Introduction

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries [1]. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external. IFRS, with the exception of IAS 29. Financial Reporting in Hyperinflationary Economies and IFRIC 7 Applying the Restatement Approach under IAS 29, are authorized in terms of the historical cost paradigm. IAS 29 and IFRIC 7 are authorized in terms of the constant purchasing power paradigm. IFRS began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world [2]. However, it has been debated whether or not the harmonization has been successful. IFRS are sometimes still called by the original name of International Accounting Standards (IAS). IAS was issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On 1st April, 2001, the new International Accounting Standards Board (IASC) took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs) [3]. The IASB has continued to develop standards calling the new standards “International Financial Reporting Standards”.

IFRS

A single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions effectively [4].

Financial Statement and Information

Financial statements are a structured representation of the financial positions and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management’s stewardship of the resources entrusted to it [5].

To meet this objective, financial statements provide information about an entity’s:

- Assets
- liabilities
- equity;
- income and expenses, including gains and losses;
- Contributions by and distributions to owners in their capacity as owners; and
- Cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity’s future cash flows and, in particular, their timing and certainty [6].

IFRS - general features

Fair presentation and compliance with IFRS: Fair presentation requires the faithful representation of the effects of the transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework of IFRS.

Going concern: Financial statements are present on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so [7].

Keywords: IFRS, Adoption of IFRS, Changes in financial reporting
Accrual basis of accounting: An entity [8] shall recognise items as assets, liabilities, equity, income and expenses when they satisfy the definition and recognition criteria for those elements in the Framework of IFRS.

Materiality and aggregation: Every material class of similar items has to be presented separately. Items that are of a dissimilar nature or function shall be presented separately unless they are immaterial.

Offsetting: Offsetting is generally forbidden in IFRS. However certain standards require offsetting when specific conditions are satisfied such as in case of the accounting for defined benefit liabilities in IAS 19 and the net presentation of deferred tax liabilities and deferred tax assets in IAS 12.

Frequency of reporting: IFRS requires that at least annually a complete set of financial statements is presented. However listed companies generally also publish interim financial statements (for which the accounting is fully IFRS compliant) for which the presentation is in accordance with IAS 34 Interim Financing Reporting [9].

Comparative information: IFRS requires entities to present comparative information in respect of the preceding period for all amounts reported in the current period’s financial statements [10]. In addition comparative information shall also be provided for narrative and descriptive information if it is relevant to understanding the current period’s financial statements [11]. The standard IAS 1 also requires an additional statement of financial position (also called a third balance sheet) when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. This for example occurred with the adoption of the revised standard IAS 19 (as of 1 January 2013) or when the new consolidation standards IFRS 10-11-12 were adopted (as of 1 January 2013 or 2014 for companies in the European Union).

Consistency of presentation: IFRS requires that the presentation and classification of items in the financial statements is retained from one period to the next unless: (a) it is apparent, following a significant change in the nature of the entity’s operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8; or (b) an IFRS standard requires a change in presentation [12].

Applicability of IFRS

IFRS in India, issued by ICAI in October 2007, the IFRS should be applicable to Public Interest Entities (PIE). PIE has been defined to include:

- All listed companies;
- All banking companies;
- All financial institutions;
- All scheduled commercial banks;
- All insurance companies; and
- All NBFC

Benefit sections: The convergence with IFRS entails benefit to the following:

The Investors: The investor will be benefited in as the way accounting information made available to them will be more reliable, relevant, timely and most importantly the information will be comparable across different legal framework. It will develop better understanding and confidence among the investors [13].

The Professional: The professional, both in practice and in employment will get benefits as they will be able to provide their services in various part of the world, as few years after everybody will follow the same reporting standards.

The Corporate world: The Indian corporate reputation and relationship with international finance community will elevate because of achievement of higher level of consistency between reporting structure and requirements; better access to international markets; improving confidence among the international investors [14]. The international comparability will also get improve strengthening the industrial and capital markets in the country.

Challenges to IFRS Adoption in India

The practical challenges that may be faced in INDIA as a result of implementing the IFRS needs. The challenges are discussed as follows:

Level of Awareness: The transition plan to IFRS and its implications for preparers and users of financial statements, regulators, educators and other stakeholders have to be effectively coordinated and communicated. This should include raising awareness on the potential impact of the conversion, identifying regulatory synergies to be derived and communicating the temporary impact of the transition on business performance and financial position [15]. The implementation of IFRS requires considerable preparation both at the country and entity levels to ensure coherence and provide clarity on the authority that IFRS will have in relation to other existing national laws.

Accounting education and training: Practical implementation of IFRS requires adequate technical capacity among preparers and users of financial statements, auditors and regulatory authorities. Countries that implemented IFRS faced a variety of capacity-related issues, depending on the approach they took. One of the principal challenges may encounter in the practical implementation process, shall be the shortage of accountants and auditors who are technically competent in implementing IFRS. Usually, the time lag between decision date and the actual implementation date is not sufficiently long to train a good number of professionals who could competently apply international standards [16].

Training resources: Professional accountants are looked upon to ensure successful implementation of IFRS. Along with these accountants, government officials, financial analysts, auditors, tax practitioners, regulators, accounting lecturers, stock-brokers, preparers of financial statements and information officers are all responsible for smooth adoption process. Training materials on IFRS are not readily available at affordable costs in India to train such a large group which poses a great challenge to IFRS adoption.

Tax reporting: The tax considerations associated with the conversion to IFRS, like other aspects of a conversion, are complex. IFRS conversion calls for a detailed review of tax laws and tax administration. Specific taxation rules would have to be redefined to accommodate these adjustments. For instance, tax laws which limit relief of tax losses to four years should be reviewed [17]. This is because transition adjustments may result in huge losses that may not be recoverable in four years. Accounting issues that may present significant tax burden on adoption of IFRS, include determination of Impairment, Loan loss provisioning and Investment in Securities/Financial Instruments (Figure 1).
Amendment to existing laws: In India, accounting practices are governed and issued by the Indian Accounting Standards Board (IASB) and other existing laws such as Indian Stock Exchange Act, these provide some guidelines on preparation of financial statements in India. IFRS does not recognize the presence of these laws and the accountants have to follow the IFRS fully with no overriding provisions from these laws. Indian law makers have to make necessary amendments to ensure a smooth transition to IFRS [18].

IFRS roadmap overview

The MCA roadmap has provided specific dates for adoption of IFRS in India on the basis of a company’s net worth as indicated by the exchange on which they are traded. The IFRS conversion roadmap for Banks and Insurance companies will follow separately.

- Phase 1 companies are required to start reporting IFRS results from the first quarter of year beginning 1 April, 2011. Also, depending on how a company elects to present comparative information in the first year, the actual date of transition could be as early as 1 April 2010 [19].
- The core group and its sub-group 1, constituted by the MCA for IFRS convergence, shall determine IFRS conversion roadmap for banking and insurance companies separately by 28 February 2010.
- Non-listed companies with net worth of less than INR 500 crore and other small and medium-sized companies (SMCs) have been given an option to continue to either follow non converged standards (hereinafter referred to as “Indian GAAP”) or to adopt IFRS.
- The draft of the Companies (Amendments) Bill, proposing for changes to the Companies Act, 1956, will be prepared by February, 2010.
- The Institute of Chartered Accountants of India (ICAI) has submitted to the MCA revised Schedule VI to the Companies Act, 1956 [20]. The NACAS shall review the draft and submit a revised Schedule VI to the MCA by 31 January 2010. Amendments to Schedule XIV will also be carried out in a time bound manner.
- Convergence of all the accounting standards with IFRS will be completed by the ICAI by 31 March 2010 and the NACAS will submit its final recommendations to MCA by 30 April 2010.

Conclusion

Effective implementation of IFRS is a pre-requisite in today’s business world. It is necessary to have unique procedures of financial reporting systems and procedures. These procedures must be minimised and more meaningfulness. An interpretation does not require understanding in such a way the procedures has to be formulated and to be implemented time to time to ensure the correctness and credibility in the minds of investors. IFRS adoption improves the functioning of global capital markets by providing comparable and high-quality information to investors. In this connection corporates have to disclose the realities of their business activities and professionals in turn to interpret and report as per the standards without any violations.

References


