assist Indian corporations in developing solid fair value estimates. This is a substantial resource limitation that could affect the comparability of financial statements and render useless a number of the advantages of IFRS implementation. The

ministry of corporate affairs (MCA) notified 35 converging accounting standards (Ind AS) on February 25 in accordance with India's resolve to converge with IFRS. It has also underlined that Indian enterprises will use these convergent standards in a phased way until obstacles such as taxation are resolved. The dates of Ind AS implementation will be communicated at a later date. The final Ind AS contains many "carve outs" (departures) from the IASB's IFRS. The Indian standard-setters have reviewed individual IFRS and, where necessary, amended the standards to accommodate Indian situations. Carve outs are generally seen as undesirable since they undermine the primary objective of convergence with IFRS (i.e., to have a common set of accounting standards across countries, provide seamless access to international capital markets and provide comfort to investors). An review of the Ind AS carve outs reveals that while some of them are necessary and reflect unambiguous deviations from IFRS, others indicate the elimination of policy choices permitted under IFRS in certain areas, or the provision of alternative policy choices under Ind AS in other areas. Let's begin with the initial category of carve outs (mandatory deviations). A handful of substantial obligatory departures from IFRS cannot be avoided by an Indian corporation. These include: (a) Revenue recognition for real estate sales based on the percentage completion method (IFRS requires revenue recognition when the customer receives final possession); and (b) Accounting for the equity conversion option of a foreign currency convertible bond (FCCB) as an equity component (IFRS requires the equity conversion option to be periodically marked-to-market).

CONCLUSION

IFRS are increasingly supplanting national accounting standards and gaining in significance. IFRS must be globalised because global financial markets are becoming more linked and investors' desire greater uniformity in the financial reporting of international corporations. The accounting community in India has established a three-step approach, which may be summed up as follows: first, the impact of IFRS is assessed; second, preparations are made for its adoption; and third, IFRS is completely implemented. In the current global context, the Convergence of Accounting policy has gained momentum. In this context, the paper provided a brief history of IAS and IFRS, the number of standards used by each, the issue of stakeholders at the global level, the current status of these standards, a comparison of the Indian Accounting Standards to IAS and IFRS, issues resulting from convergence and a comment on the impact of convergence on Indian industries. The report examines both the benefits of convergence, such as the enormous pool of available labour and India's potential to become a global accounting hub, and the disadvantages, such as the

necessity to comply with newly created government rules. Convergence with IFRS would boost the reputation and long-term relationships of the Indian business sector with international financial institutions. Moreover, firms in India would benefit for a variety of reasons. As a result of improved access to global financial markets, risk ratings will improve and businesses throughout the globe will become more competitive as a result of increased transparency resulting from consistent external and internal reporting.

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