

Adoption of IFRS, Challenges for India

* Prashant Madhukar Shinde



About IFRS

IFRS stands for International Financial Reporting Standards, which are drafted and issued by a body called the International Accounting Standards Board (IASB). Historically, European Union (EU) countries such as Germany, the UK, France and Spain had their own national GAAP (generally accepted accounting principles). When the EU was formed, its member-states had to be brought under one financial reporting framework. That led to the birth of IFRS, which all EU countries adopted starting in 2005. Converging with IFRS will improve comparability of financial information and financial performance with global peers and industry standards. This will result in more transparent financial reporting of a company's activities which will benefit investors, customers and other key stakeholders in India and overseas.

In the backdrop of globalisation and frequent cross-border capital movements' uniform international accounting system has become the need of the hour. IFRS can be a good unanimous solution. Many countries have already accepted and started executing these standards. India is no exception to these developments. In order to attract foreign investments in the form of FDIs and FII's our corporate culture need to be internationally acceptable. Financial Statements of the companies are a mirror image of its financial culture and discipline. And this forces the issue in favour of acceptance and implementation of International Financial Reporting Standards.

Our government needs to be careful and cautious in its approach towards implementation of IFRS. We have to analyse the present Indian GAAP and its differences with these international standards, so that it will not discourage the stakeholders of the companies, especially the investors, who may find the significant difference in the realizable profits of the company after the adoption of IFRS. We have to put up machinery in place for proper guidance and training facilities, induction of IFRS into the academic curriculum at various stages. Alongside government also requires to do proper enactments to strengthen the execution of this IFRS policy.

As India converges with International Financial Reporting Standards (IFRS), there are certain matters that company directors should be aware of. First

and foremost, India is converging with IFRS and not adopting IFRS. The Indian IFRS will be called Ind-AS, which would diverge from IFRS on some matters. The level of acceptability of Ind-AS financial statements outside of India will be somewhat discounted as those will not be in compliance with IFRS as issued by the International Accounting Standards Board (IASB). This aspect could be somewhat mitigated by a reconciliation statement between IFRS and Ind-AS in the Ind-AS financial statements.

Challenges In Adoption of IFRS

1. The differences between Indian GAAP and IFRS are wide and very deep rooted, to say a few -Plant Property and Equipment (PPE) accounting, Financial Instruments accounting, Investment accounting, Business combination, Share based payment, current and non-current classification of asset and liabilities, presentation of financial statements, all are not dealt under Indian GAAP.
2. Fair Value Measurement under IFRS requires application of fair value in various situations. This would increase the volatility in reported earnings and related performance measures such as EPS, P/E ratio, etc. There may be interpretation issues of IFRS among businesses and accounting bodies. Various adjustments to the fair value may result in gains or losses which are reflected in the income statements.
3. IFRS compliance would require changes right from the grassroots level, beginning with academic inputs and training. And this is not going to be an easy task, given the limited time frame before the new standards come into force.
4. The transition will be a tough challenge for the country as it requires a shift in the academic approach, along with regulatory challenges.
5. The major problem that industries are likely to face is a talent crunch since, even in the current scenario, there is a scarcity of qualified resources.
6. There is a need to give accounting staff appropriate training. Companies need to draw up detailed plans for migrating to IFRS as early as possible, to make the transition smooth and flawless.
7. Accounting teams should be conversant not only with new standards but also with information technology to support the new financial reporting architecture.

8. There is a lack of adequate professionals with practical IFRS conversion experience and therefore many companies will have to rely on external advisers and their auditors.

9. The potential tax impact areas under the IFRS converged reporting can be categorised under the following broad heads.

* Recognition Issues such as whether the imputed interest on credit sales would be considered as sales or interest income? Whether tax withholding needs to be done on imputed interest?

* Classification Issues in terms of whether the payment on redeemable preference shares / convertibles be treated as dividend or interest?

* Point of recognition as to whether the services contract would be taxed only upon completion or at the point of accrual?

* Tax Base in terms of will the tax assessments and Minimum Alternate Tax Computation be based on IFRS accounts or would the same continue on Indian GAAP?

* Indirect tax levies impact on account of IFRS

characterisation / point of recognition?

* Transition Issues on the tax treatment for the one time adjustments on IFRS convergence?

Addressing the above clearly requires a policy directive followed with amendments in existing tax laws.

10. Amendments in Regulations Accounting standard are not only issued by ICAI but also issued by but also by various other regulatory bodies, such as SEBI, RBI and IRDA and National Advisory Committee on Accounting Standards (NACAS) established by the Ministry of Corporate Affairs. There is a critical need that all such regulatory bodies needs to be consistent.

11. Financial statements more complex under IFRS and thereby would pose challenge making useful decision.

Conclusion

To conclude, we have to say that successful implementation of IFRS one demands complete SWOT analysis of our industry, proper research, vision and planning. We have to maintain our speed with that of the world in ensuring financial discipline and acceptance of IFRS is the only answer.

* *Anna Leela College of Commerce & Economics, Mumbai*