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CONVERGENCE TO IFRS IN INDIA : BENEFITS COMPARED TO GAAP

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ABSTRACT

Recent years have seen major changes in financial reporting around the world, with the most obvious being the continued adoption of IFRS worldwide. With the economy on the world economic map, India has also decided to turn to the International Financial Reporting Standards (IFRS). While regulators, standard setters and lawmakers sit together to roll out a roadmap for the implementation of IFRS in India, a large segment of the industry is already discussing the impact it will have on the transition to IFRS. Impact of IFRS adoption, challenges that will come up and its adoption process in India. It also discusses the problems faced by stakeholders (regulators, accountants and firms, etc.) in the IFRS adoption process in India.

KEYWORDS: IFRS, Convergence, Indian GAAP, Stakeholders.

INTRODUCTION:

In the current time of liberalization and globalization the globe has turned into an economic community and shrunk the geographical barriers of commerce. The entire world has factually become flat. The development of e-commerce and liberalization of the economy, which is supported by structures and regulations, led to have a uniform and single worldwide accepted system of financial reporting. A large figure of international corporations is setting up their business units in different nations with upcoming economies. In order to fulfill the capital needs the corporations are progressively accessing the international markets by listing their securities on the foreign stock exchanges.

COST & BENEFITS:

The transition to IFRS may cause short term hindrances, but in the long run, the benefits of investments and consistency will definitely outweigh the costs and other challenges. The beneficiaries of IFRS implementation comprise of the economy, investors, industry, accounting professionals and all the stake holders at large. Large numbers of Indian entities are expanding their functioning in the global arena. Migration to IFRS will enable them to access international capital markets without the risk premium involved in Indian GAAP financial statements. This migration will also help lowering the cost of raising funds, as it will eliminate the need for preparing dual set of Financial Statements. IFRS statements will enable entities to recognise their relative standing looking beyond country and regional milestones. This will facilitate companies to set targets and milestones based on global business environment, rather than merely local ones. IFRS adoption by all group entities will enable company managements to have a common reporting platform thus escaping multiple reporting. IFRS will overcome the flaw of not recording business combinations at fair value. (Purchase Consideration paid for intangible assets not recorded in acquires book is usually not reflected separately in financial statements; instead the amount gets added to goodwill. Hence, true value of business combination is not communicated through Financial Statements.) [Ernest & Young]

IFRS adoption will not only open up a bundle of benefits to Indian Corporates but it will also open up a host of opportunities for accounting professionals. As IFRS is principle based, it will provide cross border activities to professionals including accountants, valuers, auditors & actuaries, which will boost the growth prospects for BPO/KPO segments in India. The mobility of accounting professionals in industry also increases in all parts of the world. The benefits and costs associated with IFRS implementation are broadly discussed for three important aspects of accounting, i.e. corporate accounting, public accounting and academia.

OBJECTIVES OF THE STUDY:

1. To understand the perception of Chartered Accountants/Cost Accountant/ Company Secretaries towards benefits of IFRS compared to GAAP.

2. To examine the benefits of IFRS compared to GAAP

3. To give suggestions to overcome these challenges in adoption of IFRS

LITERATURE REVIEW:

Researchers opined various suggestions and opinions on the utility of adoption of IFRS as a single and uniform set of financial reporting standards globally. Existing literature highlighted the fact that adoption of IFRS as a single and uniform set of financial reporting standards will improve the worth of financial information.

Daske and Gebhardt (2006) assessed the quality of the financial statements of Austrian, German and Swiss firms which have already adopted internationally recognized standards (IFRS or U.S. GAAP). The analysis showed that disclosure quality has increased significantly and the quality of financial reports has increased significantly with the adoption of IFRS.

Barth et al. (2008) confirmed that firms following IFRS evidence less earnings management, more timely loss recognition and more relevance of accounting numbers. The study also found out that the firms following IFRS experienced an improvement in accounting quality between the pre-adoption and post adoption period.

Larsen (2008) and Baker et al. (2009) opined that the adoption of IFRS is becoming worldwide trend in order to have quality financial reports, ability to significantly improve the comparability of entities, giving better access to global capital markets, reduced cost of capital and provision of impetus to cross border acquisitions.

Jong and Verwijmeren (2006) focused on the impact of the IFRS regulation on preference shares in the Netherlands. IAS 32 causes most preference shares to lose their classification as equity and these shares will hence be classified as liabilities. The study concluded that IFRS does not only lead to a decrease in the use of financial instruments that otherwise would have added to the capital structure diversity, but also changes firms' real capital structure.

Daske et. al (2008) concluded that, on average, market liquidity increases around the time of the introduction of IFRS. The study also documented a decrease in firms' cost of capital and an increase in equity valuations, but only if we account for the possibility that the effects occur prior to the official adoption date.

Ball et al. (2003) investigated that IFRS not guarantees a high quality of financial reporting. The study found evidence that the legal origin of a country (political and economic factors) determines the quality of the financial reporting. Firms from code-law countries prepare financial statements of a lower quality than firms from common-law countries.

Soderstrom and Sun (2007) argued that cross-country differences in accounting quality are likely to remain following IFRS adoption because accounting quality is a function of the firm's overall institutional setting, including the legal and political system of the country in which the firm resides. The nature of present study is mainly qualitative and does not make use of any statistical technique for analysis. The present study has been done mainly on the basis of literature review and secondary information available from various journals, conference proceedings and reports of professional bodies

Major Differences between Indian GAAP and IFRS:

The international financial reporting standards are quite different from the AS that we have been following. The switch over from GAAP to IFRS is not just a technical exercise of shift from one set of accounting policies to another but much more. This would not only have significant accounting consequences but very far reaching business implication too. The organisations can challenge the way in which they are assessed by investors, stake holders, competitors etc. The impact assessment of transition from AS to IFRS is related to various faces of business because the differences between the two are quite substantial. These differences are mainly related to:

- Business Combinations
- Financial instruments
- Group accounts
- Fixed Assets and investments
- Presentation of Financial Statements
- Share based payments and Employee Benefits
- Revenue Recognition
- Impairment of Assets
- Segment reporting

METHODOLOGY:
DATA COLLECTION:

- Primary Date

Structured questionnaire

- Secondary Data

Information regarding IFRS disclosure in financial statements has been collected from checking Annual Reports of companies taken under study. Internet websites, Books on IFRS, Magazines, Reports etc.

SAMPLE SIZE:
A sample size of 100 was chosen from the selected experienced chartered accountant from Gujarat region for the study.

DATA ANALYSIS:

Questions	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
There is greater efficiency and decrease in cost of finance under IFRS than in GAAP	10	40	30	10	10
It is easier to raise capital under IFRS than in GAAP	20	40	30	-	10
IFRS provide better information for shareholders than GAAP	20	50	30	-	-
IFRS provide better information for regulators than GAAP	10	60	30	-	-
It is easier to secure cross-border listing under IFRS than under GAAP	20	50	30	-	-
There is greater comparability of companies under IFRS than GAAP	20	50	30	-	-
Competitiveness among companies is enhanced under IFRS than GAAP	20	50	10	20	-
IFRS facilitates cross-borders mergers and acquisition compared to GAAP	10	60	30	-	-
IFRS adoption leads to better integration and management of global operations than GAAP	10	60	30	-	-
Do you think that IFRS improves the quality of Financial statements and increase access to global capital market?	20	50	30	-	-

From the above table it can be concluded that 40% of the total respondents agree with the statement of "There is greater efficiency and decrease in cost of finance under IFRS than in GAAP", while 30% of the total respondents neutral with the statement where as 10% of the total respondents are strongly agree, disagree and strongly disagree with the statement. 40% of the total respondents agree with the statement of "It is easier to raise capital under IFRS than in GAAP", while 30% of the total respondents neutral with the statement where as 10% of the total respondents strongly disagree with the statement. 50% of the total respondents agree with the statement of "IFRS provide better information for shareholders than GAAP", while 20% of the total respondents strongly agree with the statement where as 30% of the total respondents believing that IFRS provide better information for shareholders than GAAP. 60% of the total respondents agree with the statement of "IFRS provide better information for regulators than GAAP", while 30% of the total respondents neutral with the statement where as 10% of the total respondents strongly agree with the statement. 50% of the total respondents agree with the statement of "It is easier to secure cross-border listing under IFRS than under GAAP", while 20% of the total respondents strongly agree with the statement where as 30% of the total respondents are neutral with the statement. 50% of the total respondents agree with the statement of "There is greater comparability of companies under IFRS than GAAP", while 30% of the total respondents neutral with the statement where as 20% of the total respondents strongly agree with the statement. 50% of the total respondents agree with the statement of "Competitiveness among companies is enhanced under IFRS than GAAP", while 20% of the total respondents strongly agree and same number of respondents disagree with the statement where as 10% of the total respondents are neutral with the statement. 60% of the total respondents agree with the statement of "IFRS facilitates cross- borders mergers and acquisition compared to GAAP", while 30% of the total respondents are neutral with the statement where as 10% of the total respondents strongly agree in believing that IFRS facilitates cross- borders mergers and acquisition compared to GAAP. 60% of the total respondents agree with the statement of "IFRS adoption leads to better integration and management of global operations than GAAP", while 30% of the total respondents are neutral with the statement where as 10% of the total respondents strongly agree in believing that IFRS adoption leads to better integration and management of global operations than GAAP. 50% of the total respondents agree with the statement of "IFRS adoption leads to better integration and management of global operations than GAAP", while 30% of the total respondents are neutral with the statement where as 20% of the total respondents strongly agree with the statement in believing that IFRS adoption leads to better integration and management of global operations than GAAP.

CONCLUSION:
The recent past has seen significant changes in the Indian industry environment in terms of financial reporting technology and has yielded constructive results. The existence of a high quality corporate financial reporting environment in the country requires an effective control and implementation system. Achieving conversions in IFRS in India will require a concerted effort by the government, regulatory authorities, standard setting body, users and accounting professionals. The transition to IFRS is likely to result in one-time implementation costs, including training, IT system updates, and increased audit costs. IFRS adoption is a huge task that requires time planning and formulation to create the right strategy for the entire organization, in the geography of the entire period. However, if the transition is planned and managed properly, it will be a positive step for financial reporting in India. Top management is needed to take responsibility for a successful conversion, as the effective communication of the different elements of the IFRS conversion project must inform all those who will be affected by it. The project team should have adequate and required qualifications and knowledge about the project. They should provide all the necessary resources needed for the success of the IFRS conversion project.

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