IFRS Convergence and Applicability in India: A study on Ludhiana and Fatehgarh Sahib Districts

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Abstract

Globalisation has laid down a way for all the countries to implement a single set of accounting standards for bringing equality in the financial statements and financial reporting system. The International Financial Reporting Standards (IFRS) represents a radical change in accounting for transactions and reporting of financial statements and it is one of the recent developments in the field of accounting, with the aim of making accounts more consistent, comparable and bringing harmonisation in the accounting policies and principles. Many developed and upcoming economies on the world economic map including India have their own set of national accounting standards which are different on many counts especially on the legal, socio-economic, and cultural norms and now they decided to converge to International Financial Reporting Standards (IFRS). With this paper, we attempts to highlight concept, objectives and global status of IFRS, we also take the perception of Company Secretaries (CS), Doctorates, Charted Accountants (CA) and ICWA who are mainly concerned with the accounting standards for judging the acceptance level of IFRS in Indian perspective through a primary survey which will be collected from Ludhiana and Fathegarh Sahib districts respondents.

Keywords: IFRS, Convergence, ICAI, Global Reporting Standards, IASB

1. Introduction

In the present era of globalisation and liberalisation, the world has become an economic village as numbers of multi-national companies are establishing their businesses in various countries and there is a rapid growth in the international markets and cross border mergers, acquisitions and FDI investments which has created pressure for harmonisation of accounting standards because sound financial reporting structure is imperious for economic well-being and effective functioning. Adopting a single global accounting language will ensure relevance, completeness,reliability, timeliness, neutrality, verifiability, consistency, comparability and transparency of financial statements and these bring about a qualitative change in the accounting information reports which will strengthen the confidence and empower investors and other users of accounting information around the world. It will also help acquirers to assess the actual worth of the target companies in cross border deals and thereby furthering the economic growth and business expansion globally. India has recognized the need to use globally acceptable standards for financial reporting.

IFRS is introduced to represent a fundamental change in financial reporting. In 2002, a year after their establishment, the IASB got united with the Financial Accounting Standards Board (FASB) to combine their knowledge and develop a set of high-quality accounting standards that would be compatible with all countries in order to carry out international business affairs and their accounting successfully. This set of global accounting standards is referred to as the International Financial Reporting Standards (IFRS).

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From June 2009, we have two sets of IFRSs; Full IFRS and IFRS for Small & Medium Enterprises (IFRS for SMEs). The IFRS for SMEs reduces the volume of full IFRS by 85% and will be useful for 95% business houses all over the world. The countries that have not adopted full IFRS may adopt IFRS for SMEs. It is not something that can be handled in a few weeks prior to adoption. Planning for it, generating the necessary awareness, educating stakeholders and dealing the required changes will take considerable commitment and time to achieve a successful transition. IFRS brings groups and collective working to achieve profits, brings about fair value in the business.

Now, as the world globalizes, it has become imperative for India also to make a formal strategy for convergence with IFRSs with the objective to harmonies with globally accepted accounting standards. Presently, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards (ASs) based on the IFRSs keeping in view the local conditions including legal and economic environment, which have recently been notified by the Central Government under the Companies Act, 1956. India is one of the largest jurisdictions that are currently going through the process of convergence with IFRS. Considering the diversity and complexity amongst Indian Companies that will transition to IFRS reporting, the Ministry of Corporate Affairs (MCA) has announced a roadmap which requires Indian companies to adopt the converged standards in a phased manner from 2011 onwards.

2. Literature Review

The origin of IFRS can be traced back to the early 1970s, when the International Accounting Standards Committee developed a single set of international standards. Few studies have been carried out for analysing the data from other countries including India.

Joseph (2000) concluded that consistency in reporting enables to attract global capitalists and investors by increasing the rate of investment and also lead to the integration of the individual economy to the International economy.

Kannan (2003) studied that regarding efficacy of accounting information in a code law country that has a strong system of legal enforcement and high quality domestic accounting standards and it was found out that IFRS had improved the relevance of accounting information in Finland but they also highlighted the concern about reliability of those financial statement items that are prepared using judgment.

Tokar (2005) focuses on the impact of convergence on auditing firms and concludes that achieving true convergence of accounting standards is a costly and time-consuming objective, and will require a huge investment of money and a significant change in the training of accounting students in the near future.

Jeanjeana and Herve Stolowya (2008) had done an analysis of whether the mandatory introduction of IFRS standards had an impact on earnings quality, and more precisely on earnings management and concluded that frequency of earnings management did not decline after the introduction of IFRS.

Lantto & Sahlstrom (2009) so undertook a study of key financial ratios of companies of Finland and later found that the adoption of IFRS changes the magnitude of the key accounting ratios and also showed that the adoption of Fair Value Accounting rules and stricter requirements on certain Accounting issues are the reasons for the changes observed in Accounting Figures and financial ratios.

Rudy A. Jacob, Christian N. Madu (2009) examined the academic literature on the quality of International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS), which are poised to be the universal accounting language to be adopted by all companies regardless of their place of domicile.

Siqi Li (2010) carried out a study of 1084 European Union firms during the period of (1995-2006), concluded that on average, the IFRS mandate significantly reduces the cost of equity for mandatory adopters.

Lehery and Khatri (2011) concluded that the IFRS had an impact on reported revenues, profit, net worth, earnings per share and other performance matrices for all companies.

3. Objectives of the Study

The study focuses on

- To know the status of IFRS in India.
- To know the perception of academicians, professionals and industrialists who are mainly concerned with the accounting standards for judging the acceptance level of IFRS.
- To study the challenges and risk to India for adoption of IFRS.

4. Research Methodology

As the topic of this study is new in India with very less knowledge and research already available and very few business organizations using it to maintain their accounting records.To know the perception of people about the application of IFRS in Punjab mainly covering the Ludhiana and Fatehgarh Sahib Districts an extensive review of literature of IFRS has been done. Based on the literature, many factors about the IFRS were developed and then a survey of academicians, charted accountants, and company secretaries was done to know their perception about the IFRS and its application into the accounting practices through questionnaire. The questionnaire was prepared and sent through e-mails on the e-mail addresses of the academicians, charted accountants, and company secretaries.

Data: Sampling is the use of a subset of the population to represent the whole population. The questionnaire was prepared and sent through e-mails on the e-mail Ids of the professionals and Academicians. Primary data was collected through questionnaire of Ludhiana and Fatehgarh Sahib Districts and secondary data collected through official websites and newspapers.

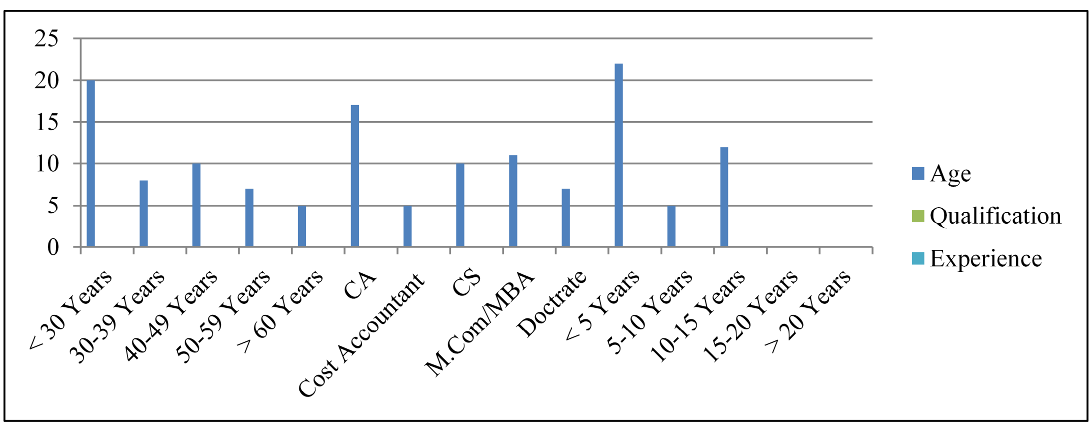

Fig. 1 Respondent's Profile

The population included academicians and professionals of Punjab (Ludhiana and Fatehgarh Sahib). In all 50 questionnaires were mailed for the study. Out of 50 respondents 34% respondents are Chartered Accounts, 22% are Post Graduates 14% are Doctorate and 20% are Company Secretary and 10% are Cost Accountants. All the questionnaires used were closedendedform questions, i.e. questions concerning relevance and reliability were stated as propositions, and adopted a five-point Likert scale.

5. IFRS Convergence in India

The first objective of the study is to know the status of IFRS in India and to meet that objective the Status of IFRS is given.

In India, the process of convergence has made the take-off with the initiatives taken by the Institute of Chartered Accountants of India (ICAI) in the pronouncement of new accounting standards. At present there are in total 32 Indian Accounting Standards, and IFRS7 is the last one in the Financial Instruments: Disclosure. In regard to better reporting practice, the National Advisory Committee on Accounting Standards (NACAS) was formed in the year 2001 to render advice-giving service regarding accounting standards to the government. The ICAI confirmsIndia's adoption of the IFRS from April 1, 2011 onwards for large sized companies and phases for adoption of IFRS is also given.

Table 1

Phase	Companies Covered	Opening Balance Sheet	First Financial Statement
Phase I	• Companies that are part of NSE- Nifty 50 index • Companies that are part of BSE Sensex 30index • Companies that have shares and other securities listed under overseas stock exchange • Listed and Unlisted Companies with Net Worth in excess of Rs. 1,000 Crore	1 April, 2011	31 March, 2012
Phase II	• Listed and Unlisted Companies with Net Worth exceeding Rs. 500 Crore bur not exceeding Rs. 1,000 Crore	1 April, 2013	31 March, 2014
Phase III	• Listed entities with Net Worth of Rs. 500 Crore or less	1 April, 2014	31 March, 2015

Source: The road to IFRS in India: A practical guide to IFRS 1 and first-time adoption

Road Map for Banking, Insurance and Non-Banking Financial Companies

Table 2

Class of Companies	Criteria for Phased Implementation	Opening Balance Sheet	First Financial Statement
Insurance Companies	All insurance companies	1 April, 2012	31 March, 2013
Banking Companies	-All schedule commercial banks -Urban co-operative Bank with net worth in excess of Rs. 300 crores - Urban co-operative Bank with net worth in excess of Rs. 200 crores but not exceeding Rs. 300 crores.	1 April, 2013 1 April, 2013 1 April, 2014	31 March, 2014 31 March, 2014 31 March, 2015
Non-Banking Financial companies (NBFCs)	-NBFCs part of Nifty-50 Index, BSE Sensex 30 Index, Listed & unlisted NBFCs with Net worth in Excess of Rs.1000 crores. - All Listed NBFCs which do not fall in above categories -Unlisted NBFCs which do not fall under the above categories and whose net worth is exceeding Rs.500 crores	1 April, 2013 1 April, 2014 1 April, 2014	31 March, 2014 31 March, 2015 31 March, 2015

Source: The road to IFRS in India: A practical guide to IFRS 1 and first-time adoption

Categories of IFRS: The IFRS implementation structure has been given below:-

Table 3

Category I	**Category II**
IFRS which do not involve any legal/regularity issues nor have any issues with regard to suitability in existing economics environment. Category sub divided into adopted immediately IAS 11 : construction contracts IAS 23 : Borrowing costs Adopted near future IAS 2 : Inventories IAS 7 : Cash flow statements IAS 20 : Accounting for govt. grants IAS 33 : Earning per share IAS 36 : Impairment of Assets IAS 38 : Intangible of Assets	IFRSs which need some time to reach that Technical level as corresponding Indian Accounting Standards under revision. IAS 18 : Revenue IAS 21 : effect of change in foreign exchange rate IAS26:Accounting & Reporting by retirement benefit plan IAS 40 : Investment property IFRS 2 : Share based payment IFRS 5: Non-current assets held for sale & discontinued operations.
Category III	**Category IV**
IFRSs which have conceptual difference with corresponding Indian Accounting Standards, category sub divided into **Taken up with IASB** IAS 17 : Leases IAS 19 : Employee Benefits IAS 27 : Consolidated separate financial statement IAS 28 : Investments in Associates IAS 31 : Interests in joint venture IAS 37 : Provision, contingent liabilities & contingent Assets Need to be examined IAS 12 : Income Taxes IAS 24 : Related Party IAS 41 : Agriculture IAS 3 : Business combination IAS 8 : Operating Segments	IFRSs, the adoption of which require change inlaw/regulation IAS 1 : Presentation of financial statements IAS 8 : Accounting policies, changes in accounting estimates & errors IAS 10 : Events after balance sheet date IAS 16 : Property, plant & equipment IAS 32 : Financial Instrument : Presentation IAS 34 : Interim Financial reporting IAS 39 : Financial Instruments : recognition & measurement IFRS 4 : Insurance contract

Source: The road to IFRS in India: A practical guide to IFRS 1 and first-time adoption

Besides ICAI, the other players in the field of convergence of IFRS and Indian Accounting Standards are National Advisory Committee on Accounting Standards (NACAS), Reserve Bank of India (RBI),Insurance Regulatory and Development Authority (IRDA), the Government in remodelling of Income Tax laws and the Securities and Exchange Board of India (SEBI). These authorities are constantly working in bringing up a successful convergence.

6. Result and Outcomes

In this paper we studied the responses of professionals and academicians to know their perception about the IFRS through questionnaire.

This empirical study is different from the earlier studies as it tends to analyze the perception on IFRS. As IFRS is not yet fully applied in India so the survey was initiated by asking whether the respondents are aware about IFRS. All respondents were aware of the IFRS concept but they all followed Indian Accounting Standards for accounting purpose.

Among the respondents 80% respondents never received IFRS training and 20% respondents received one time IFRS training in their working life.

6.1 Main Drivers behind adoption of IFRS in India

To know about the main drivers for adopting IFRS in India, respondents were asked to give their views regarding the different drivers behind the adoption of the IFRS for accounting practices. The likely drivers for adopting IFRS are

- Inability to create own standards of a sufficient value
- The necessity to follow the international accounting practices
- The need to maintain the uniformity with accounting practices of Foreign Entities to attract more investment in India
- To make Indian companies more attractive in other countries from investment point of view

The need to maintain the uniformity with accounting practices of Foreign Entities to attract more investment in India is the first main significant driver for adopting IFRS with maximum t-value of 11.809 (as shown in the last column of table 4) and the second driver is the necessity to follow the international accounting practices with t-value 2.949. The other drivers like Inability to create own standards of a sufficient value and to make Indian companies more attractive in other countries from investment point of view are insignificant because majority of people are neutral and disagree about these points which are shown in Table 4.

Table 4: Main Drivers behind adoption of IFRS in India (Responses given in percentage)

S. No.	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	WS	SD	t- Value
1	Inability to create own standards of a sufficient value %	0	20	34	26	20	1.54	1.03	-9.981
2	The necessity to follow the international accounting practices %	20	60	6	14	0	3.28	0.67	2.949
3	The need to maintain the uniformity with accounting practices of Foreign Entities to attract more investment in India %	74	26	0	0	0	3.74	0.44	11.81
4	To make Indian companies more attractive in other countries from investment point of view %	28	34	38	0	0	2.9	0.81	-0.868

6.2 Factors those affect the adoption of IFRS in India

There are many factors in India which affects the adoption of IFRS like

- The size of the company in terms of Net worth
- The Age of the company
- The Listing Status of the company
- The training of IFRS to the professionals
- The Political consensus in India affects the adoption of IFRS in India

The most significant factor for adopting IFRS in India is the size of the company in terms of Net worth with maximum t-value of 3.452 shown in last column of Table 5 as 54% responses were agreed about this and 38% were strongly agreed. The second significant factor is the age of the company with t-value of 2.542 as 34% responses were agreed and 8% responses were strongly agreed about this. Other factors like listing status, training to the professionals and political consensus in India are not significant factors for adopting IFRS in India as shown in Table 5

Table 5: Factors those affect the adoption of IFRS in India (Responses given in percentage %)

S. No.	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	WS	SD	t- Value
1	Do you think the size of the company in terms of Net worth affects the adoption of IFRS in India? %	38	54	8	0	0	3.3	0.614	3.452
2	Do you think the Age of the company affects the adoption of IFRS in India? %	8	34	14	44	0	3.26	0.723	2.542
3	Do you think the Listing Status of the company affects the adoption of IFRS in India? %	26	38	26	10	0	2.8	0.947	-1.49
4	Do you think the training of IFRS to the professionals affects the adoption of IFRS in India? %	34	34	18	14	0	2.88	1.042	-0.81
5	Do you think the Political consensus in India affects the adoption of IFRS in India? %	8	20	14	38	20	1.58	1.247	-8.05

6.3 Opinion about benefits in relation to IFRS for the organisation

Respondents were asked to give their responses about the benefits of adopting IFRS for the organisations. The different significant factors were provided to them to give their responses among which the benefit which is calculated as most significant is thatwhich pointed that by applying IFRS accuracy and reliability of accounting information will be enhanced because 38 % responses are strongly agreed to this and 44% responses are agreed to this as given in the last column of Table 6 and it also have maximum t-value of 4.427. Other benefits are also factors for adopting the IFRS into India but these are not the significant benefits for adopting IFRS into Accounting Practices.

Table 6: Opinion about benefits in relation to IFRS for the organisation (Responses given in percentage %)

S. No.	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	WS	SD	t- Value
1	IFRS would simplify the process of preparing, comparison and analysis of the individual and group financial statements %	14	44	34	8	0	2.64	0.83	-3.08
2	Accuracy and reliability of accounting information will be enhanced %	38	44	18	0	0	3.4	0.64	4.427
3	Brings better Corporate governance %	26	54	8	8	4	2.9	1.02	-0.7
4	Merger/Acquisition became easy and better %	26	34	26	14	0	3.18	0.87	1.457

6.4 Challenges in convergence with IFRS

The responses were collected regarding the challenges faced by various organisations adopting IFRS into their accounting practices. The challenge which shows that IFRS have a number of inconsistencies with the existing laws followed by the companies is the most significant challenge with 80% responses agreed to it and having maximum t-value of 2.37.

Table 7: Challenges in convergence with IFRS (Responses given in percentage %)

S. No.	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	WS	SD	t- Value
1	The disclosure and reporting requirements under IFRS are completely different from the Indian reporting requirements %	26	34	40	0	0	3.18	0.825	1.542
2	IFRS have a number of inconsistencies with the existing laws %	40	44	16	0	0	3.24	0.716	2.37
3	IFRS would cause tax liabilities to change significantly %	26	58	8	8	0	3.02	0.82	0.172
4	Lack of training facilities and academic courses for accounting professionals to bring awareness about impact of IFRS %	26	26	34	14	0	2.64	1.025	-2.482

6.5 Reasons for negative applying IFRS

The respondents were asked about the reasons for why companies are not adopting IFRS into their accounting practices. The major reason for negative applying IFRS is the lack of knowledge among accounting practitioners with highest response of 84% and with t-value of 3.347 as shown in the last column of Table 8.

Table 8: Reasons for negative applying IFRS(Responses given in percentage %)

S. No.	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	WS	SD	t- Value
1	High cost of adoption %	44	40	8	8	0	3.2	0.903	1.565
2	Lack of knowledge among accounting practitioners %	58	26	0	16	0	3.44	0.929	3.347
3	Human psychology %	20	40	20	20	0	2.6	1.03	-2.746
4	Perception as to complex nature of IFRS implementation %	18	44	18	10	10	2.5	1.199	-2.947

6.6 Statements regarding convergence of Indian Accounting Standards with IFRS

Respondents were asked that what will be done for convergence of Indian Accounting Standards with the IFRS so that uniformity of accounts can be maintained. The main significant statement regarding convergence is that Indian companies and Accounting professionals need to be trained for effective convergence to IFRS as 80% respondents were in favour of this and having maximum t-value of 3.055. Apart from this the second significant factor according to the responses is that our education curriculum should incorporate IFRS with t-value of 2.226.

Table 8: Statements regarding convergence of Indian Accounting Standards with IFRS(Responses given in percentage %)

S. No.	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	WS	SD	t- Value
1	IFRS training for users of financial statements %	14	66	20	0	0	2.94	0.586	-0.724
2	IFRS training for management %	26	58	16	0	0	3.1	0.647	1.093
3	Indian companies and Accounting professionals need to be trained for effective convergence to IFRS %	40	40	20	0	0	3.32	0.74	3.055
4	Incorporating IFRS education in the accounting curriculum %	18	58	16	8	0	3.3	0.952	2.226

VI. Challenges Faced by India for Convergence with IFRS

To meet the third objective the following challenges are faced by India for convergence with IFRS

- Lack of awareness about international accounting practices
- Proper Training to the accounting professionals
- Amendments to existing taxation laws
- Complexity in adoption of IFRS
- High cost for adoption of IFRS
- Long time required for adopting IFRS in India

Conclusion

The measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS are commendable and give the positive idea that the country is ready for convergence. From the study conducted on the Ludhiana and Fatehgarh Sahib Districts professionals and academicians we came to know that everyone is aware about the IFRS and its need for uniformity and evaluation at the international level. With the study we asked many questions from the respondents and all we came to conclude is that they think IFRS training and education should be given to the professionals and its implementation should start soon as many countries are adopting this and competed the Phase I of its adoption. The need is to have a systematic approach to make the organisation and the investors ready for the change and the standards ready for renovation. Corporates need to gear themselves for constant update. Indian Corporates are likely to reap significant benefits from adopting IFRS. Since the cost of compliance with IFRS would be very high for medium size industry. There are some challenges in implementing IFRS like non-compatible legal and regulatory environment, concern over SMEs, economic environment, level of preparedness, alternative treatments, education needs of auditors, frequent change to the IFRS and translation issues. However, several important matters need to be addressed urgently if India hopes to achieve the planned convergence.

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