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IFRS and IND as – An Analysis of Opportunities and Challenges

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ABSTRACT:
Financial Statements are the approach through which the various stakeholders can get statistics about the financial overall performance and financial role of the businesses. For making ready these financial statements, the organizations have to follow the accounting standards which are the set of regulations and recommendations for instruction and presentation of the financial statements. International Financial Reporting Standard (IFRS) are the global accounting requirements prepared for ensuring increased understandability and comparability of monetary statements internationally. The Indian Accounting Standards (IND AS) are the accounting standards which are converged with IFRS. This paper examines the perception of stakeholders toward the implementation of IND AS in India and its effect on qualitative characteristics of monetary statements of companies with the aid of collecting responses from special stakeholders like Chartered Accountants, investors, Shareholders, companies and Academicians. The five-point Likert Scale questionnaire has been administered to acquire the response from the respondents.

I. INTRODUCTION

Transparency, reliability and consistency are the basic principles or goal of Accounting Standards. These standards also play a crucial role in measurement of transactions, presentation of transactions and also the disclosure requirements.

These Accounting Standards are basically principles or procedures, which are common in nature. Every corporate and non – corporate body is required to adhere to these standards for benefit of their own organization as well as the society in which the organization is set up in.

Accounting Standards lay out a framework within which companies operate and prepare their statements.

1. Recognition of events which are financial in nature
2. Measurement of transactions which are financial in nature
3. Presentation of these statement in a just and fair manner
4. Proper disclosure of these statements so that its users are sufficiently informed

The muse for worldwide accounting standards was laid in 1966, whilst it turned into proposed that a worldwide look at institution be started out comprising the Institute of Chartered Accountants of England & Wales (ICAEW), American Institute of licensed Public Accountants (AICPA) and Canadian Institute of Chartered Accountants (CICA). As an end result, the Accountants International Study Institution (AISG) was set up in 1967, which published papers on crucial subjects.

The presumed benefits that IFRS brings along are based on what type of experience the IFRS Compliant countries had in a time period with mild economic conditions. the perceived benefits from IFRS adoption are primarily based on the experience of IFRS compliant countries in a duration of mild monetary conditions. The contemporary decline in marketplace in India and overseas coupled with tougher monetary situations can also present extensive demanding situations to Indian corporations.

With the present economic situation, it is quite probable that high ups and downs can be expected in Key performance measures like Earnings per Share (EPS) and Price-Earning (P/E) Ratio.

For increasing the understandability, reliability and transparency in their financial statements, it is crucial that Indian companies create awareness among their various investors and analysts.

IFRS, as we all know, are standards which are based on key principles. It offers accounting policy choices to the preparers of financial statements. This availability of choice while preparing the statements lead to inconsistency and reduces the comparing capability of the financial statements and thus, diminishes the benefits that companies can reap from the implementation of IFRS.

Existing laws and regulations would have to be either completely changed, or be reformed for proper implementation and working of IFRS with Indian GAAP. For example, the Companies Act, 1956, later superseded by Companies Act, 2013 determines the classification and accounting treatment for redeemable preference shares as equity instruments of a company, whereas these may be considered to be a financial liability under IFRS. (Economic Times, 2008)

A lack of training becomes one of the major reasons in adopting IFRS. Stakeholders that are involved should be given proper training with regard to IFRS, whether it be the CFO (Chief Financial Officer) of the company, authorities involved in handling tax, auditors etc. Training of these individual listed above would help it to understand and in consistently applying it.

Another challenge is "Awareness" among individual, as knowledge related to IFRS is only limited to few people. Many stakeholders which include banks, exchanges etc.. Awareness needs to be spread in order for its proper adoption. This awareness standard is one of the major challenges faced by Indians.

After the passing of a crucial time, our financial sector decided that it would be appropriate for the country to either adopt IFRS completely or converge it with the existing IND AS.

There is a need that we must amend some of our existing rules and regulations. Accounting practices are different from the international standards which are mainly governed by Indian Companies ACT 2013, Income tax act of 1961, GAAP etc.

These are far different from IFRS; sufficient changes must be made in order for proper application of IFRS. Legal constraints must be addressed which has become a major constraint.

A major hindrance is the way in which financial report is prepared -IFRS uses the fair value for recording the value on the other hand in India, historical concept is used. Use of fair value has one major backdrop i.e., fair value can bring volatility in reported earnings, this method reflects the loss and gain which are reflected in P&L account. To adopt this method India requires time to make transition towards fair value accounting system.

ICAI should change its standard of financial reporting and align it with IFRS. Alignment should be done to meet the new requirement related to fixed assets and other things.

Convergence of IFRS with IND AS is more than just a technical accounting issue for India. (Nagalakshmi, 2014). It is important for companies to keep themselves up to date with the current ongoing changes in IFRS.

As SME's have lack of resource and expertise which acts as hindrance in convergence to IFRS. In regard to SME's cost would easily take over the benefit that SME's would get from convergence to IFRS which is a major challenge to address.

The IT system for recording and analyzing information needs to be developed in order to make them robust. The technology should be able to capture new information required for fair value disclosure.

The peculiar features of IFRS and Ind AS can be laid as under:

IFRS –

1. IFRS are issued by IASB, which works under the IFRS FOUNDATION.
2. IFRS are globally accepted accounting standards. Currently, it is being used for accounting in companies of more than 100 countries.
3. IFRS are principle-based standards.

IND AS –

1. IND AS are issued by the Ministry Of Corporate Affairs and are formulated by Accounting Standards Board (ASB) of Institute of Chartered Accountants of India (ICAI).

II. RESEARCH METHODOLOGY

In this study, both primary and secondary data are collected. In case of primary data, 'Five Point Likert Scale Questionnaire' is used. In this type of questionnaire, following are the options – Strongly Agree (SA), Agree (A), Neutral (N), Disagree (DA), and Strongly Disagree (SDA). These are assigned with the values of 5,4,3,2 and 1 respectively. Secondary data, on the other hand, was collected from newspapers, journals, annual reports and websites.

In order to total sample size is of 50 (which comprised of 15 Chartered Accountants, 15 Shareholders and 20 students). As also, descriptive statistics such as Mean, Simple Percentage Analysis and Popularity Rate are used to analyse data. MS Excel spreadsheet is

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used in this study to analyse the data. Bar graphs have been used for graphical representation of the data.

POPULARITY RATE (PR) = (Frequencies of Strongly Agree + Frequencies of Agree)/Number of Respondents.

III. RESULT ANALYSIS & INTERPRETATION:

All the respondents agreed that implementation of IND AS in India was necessary in the country. The response of all the samples concentrates on the positive side of the statement. 92% of the respondents are in favor that 'IND AS' increases the comparability of the financial reporting with a mean value of 12.5. 90% of the respondents agreed that 'IND AS' improves the understandability of financial statements with a mean value of 12.5. 97% of the respondents agreed and 3% of the respondents are neutral about the increase in transparency of the financial statements due to implementation of 'IND AS' with a mean value of 16. 6% of the respondents agreed that 'IND AS' increases the quality of the financial reporting and only 4% are neutral about the same with an assigned mean value of 16.6.

It is clear from the analysis that the respondents have considered the increase in transparency of financial statements due to implementation of 'IND AS' as the most important impact on financial statements by assigning the first rank followed by increase in quality of financial statements due to implementation of 'IND AS', increase in comparability of financial statements due to implementation of 'IND AS' and increase in understandability of financial statements due to implementation of 'IND AS.

IV. CONCLUSIONS

It is clear from this study that India, rather than completely replacing IFRS with the already existing accounting standards, should chose the integration of IFRS with Indian accounting standards. More focus on proper distribution of adequate knowledge and know-how for IFRS in our country will be quite important. Companies need to be strict in this matter and provide their management and the employees with the proper resources to be able to carry out all the activities related to financial reporting in the best way possible. Currently, in India, use of IFRS by companies is still voluntary. This is should be changed, if not to the fullest extent, to the point where no complexity arises at the time of analyzing the final result

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Tables & Figures

Table 1: Demographic profile of the respondents

Sl. No.	Particulars	Numberof respondents	Percentage
1	Gender:		

	Male Female	35 15	70 30
	Total	50	100
2	Category: Accountingandauditingprofessionals Investors Shareholders	 15 18 17	 30 36 34
	Total	50	100
3	Qualification: CA (CharteredAccountant) Post-graduation Graduation	 12 17 21	 24 34 42
	Total	50	100
4	Age: Below30years 30-40years 40-50years Above50years	 10 14 16 10	 20 28 32 20
	Total	50	100

Table No 2: Analysis of perception of stakeholders towards implementation of 'IND AS' and its impact on financial statements of Indian Companies

Sl. No.	Statements	No.	SA(%)	A(%)	N(%)	DA(%)	SDA(%)	Total(%)	Mean	PR	Rank
1	Implementationof IND ASin Indiawasnecessaryforthecountry	50	42	58	00	00	00	100	29	1	-
2	Implementationof IND ASmakesfinancialstatementsmorecomparableacross internationalboundaries	50	32	60	04	04	00	100	12.5	.92	3
3	Implementationof IND ASmakesfinancialstatementsmoreunderstandable across internationalboundaries	50	42	48	06	04	00	100	12.5	.9	4

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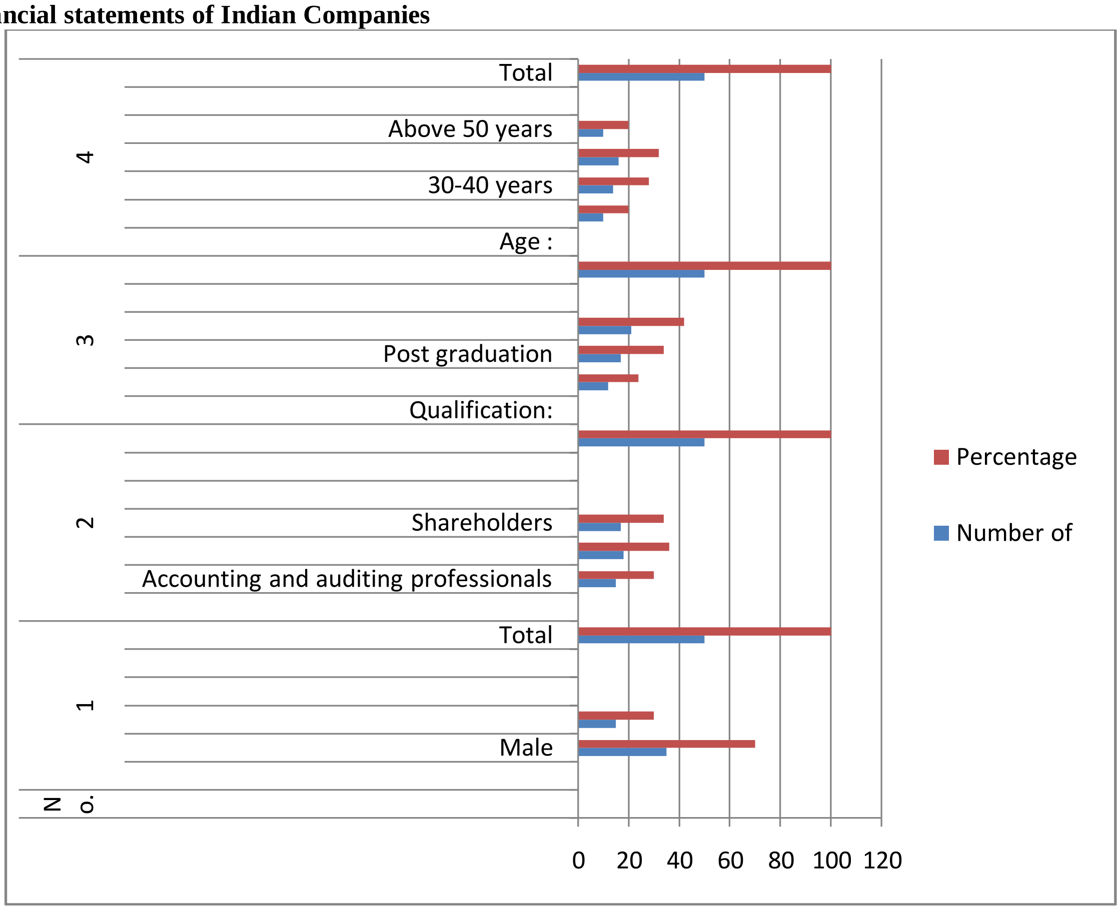
4	Implementationof IND ASmakesfinancialstatementsmoretransparentacrossinternationalboundaries	50	36	61	03	00	00	100	16.6	.97	1
5	Implementationof IndAS improves the quality of financial reporting	50	38	58	04	00	00	100	16.6	.96	2

Abbreviation Explanation
SA – Strongly Agree
A – Agree
N – Neutral
DA – Disagree
SDA – Strongly Disagree

Graph No 1: Response of sample respondents towards implementation of 'IND AS' and its impact on financial statements of Indian Companies



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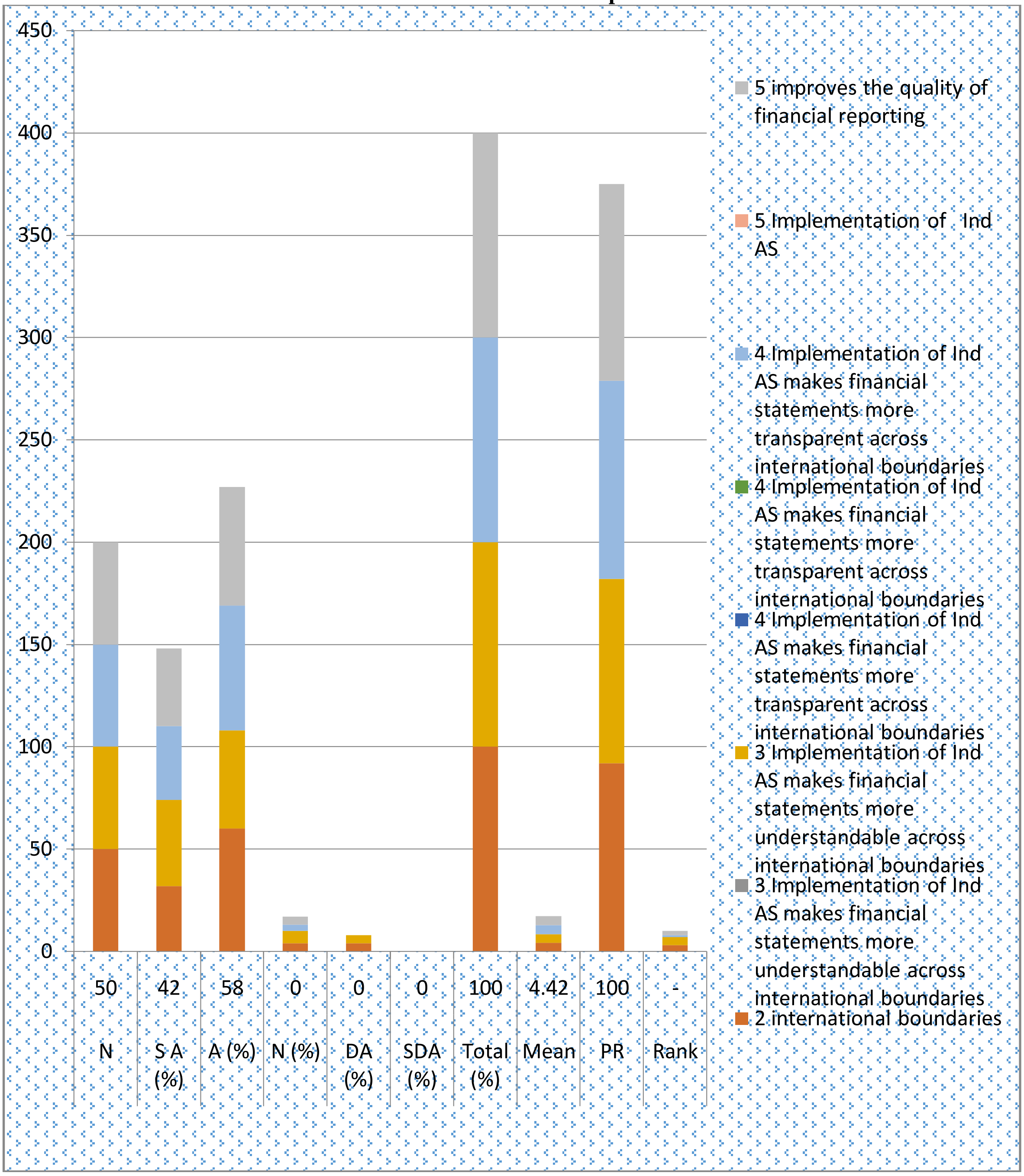
Graph No 2: Popularity Rate towards implementation of 'IND AS' and its Impact on Financial Statements of Indian Companies



Annexure 1

QUESTIONNAIRE

This Questionnaire is prepared for undertaking a project pertaining to analysis of "**IFRS AND IND AS – An Analysis of Opportunities and Challenges**". The responses would be great help for the purpose and would be kept confidential to the maximum possible extent.

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Research Paper Questionnaire for IND AS & IFRS

Thank you for participating in our questionnaire. This is basically to analyse the awareness, understanding and the general knowledge that people have about IFRS and IND AS.

Please read the statements given below and provide us with your unbiased opinion about the same.

QUESTIONNAIRE FOR RESEARCH PAPER - IFRS AND IND AS OPPORTUNITIES & CHALLENGES (by VIGNESH SREEDHAR, VIKALP AGARWAL & VIKAS JHA)

*Required

1. Implementation of IND AS in India was necessary for the country *

Mark only one oval per row.

	AGREE	HIGHLY AGREE	NEUTRAL	DISAGREE	HIGHLY DISAGREE
Row 1	◯	◯	◯	◯	◯

2. Implementation of IND AS makes financial statements more comparable across international boundaries *

Mark only one oval per row.

	AGREE	HIGHLY AGREE	NEUTRAL	DISAGREE	HIGHLY DISAGREE
Row 1	◯	◯	◯	◯	◯