



Challenges in implementing IFRS in India: An analytical overview

¹ S Subashree, ² Shankar R, ³ Dr. E Nixon Amirtharaj

¹ Assistant Professor in Commerce and Business Administration, SRM University, Vadapalani Campus, Chennai, Tamil Nadu, India

² Assistant Professor in Commerce, Dr. SNS Rajalakshmi College of Arts and Science, Coimbatore, Tamil Nadu, India

³ Assistant Professor in Commerce and Business Administration, SRM University, Chennai, Tamil Nadu, India

Abstract

Accounting standards (AS) are authoritative standards for financial reporting and are the primary source of generally accepted accounting principles (GAAP). Accounting standards specify how transactions and other events are to be recognized, calculated, presented and revealed in financial statements. The aim of such standards is to endow with financial information to investors, lenders, creditors, contributors and others that is useful in making decisions about providing resources to the entity. However, Convergence would be a challenge in view of the conflicting legal and regulatory requirements related to financial statements, the technical preparedness of industry and accounting professionals and economic environment prevailing in the country. A sample of 75 respondents comprising Chartered Accountants (CAs) and CA students in Coimbatore city, was taken into consideration using convenience sampling. The measures taken by the 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.

Keywords: ICAI, IFRS, GAAP, challenges and accounting standards

Introduction

The Institute of Chartered Accountants of India (ICAI) being a member body of the International Accounting Standards Committee (IASC) constituted the Accounting Standards Board (ASB) on 21st April, 1977, with a view to synchronize the diverse accounting policies and practices the use in India. After the acknowledged implementation of liberalization and globalization as the corner stone's of Indian economic policies in the early 1990s, and the growing concern about the need of effective corporate governance of late the accounting standards have increasingly tacit importance. While preparing the accounting standards, the ASB takes into contemplation of the applicable bylaws, custom practice and business environment prevailing in the country. The ASB also gives due concern to IFRSs/ IASs issued by the IASB and tries to incorporate them, to the extent possible in the light of circumstances and practices prevailing in India.

There is a growing international consensus on the International Financial Reporting Standards as acceptable standards for assessment of the financial health of a company across the globe. For entities, that are globally active, the differences in financial reporting requirements create extra complications in terms of preparing, consolidating, auditing and interpreting financial statements.

Statement of the Problem

The convergence of Indian Accounting Standards with those of the IFRS is a part of a kind of globalization of accounting pronouncements. Gradually, the world will see one set of accounting rules, which are seamlessly adopted by majority of the countries if not all.

However, Convergence would be a challenge in view of the conflicting legal and regulatory requirements related to financial statements, the technical preparedness of industry and accounting professionals and economic environment prevailing in the country. Based on this, the researcher has structured the following research questions:

- What are the major barriers faced by the companies while implementing IFRS?

Methodology

To assess the difficulties in implementing IFRS, a sample of 75 respondents comprising Chartered Accountants (CAs) and CA students in Coimbatore city, was taken into consideration using convenience sampling.

Review of Literature

Bartov *et al.* (2005) ^[1] in "Comparative value relevance among German, U.S. and International Accounting Standards: a German stock market perspective," assessed the value relevance of earnings produced under USA and German GAAP relative to that under IFRS, and finds that USGAAP-based and IFRS-based earnings are of higher value relevance than German GAAP-based earnings.

Thomas P Conaghan *et al.* (2009) ^[2], in their study, "SEC Proposes Roadmap for US Issuers to Switch to IFRS" showed that the SEC has published its "roadmap" for potentially requiring that US companies comply with International Financial Reporting standards rather than US Generally Accepted Accounting Standards. Companies need to begin to prepare for this significant change and its collateral consequences.

Analysis and Interpretation

In India, with very less knowledge in IFRS very few business organizations are using it to maintain their accounting records. To know the perceptions of the users about the challenges in implementing IFRS, 75 respondents were chosen namely, Chartered Accountants and CA students in Coimbatore city and their opinion were collected

Pilot study was conducted for 25 respondents and the test of reliability was also tested using Cronbach’s Alpha, which is shown in Table 1.

Table 1: Test for Reliability

Cronbach's Alpha	No of Respondents
0.670	50

Source: Computed Data

The Test for Reliability was conducted to test the reliability of the opinion towards the challenges in implementing IFRS. The result of the revealed the alpha score of 0.670

Personal Profile of the Respondents

To understand the challenges in IFRS implementation the opinion was collected from CA Professional and CA students in Coimbatore city and their Personal Profile is shown Table 2

Table 2: Personal Profile of Respondents

Profile		No. of Respondents	Respondents in %
Designation	CA Students	14	28
	ACA	18	36
	FCA	18	36
Years of experience	3-5 years	16	32
	6-10 years	28	56
	More than 10 years	06	12
Region	SIRC	50	100
Qualification	UG	09	18
	PG	13	26
	Cleared CPT (Direct CA)	08	16
	CA Final	20	40

Source: Computed Data

Table 4: Challenges in implementing IFRS in India

Challenges	SA	A	N	DA	SDA	WAS	Ranking
IFRS requires Internal process	28	34	11	2	0	4.17	2
IFRS better than IGAA	20	36	16	3	0	.96	6
IFRS requires Additional resources	25	36	12	2	0	3.81	9
Steering committee is required in IFRS implementation	25	36	6	8	0	3.76	11
Complexity of financial reporting	33	33	8	1	0	4.09	4
Need training program for employees	30	33	9	3	0	4.16	3
Incurs huge financial expense	35	32	5	3	0	4.65	1
Regulatory authorities make significant changes in laws	28	35	10	2	0	3.97	8
Fair-value method for valuation	29	32	10	4	0	3.80	10
Helps in Internal management reporting	20	36	16	3	0	3.98	7
Unbinding concept result significant changes	32	35	6	2	0	4.02	5

Source: Computed Data

Note: SA- Strongly Agree; A- Agree; N- Neutral; DA- Disagree and SDA- Strongly Disagree

As per the weighted average ranking it was found that “IFRS incurs huge financial expenses” was ranked first, then “IFRS requires internal process control” was ranked second and

In Table 2, it was found that among the respondents 36 per cent each were both ACA and FCA and 28 per cent were CA students, 56 per cent respondents had the experience between 6 and 10 years, all the respondents were from SIRC and 40 per cent respondents have cleared CA Final.

Knowledge of IFRS

As IFRS is not yet fully applied India so the survey was initiated by asking whether the respondents are aware about IFRS. The results are shown in Table 3

Table 3: Knowledge of IFRS

Questions	Respondents (in per cent)
One Accounting in World	93
Never received any training in IFRS	80
Ready to receive IFRS training in near future	87
No availability of sufficient qualified professionals to adopt IFRS in India	81

Source: Computed Data

In Table 3, it was found that among the respondents 93 per cent were aware of the term One Accounting in world is IFRS, where 80 per cent respondents never received any training in IFRS, 87 per cent respondents are ready to receive IFRS training in near future and 81 per cent respondents opined that there is no availability of sufficient qualified professionals to adopt IFRS in India.

Challenges of IFRS implementation

To know the major challenges faced by the companies while implementing IFRS in India, closed- ended form questions were asked using 5-point scale and the weights have been assigned as 5 for major difficulty and 1 for the least difficulty while implementing IFRS. Based on the scores, the ranks are assigned which are shown in Table 4.

“Need training program for employees” was ranked third, pointing out that these are major implementation challenges in IFRS implementation.

Findings of the Study

Challenges in implementing IFRS

- As per the Weighted average ranking it was found that “IFRS incurs huge financial expenses” was ranked first, then “IFRS requires internal process control” was ranked second and “Need training program for employees” was ranked the third, pointing out that these are major challenges in IFRS implementation.

Suggestions of the Study

- The challenges in IFRS adoption is “Need training program for their employees”, which can be solved by the initiating conversion of AS to IFRS, the companies have to assess the level of in-house experience/ expertise and the types of training that are needed. Thus, the implementation of IFRS would require trained accountants, auditors, valuers, etc., Therefore, seminars and workshops may be conducted for them by the Government and ICAI. Thus, India will emerge as an accounting services hub in the near future.
- Government should release more fund to educate all stakeholders with special reference to the academic staff and accounting students who will uphold the IFRS in the country in the forth coming years.

Conclusion

The measures taken by the 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. The need is to have systematic approach to make the organization and investors ready for the change and the standards ready for renovation. Indian corporate are likely to reap significant benefits from adopting IFRS. Since the cost compliance would be very high for the medium-sized industry. However, several important matters need to be addressed urgently if India hopes to achieve the planned convergence.

References

1. Bartlov E, Goldberg SR, Kim M. Comparative value relevance among German, US and International Accounting Standards: A German stock market perspective. *Journal of Accounting Auditing & Finance*. 2005; 20(2):95-119.
2. Thomas P Conaghan, Barbara A Jones, Eugene I Goldman, Marc E Rivera. SEC Proposes Roadmap for US Issuers to Switch to IFRS. *Insights; the Corporate & Securities Law Advisor*. 2009; 23(1):2-8.