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A STUDY ON CHANGING DIMENSIONS OF RECORDING AND REPORTING OF BUSINESS TRANSACTIONS IN INDIAN CONTEXT

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Abstract

Today's era of globalization witness of establishing businesses by number of multinational companies in developing economies and starting access the world financial markets to meet their need of funds for capital through enlisting their IPOs on the security exchanges other than home country from which company belongs to also increased significantly. This arrangement is possible only through adoption of uniform accounting standards for business. To address such issues, one standard global accounting standard developed for reporting all financial transaction i.e. International Financial Reporting Standard (IFRS). At present almost 120 countries around the globe have either adopted or converged their existing GAAPs to IFRS. India is also going to join the forum from the accounting year ended on 31st March 2017 which bringing new dimensions and changes in the accounting field. This paper attempts to study the new changes expected in the field of accounting as a result of convergence of Indian GAAPs to IFRS.

Keywords: IFRS, Globalisation, Convergence, GAAPs, Financial Statements

INTRODUCTION

Standardization of accounting practices has been a matter of concern for the various accounting professionals' and authorised body of national and international level. The need to speak same accounting language and present the same accounting format has resulted in the discovery of a new concept in the field of accounting which introduced as International Financial Reporting

Standards or IFRS. International Financial Reporting Standards are set of high quality, easily can understand and enforced global accounting standards which requiring transparent and comparable and highly quality information to prepare and report financial statements for the users. Financial reports help participants of world's capital markets to take economic decisions. Therefore, IFRS designed as a common global language of accounting for business. As a result of which company's accounts are comparable and understandable across international borders. The term IFRS can be explained both in narrow and broader sense. Narrowly, IFRS refers to "the newly numbered pronouncements series that has been issued by the International Accounting Standards Board (IASB), which are completely different from the series which are previously issued by International Accounting Standards (IASs)". In Broader sense, IFRS refers to "the entire body of IFRS pronouncements including standards and interpretations are approved by IASB & IASs and interpretations of SIC approved by the predecessor International Accounting Standards Committee (IASC)".Thus IFRS comprises-

- International Financial Reporting Standards(IFRSs) issued by IASB
- International Accounting Standards(IASs) issued by IASC
- Interpretations developed by the IFRS Interpretations Committee(IFRICs) and
- Former IASC Standing Interpretations Committee(SICs)

In the recent years IFRS has been a widely debated issue all over the world. The major breakthrough came in the year 2002 when the European Union passed legislation for adoption of the same. The legislation came to effect in 2005 which resulted in mandatory adoption of IFRS by more than 8000 firms in 30 countries belonging to EU including France, Germany, United Kingdom, Italy, Spain and so on. Thereafter, the world is moving rapidly towards the adopting of standards as per IFRS in process of preparing and presenting of financial statements (Ramkesh, 2012). At present, almost 120 countries have joined the process; some fully adopting the original IFRS and others converging their local GAAPs to IFRS. India is also to join the bandwagon soon by adopting the second method i.e. through convergence of Indian GAAPs to IFRS.

Rationale of the Study

International Financial Reporting Standards from past few years has been a widely debated subject in the recent time throughout the globe. Till now, almost 120 countries around the world have already either adopted the original IFRS or converged their local GAAPs with IFRS. India, being a major player in the global economy is also joining the bandwagon soon and has already notified 39 Indian Accounting Standards converged with IFRS to be followed by selected business set up in phased way from last 2016-17 financial year. At present, Indian companies prepare and present their financial statements under Indian GAAP. These corporate are now required to prepare and present their financial statements as per Indian AS. Therefore, this is going to be a new experience for the companies as well as the preparers of financial statements. Adoption of IFRS not only brings positive aspects but also it will be accompanied by numerous challenges. Thus, the present study is a modest attempt to throw light on pros and cons of IFRS and contributes towards the effective implementation of the same.

Objectives of the Study

a. To understand the applicability of IFRS in India.
b. To identify the prospects and challenges with reference to mandatory adoption of IFRS in India.

REVIEW OF LITERATURE

Swamynathan and Sindhu, (2011) conducted study on the effects of convergence to IFRS and found that the position of net income of business according to IFRS and Indian GAAP is not having much difference. But, there is difference in the positioning of equity & total liability. It is mainly because of re-classification between equity and total liability as per IFRS framework. Their study was based on annual report of Wipro Ltd. for the year 2009- 10 along with reconciliation of equity under Indian GAAP and IFRS for the years. (Swamynathan & Sindhu, 2011).

Gupta Ramkesh, (2012) conducted a study on impact on economic activities of companies by adoption of IFRS. This study was based on four companies voluntarily adopting IFRS in India. For this study author used annual reports of the said companies for the years from 2007-08 to 2010-11 were used to measure the impact of IFRS on economic activities by splitting those activities to financial activities, investing activities, mergers and acquisitions and expansion and diversification activities concluding that there was an impact of IFRS adoption on all the four segments of economic activities of the reported companies. (Ramkesh, 2012)

Bhargava and Shikha (2013), studied the impact of using IFRS on financial statements and financial ratios using of Wipro's annual report of the year ending 31st March 2012. This study discussed about the impact of transition on number of financial statements items and their impact on some important financial ratios. The study revealed that, there is variation in contain of total assets and liabilities is due to the re-classification among fixed liability and current liability and also due to differences in recognising of revenues. The valuation and charging of depreciation on fixed assets like plant and machinery, tools and equipment is also a big reason of differences. The study also advocated that IFRS is an approach of fair value based accounting which would improve quality of accounting disclosures and enhance understanding and comparability of financial statements in internationally. (Dr Vidhi Bhargava, 2013)

Kamath and Desai, (2014) conducted an empirical study on the impact of IFRS adoption on the financial activities of Indian companies. Their study was based on the annual reports of eight companies following IFRS in India. The financial statements for three financial years i.e. 2010-11 to 2012-13 were analysed of these companies under Indian GAAP and IFRS. The financial activities considered for the study were divided in to four parts such as risk from financing, activities of investment, operational activities and agreement of dividend. The results of their study revealed that there is an improvement in the activities of investing and operating of business due to adoption of IFRS while preparing financial report. However, no improvement was observed in the case of financial risks and debt covenants. (Desai, 2014)

Srivasthava and Rawat (2015) observed that implementation of IFRS-converged Indian AS is helping to attending excellence in reporting of financial transactions, because these standards are based on such principles that makes financial statements more transparent. Beside this, these statements represent the actual financial status and performance of business entity in loyal manner. IFRS prescribed standards would enables the investor to compare of financial information, which can visualised in confidence level of investors, thereby companies able to raise low cost capital. It will also enable to better accesses world financial markets and decrease in the cost of capital which leads towards growth of economic as a whole. Use of IFRS pave the way for using of fair value approach, which replaced the practice taking historical costs for asset valuation by fair value in number of items of balance sheet, which will make it possible for the business units to know and to show its actual worth. Comparable and transparent financial information, as per these Reporting Standards will provide an impetus to cross-border venture either through acquisition or partnerships or alliances with foreign business unit, and it also enable lowering of cost of integration in post-acquisition periods. (ShrivastavaPreeti & D.S., July 2015)

Patel and Srivastava (2009) observed that irrespective of various challenges and difficulties, IFRS adoption in India has brought remarkable changes in the content of financial statements of corporate. As a result of adoption of IFRS performance measurement can be possible more refined way. It also revel's IFRS adoption enhanced quality of statement of affairs and disclosures become more transparent than previous. (S.P & Kuamr, 2009)

METHODOLOGY

The study is descriptive in nature. As this study is requiring analysing of policies regarding local standard of reporting and international reporting standard, so only secondary sources used to elicit required information. To understand the applicability of IFRS, recent notifications and guidelines of "Ministry of Corporate Affairs, Govt. of India", notifications released by the RBI, the IRDA and the SEBI have been examined. The study also makes use of information obtained from various research papers pertaining to the topic of IFRS. Moreover, a few academicians from the accounting field and professionals like CAs and CSs were interacted to solicit opinion on issues and challenges that may crop up as a consequence of mandatory adoption of IFRS in India.

FINDINGS

Applicability of IFRS in India

Till date**,** Ministry of Corporate Affairs (MCA) of India has notified 39 Indian Accounting Standards converged with IFRS (henceforth called Indian-AS. The initial steps towards for implementation of the standards by companies has been spread over several years starting from 1st April 2011 with significant delays to the process. Following the postponement of this roadmap in 2011, The "Institute of Chartered Accountants of India (ICAI)" performed an impact assessment of Indian-AS in 2013 and subsequently published in March 2014 a new roadmap for implementation of Indian-AS converged with IFRS. The new roadmap proposes implementation of Indian-AS in a phased manner as shown below:

a. All listed and unlisted companies with the Net worth of INR 500 crores or more will mandatorily adopt Indian AS from A.Y. starting from 1st April 2016.
b. Unlisted companies with Net worth of INR 250 crores or more and all listed companies will mandatorily adopt Indian AS from A.Y. starting from April 2017.
c. All listed or unlisted companies who are having Net Worth become INR 250 crores will mandatorily adopt Indian AS from A.Y. starting from April 2018.
d. All companies, not falling under the mandatory road-map may adopt Indian-AS voluntarily from the A.Y. starting from April 2015.

Whenever, the company comes under satisfied the above mentioned conditions of roadmap, Indian Accounting Standard becomes compulsory, for all association such as holding companies, joint ventures company and subsidiary company will also have to adopt Indian-AS whatever may be their net-worth. To computing the company's net worth, the definition under the Companies Act, 2013 was taken as reference. According to the "section 2 (57) of the Companies Act, 2013", "net worth is computed as the aggregate value of the paid-up share capital and all accumulated reserves which are created out of the profits and premium money received while issue securities, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation."

Indian-AS will apply not only for consolidated statement but also for standalone financial statements of the company. While preparing financial statement of overseas associations, companies are not required to prepare separately standalone financial statements under Indian-AS. They will have to prepare Indian-AS adjusted financial statement which the parent company to prepare consolidate statement.

In case there is any tug-of-war between provisions of any applicable Law and AS of India, the provision of Law shall prevail to that extent and financial statements are prepared in accordance of compliance for Law. The adoption of above policy is applicable for every company expect those are engaged in business like banking, insurance, NBFCs and SMEs. However, The Reserve Bank of India, in its recent press release has notified that the banking companies in India are also in the process of adopting Indian AS from the accounting year ending on 31st march 2018 onwards. Similarly, IRDA has also assured that insurance companies in India will start following Indian AS as soon as the international accounting standard on Insurance contract is finalized which is currently under construction. It is also stated in the MCA notification that any company not falling in any of the above mentioned category may voluntarily adopt Ind-AS while preparing and presenting financial statements from the accounting year 2015-2016. However, once such companies start following Ind-AS, they must follow it continuously over subsequent years.

Prospects of IFRS in India

The adoption of IFRS framework in preparing and presenting financial report is expected a presentation of consistent, high and reliable data in financial statement due to application of different accounting principles. It will leads to increased trust and faith of investors, analysts and other stakeholders on company's financial statement. The shift towards IFRS is expected to yield benefits in different ways-

a) **For companies:** If we are looking from the company point of view, IFRS framework is helpful not only for the better access to the global financial market to raise capital but also helps reducing the interest cost while raising capital from the global markets. IFRS being accepted as a standard for financial reporting has subsequently eased raising capital from the global markets. The US Securities and Exchange Commission (SEC) at its public meeting in Washington on 15th November 2007 allowed foreign companies to present their financial reporting according to IFRS standard. Accordingly these companies already operating in the US market need not to prepare separate financial statement under GAAP. Therefore, US listed Indian companies will benefit from standard form of financial reporting. This practise of company resulted in form of saving of time and cost of financial and compliance. A glance at the global economy suggests that Indian economy has been gaining strength during the last decade. As a result Indian companies have been expanding their businesses by way of opening new branches, setting up new plants, and taking over other business in the foreign countries. To execute this strategy, company requiring funds at cheaper cost which are available in capital market of developed economic like American, European and Japanese. To take the advantage of this, Indian companies should prepare and report all financial statement according to the framework of IFRA to meet the regulatory requirements. Thus, the practise of adopting IFRS framework while preparing and reporting of financial statement helps companies of India to accessing global Financial Market to raise funds for requirement and the required fund may also available at cheaper rate. (Anjula, 2015)

b) **For investors:** As we all are aware that in financial market "Input refers to information, and output refers to good investment decision". From the prospect of an investor, while they received good information for decision making, that may enable him to select better and broader investment opportunities. The adoption of IFRS frame work by companies, the investor will be benefited. The practise of preparing financial report of company as per international standard not only develop better understanding but also develop and maintain the confidence of investors. As the way information about company's financial performance and accounting practise made available for investor will be more authenticate, valid, relevant, reliable and timely. Most importantly, information according IFRS will be legally accepted and comparable across globe which leads an investor to take worthy decision.

c) **Easy Cross-Broader Listing:** As stated earlier, Indian companies not limiting themselves to raise required funds for executing their expansion plans beyond the economic and political boundaries of India. The last decade of Indian economy is whiteness of number of merging with and acquiring of outside firms by Indian firms. Number of Indian company started raising funds from European and America Capital Market through enlisting their stocks in these markets. To listing the company in European Markets, preparation of accounting statement as per the framework of IFRS is one of the important pre-requisites. A few number Indian firms which have raised capitals from European Financial Markets have initiated following IFRS standards while preparing their financial statement.

d) **Better Quality of Financial Reporting:** The practise of adopting IFRS is expected qualitative report about company's financial performance and position due to consistent application of Accounting Principles. It also enable the professionals to present a reliable information on business performance. The contemporary trending concepts of financial reporting according to IFRS rules means presenting information based on the fair value principles. This would help Indian corporates to depict the real value of their assets in the financial statements. IASB, London has created IFRS rules, which are easy to follow and these rules guarantee quality reporting of financial information.

e) **Elimination of Multiple Reporting:** Indian's large scale corporate houses such as TATA, BIRLA, and AMBANI are operating at international level including European and American capital markets. While operating inside India these corporations were presenting information according to IAS. Ever since these corporations became multinational their reporting format changed according to IFRS by replacing multiple format of reporting with the single uniform standard set of Financial Reporting.

f) **For National Regulatory Bodies:** adoption of IFRS also contributed towards the performance of national regulatory bodies. Indian Accounting standard Board will be alert toward the practise of best international accounting standard (IFRS) which guided them in the establishment of highly improved reporting practise in India**.** It not only brings a higher but also and improved the standard of financial disclosure. Moreover, it also brings ability to attract and monitor listings by foreign companies.

g) **New Opportunities for the professionals:** Migration from national level accounting standard to IFRS will not only salutary for businesses of India but also it will be a boon to Indian accounting and other associated field. India is well known for availability of immense human resources. If professionals of accounting equipped with knowledge of IFRS, India can immerge as leading accounting service provider country across the globe. This convergence will also open new opportunities for valuers and actuaries.

Challenges in the application of IFRS

The challenges in the process of implementation of IFRS in India may be summarised as under-

a. Fair Value Accounting: IFRS advocates the use of fair value dimension in measuring the value of items in the financial statements. It requiring expertise and lots of hard work to draw the fair value. The use of fair value accounting as required for implementation of IFRS can brings volatility and prejudice to the financial statements. Even if IFRS is easy to understand and to apply but it is very difficult to arrive at the fair value and many time valuation experts may also feel difficulty to shift from historical method to fair value method. Adjustments according to fair value principles results in profit or losses to be shown in the financial reporting.

b. **Computation of Tax**: IFRS makes it convenient to calculate tax liabilities. Thus, the taxation laws clearly define methods of calculating tax liabilities. However a complete renovation in Tax Laws is one of the difficult challenges confronting Indian legislators. It involves greatest changes to facilitate preparing IFRS-Compliant financial statements. We suggest the taxation laws to redress the corporate taxation system. This is another challenge facing while implementation of IFRS. Besides that, first of all it is imperative for tax purposes to accept IFRS frame work. This will indeed reduce the burden and administrative work load which companies may face.

c. **Training: In** implementing IFRS, there would be requirements for training to develop skills focusing IFRS methodology in India and that could be a biggest hurdles in implementing the process. Though, foundation stone has already been laid down in India through designing and offering of different online certification and diploma courses on IFRS by academic institutions. The Institute of Chartered Accountant of India has also started training programmes on IFRS for its existing members and other interested parties. But the gap between demand and availability of trained professional is still wider in India.

d. **Auditing:** Auditing is an integral part of accounting practise. This section also affected by convergence of traditional framework to IFRS framework. The firms of India who are engaged in the profession of company audit started using FVA as mandatory in the IFRS framework. Due to inadequate guidance availability at present these audit firms are still doing the audit as per the cost accounting concept. Therefore, the implementation of IFRS by ICAI without proper guidance or instruction will not be justifiable. At the same time, having expectation from the auditors to discharge their responsibility as per the new Company Act, 2013 is also a big challenge for implementation of IFRS**.**

e. **IT Security:** In today era where we are performing different activities of business looks quite impossible without help of Information Technology. As now financial accounting and reporting systems are modified and strengthened to delivered information as per the framework of IFRS. But, the business entity requiring an effective and efficient information technology security system to minimise the various risk particularly to address potential frauds, cyber terrorism and data manipulation and corruption though it is becomes a challenge in country like India.

f. **Other Regulatory Changes:** The implementation of IFRS also demanding lots of changes in other area of regulatory also become a challenge in India. The implementation of IFRS requiring remarkable changes not only in direct tax implications which covered by the ICDS, but also in indirect taxes of India. If we figure out in particularly, practise of charging of number of indirect tax were already replaced by single taxation policy i.e. GST. Experience of international market shows that Indian companies are not ready and may requiring sufficient time span for plan a smooth changeover and to communicate the ramification of it to its stake holders who are directly associated in respect to funding of entity such as the Board of directors, lenders, investors and indirect associations such as analysts. If we not restricting only to funding, the implementation of IFRS also have significant impact on the area such as sales, earning and net-worth. While the regulatory authority need to do their work, which demanding an active debate between companies association of industry, lenders, investors and business analysts on the impact and challenges relating to transition.

SUGGESTIONS

On the issues highlighted above as well as discussions with a few academicians and professionals from the field of accounting, following suggestions may be considered to make IFRS adoption and implementation in India, a success –

a. Convergence from country specific reporting system to IFRS is not a national affair rather it is an international affair. In view of this, first of all Indian government should set strict and standard regulations or policy for successful implementation of IFRS as early as possible and in same tenure for whole country. Otherwise, deferment of convergence date will not only hurt the reputation but also chance of other country to pointing figure towards Indian accounting practice

b. Secondly, government should bring all the regulatory authorise bodies who directly or indirectly affect the accounting process in India to a common platform to resolve the issues and problems which are coming as hurdles for them on phase of convergence.

c. Thirdly, government should insist to all education boards and university of the country, they should make changes in syllabus of accountancy and introduced IFRS as subject in curriculum so that knowledge about new regulations of IFRS imparted among the youth. Because the youth is the ultimate target group who will become the upcoming accounting professionals.

d. Institute of charted Accountant of Indian should introduce IFRS and IAS as different subject or topic of any advance accountancy subject in their courses which will in result may enable the upcoming accounting professionals to get awareness about IFRS and regulation of it.

e. IFRS also can implement successfully, if knowledge about IFRS given to existing practitioner of accounting such as chartered accountants and accounting professionals, etc. The ICAI should make compulsory short duration certificate course on IFRS and organising of seminar and workshop on regular basis for all existing chartered accountants and accounting professionals till successful implementation of IFRS.

f. Lastly, ICAI should take steps towards make compulsory of certificate course of IFRS for members of ICAI to impart the knowledge of IFRS.

CONCLUSION

To make Indian standards contemporary a lot of effort already made in India towards convergence with IFRS. Since India has chosen convergence of Indian GAAPs with IFRS rather than fully adopting IFRS, there exist some deviations or carve-outs between the original IFRS and converged Indian Accounting Standards. However, the MCA and the ICAI have been constantly working closely with existing standard *i.e*. IASB to minimize or eliminate these curve-outs in a time bound manner by either getting changes in the IASB as per requirement of IFRS or aligned the requirement of Indian standard with IFRS. It is also required to address different issue related to tax in order to make transition to Indian Accounting Standard. In this regards, Indian Finance Ministry had issued a formal draft of 12 ICDS in beginning of the year 2015. These standards also notified as per expected time span, and will therefore provide an independent account reporting framework for computation of taxable income.

In spite of number of obstacles, adoption of IFRS framework approach in India will show significant changes in financial statement contents. The implementation of IFRS approach resulted in finding a refined dimension of measurements to judge performance and financial position of company. It also enhances quality of disclosures which leads to transparency and comparability of financial information. Only understanding various challenge or benefit of IFRS theoretical will not solve the purpose. This make us curious to measure the effect of various dimensional factor of IFRS which are making corporate's financial reports more qualitative and acceptability. With this note of further scope of research, if we look in overall view, the results are consistent in improvement in presentation of report which can comparable across countries by making mandatory of adoption of IFRS.

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