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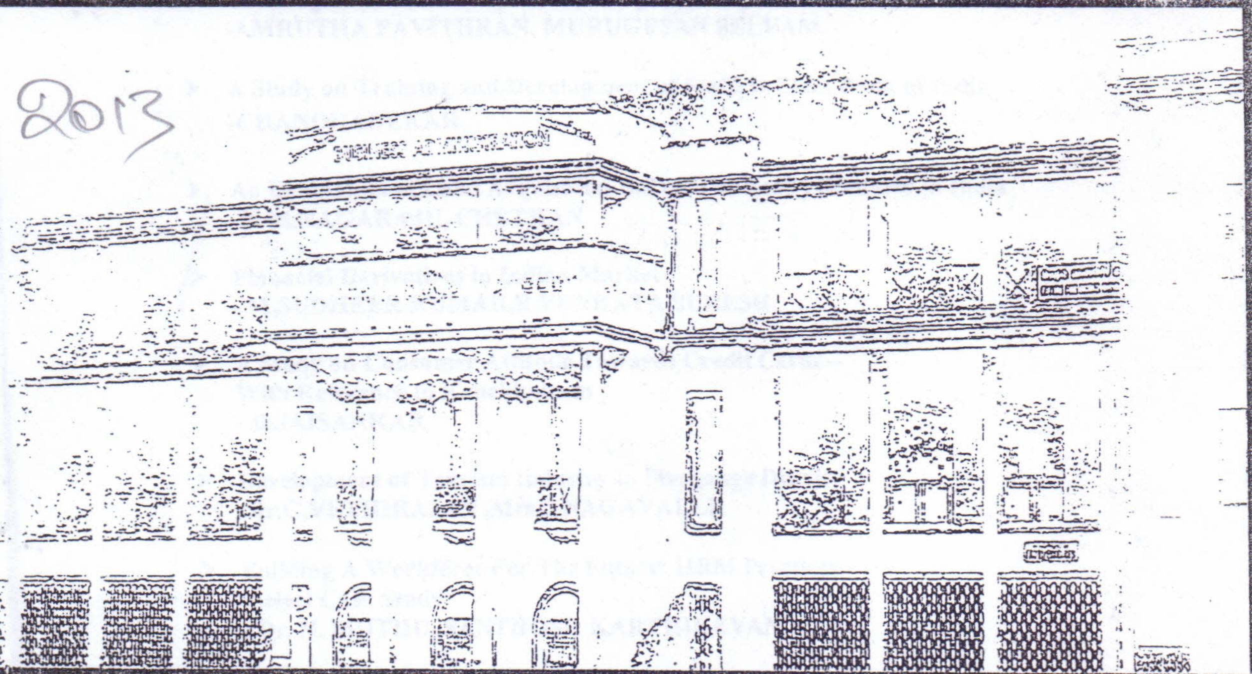

BUSINESS ADMINISTRATION

ANNAMALAI UNIVERSITY

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CHALLENGES AND ROADMAP TO CONVERGENCE OF IFRS IN INDIA

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MURUGESAN SELVAM**

Introduction

The International Accounting Standards Board (IASB), founded on April 1, 2001, is the successor to the International Accounting Standards Committee (IASC), founded in June 1973, in London. The IASB is responsible for developing the International Financial Reporting Standards (new name for the international accounting standards issued after 2001), and promoting its use and application of these standards. The IASB is an independent, privately – funded accounting standard setter. The International Financial Reporting Standards (IFRS) is gaining momentum throughout the world as a single, consistent accounting framework and is sited to become the predominant GAAP in the near future. More than 100 countries have shifted to IFRS from their local standards. As of now, India is moving towards converging with IFRS only from April 1, 2011. Accounting experts report that, a lot remains to be done before they can be fully introduced in India. **(Anita Shukla, 2011).**

Qualitative Characteristics Of Financial Statements

The Framework describes the qualitative characteristics of financial statements as follows **(Kulkarni, S. 2009).**

1. Understandability
2. Relevance
3. Reliability
4. Comparability

The first qualitative characteristic of financial statement demands that information presented in financial statements have to be understandable. Additionally the information given in financial statement has to be relevant. The information is relevant when it can still influence economic decisions. The reliability of the information is assured only when it is free from material error and bias and represents events and transactions faithfully. The comparability is attained when the information in financial statements is comparable over time and between different entities.

As the financial statements have to present true and fair view, IFRS introduced the concept of fair value measurement. Historical value is not applied any more, but preparation of financial statement should apply the fair value. Fair value, according to IFRS, is defined as the amount for which an asset could be exchanged or a liability is settled, between willing parties in an arm's length transaction.

Roadmap to Convergence of IFRS in India

It is important to note that India is currently on the transition from Stage I to Stage III of IFRS adoption popularly known as the Ind AS. The institute of Chartered Accountant of India has announced that IFRS will be mandatory in India for financial statement from 1st

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April 2012. It has been decided that IFRS will be applied to companies above Rs 1000 crores from April 2011. The phase wise applicability details of different companies in India are as follows: **(Vinay K Srivastava, 2013)**

Phase I

In the First Phase, companies, which are part of NSE – Nifty 50 or part of BSE – Sensex 30 or have a net worth in excess of Rs1000 (whether listed or not) or companies.m whose shares or other securities are listed on stock exchanges outside India should converge with IFRS, starting from April 1st, 2011.

Phase II:

Under, Second Phase, companies, whether listed or not, having a net worth exceeding Rs 500 crores but not exceeding Rs 1000 crores, will convert their opening balance sheet with IFRS, from 1st April, 2013.

Phase III:

In the Third Phase, listed companies, which have a net worth of Rs 500 crores or less will convert their opening balance sheet from 1st April, 2014.

Benefits of Converging With IFRS

The decision to converge with IFRS is a milestone decision and it is likely to provide significant benefits to all the relevant parties given below **(Manju Punia Chopra, 2011).**

- **To the Economy**

  If an economy has adopted the policy of globalization and liberalization, the convergence with IFRSs is increasingly required. The convergence with IFRSs would help to maintain efficient operation of capital markets and increase the capital formation. In this way, economic growth of a country could be achieved. The convergence with IFRSs would increase the trust of investors and thereby more foreign capital can be brought to our country.

- **To the Investors**

  Investors, who want to invest outside their own country, need information that is relevant, reliable, timely and comparable across the countries. Financial statements should be prepared in such a way that helps such investors to understand opportunities of investment. Financial statements of the firms should be prepared in such a way that globally accepted accounting standards are applied. This would strengthen the confidence of investors and the flow of foreign capital can be increased. Hence, the convergence with IFRSs is required for a country like India which requires foreign capital.

- **To the Industry**

  The industry has to create confidence in the minds of foreign investors. Only then it can raise capital from the foreign capital markets. Hence financial statements of firms belonging to that industry should comply with the globally accepted accounting standards. If an enterprise operating in different countries, adopt different financial reporting from country to country, it will create problems of understanding. Convergence lessens this problem.

- **To the Accounting Professionals**

  If the convergence with IFRSs is adopted, financial experts of different parts of the world can offer their services to a firm of any country. If same accounting practices prevail throughout the world, the financial experts or the accounting professional can easily work throughout the world.

Challenges in Convergence with IFRS

Some of the main challenges in convergence with IFRS are listed below: (**Kulkarni, S. 2009**).

- **Shortage of resources**
- **Training**
- **Information Systems**
- **Taxes**
- **Communication**
- **Management compensation and debt covenants**

Conclusion

The transition from GAAP to IFRS is not only inevitable but also a positive development as it would help to make capital markets more competitive. Transitioning to IFRS will allow companies to generate capital in other countries while reducing cost and complexity for companies operating internationally. Using a single set of global accounting standards would contribute to a higher degree of investor understanding and confidence. Hence India should follow the global standards by joining hands with the major countries following IFRS.