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# Awareness towards the Implementation and Effect of IFRS in India

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***ABSTRACT***

*In the current era of globalisation over and above 4561 multinational companies are inaugurating their businesses in the various sectors in India. The confusion is arising in users mind because of various accounting policies and procedures adopted by various countries in preparing their financial statements. To avoid this form of inconvenience Indian economy take a step by adopting International Financial Reporting Standards in place of Indian Accounting Standards. The motive to present this paper is to study the effect of International Financial Reporting Standards encounter on Indian corporate sector: IFRS is an ornament of global accounting methodology. Now, more than 130 countries have acquired International Financial Reporting Standards and many are on the way. Many Indian enterprises having businesses in foreign lands are using International Financial Reporting Standards in preparing their financial statement, so that its implementation make their work comparable and universally applicable.*

***KEYWORDS:*** *financial statements, globalization, IFRS, Indian AS, MNCs*

## INTRODUCTION

International Financial Reporting Standards generally called IFRS are standards emerged by International Financial Reporting Standards foundations and the International Accounting Standards Board(IASB) is to present a standard language worldwide for business proceedings to make the company accounts more comparable and understandable globally. International Financial Reporting Standards was introduced by International Accounting Standards Board in order to bring cooperation among accounting in European Union due to rapid progress and various benefits are becomes more popular and attractive all over the world.

"The International Accounting Standards Board is an independent, private sector body that develops and approves IFRS." International Accounting Standards Committee (IASC) issued International Accounting Standards (IAS) between **1973** and **2001.** New International Accounting Standards Board took over the responsibility of International Accounting Standards Committee in April, **2001** to make International Accounting Standards. IFRS are the new standards developed by IASB to continue the work of developing Standards.

"International Financial Reporting Standards are the set of rules and guidelines for preparing financial statements in more easier and comprehensive way." They specify the procedure of maintaining accounts. Experts suggests that if International Financial Reporting Standards are globally adopted than they would enhance money saving and cost reduction, and also helps in investigating the problems in financial statements of the companies.

## LITERATURE REVIEW

- RONG RUEY DUH had studied "Adopting IFRS Implications for accounting Educators", in the year **2009.** The conclusion from this analysis is to implement similar Financial Reporting Standards all over the world. Acquirer determines the cost of marketable securities at the time of acquisition is measured on fair value which is their market price on that date. The conclusion comes out from this study is to get single set of Financial Reporting Standards all over the world.

- BHATTACHARJEE, conducted studied on "Problem of application and adoption of International Financial Reporting Standards in Bangladesh in the year **2009."** The main motive is to identify the impact on underlying institutions and economic factors of adoption of International Financial Reporting Standards. The study is conducted to know the problem of regarding the adoption of International Financial Reporting Standards in Bangladesh and concluded that the IFRS helps in maintaining transparency and relevancy in accounting statements.

- UDDIN {**2007}** had studied regarding the "global use and acceptance of International Financial Reporting Standards" He examined consequences against IFRS to understand the hurdles in the adoption of International Financial Reporting Standards and its usage. He believes that disclosure and measurement of financial statements become easy by implementing IFRS.

- PARAMANANAD BARODIYA concluded in their study that quality, reliability and relevancy are the main focus area of International Financial Reporting Standards to disclose information regarding new standards set by International Accounting Standards Board to all the users globally, to compare the Financial Statements of various companies and to provide more relevant information, International Financial Reporting Standards provide rules and guidelines in detailed and structured form. For the development of global economy creating harmonization in accounting standards is the major requirement. Harmonization will help in making the presentation of financial statements true and fair which potential users and investors can easily access.

- PAWAN JAIN (**2011)** conducted a study on Opportunities and challenges in the implementation of IFRS in India. For effective implementation of International Financial Reporting Standards in India, stakeholders have to take a step and have to come together as a team for making the working and functioning of International Financial Reporting Standards smooth. Auditor, Accountants, Regulators, Law makers, Directors of the firm, and Top management (each interested party) will have to cooperate in the procedure of IFRS adoption and work as a team for making its adoption smooth. Top management and Regulators should ensure the implementation of efficient monitoring system in the procedure of IFRS implementation.

- In **2013,** PA ISENMILA organise a research on the topic "Influence of International Financial Reporting Standards in capital market" and found that its adoption facilitate decision making process on investment better and favourable.

  Profitability, liquidity, leverage, growth etc. these financial measures also enhanced and become more favourable by using new standards such as International Financial Reporting Standards. Quality, transparency and timeliness of management also improve to a greater extent. This paper recommends that Government of Nigeria should boost significantly the FRCN {Financial Reporting Council of Nigeria} to make training and transitional programs so that adoption and compliance with IFRS becomes smooth.

- KAMATH and DESAI conducted study in the year **2014,** on the topic "the impact of IFRS adoption on financial activities of companies in India." This study classifies the Financial activities: 1) Debt covenant

  2) Operating Activities
  3) Investment activities
  4) Financial risk

  Basically the adoption of IFRS is viewed as the allegiance to better disclosure, which may have various influences on Indian enterprises, which is needed to be researched and thus measure the influence on economic activities due to adoption of International Financial Reporting Standards by Indian companies.

- JOYCE VAN DER LAON SMITH, SONGLAN PENG, DAVID W HARLESS, RASOUL H TONDKAR, conducted a study on the topic "Does convergence of Accounting Standards lead to the Convergence of Accounting practices?" in 2008. In this study they examine the influence of convergence of the domestic accounting standards of China with IFRS, and they evaluate three perspectives towards the convergence of Accounting practices of firms:
  - Level of compliance with International Financial Reporting Standards and Chinese GAAP{Generally Accepted Accounting Principles},
  - Consistency in accounting choices under International Financial Reporting Standards and Chinese GAAP,
  - Identification of significant variations in the net incomes generated under International Financial Reporting Standards and Chinese GAAP.

## OBJECTIVES

- to provide information about International Financial Reporting Standards in more understandable way
- to know the impact of Convergence on various sectors
- to ensure reliability in financial statements
- to study how International Financial Reporting Standards would impact the Corporate sector in India
- To identify risk and challenges in the adoption of International Financial Reporting Standards in India.

## METHODOLOGY IN THE IMPLEMENTATION OF IFRS

The methodology adopted in the procedure of adoption of International Financial Reporting Standards is understandable with the help of few steps(which makes the process of the implementation of International Financial Reporting Standards easy ) .These steps are as follows:

1. ASSESSMENT OF THE IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

It is the basic step in which, the firm will start with the evaluation of the influence of International Financial Reporting Standards adoption on the issues of reporting and accounting. The key conversion dates will identify by firm and training plan of International Financial Reporting Standards will be laid down accordingly. After putting the training plan in action, the key financial reporting standards will have to be identified by the firm. And the variation between International Financial Reporting Standards and current financial reporting standards of the firm are also identified. The loopholes in the current processes and systems will also be identified by the firm.

2. COMPOSITION FOR INTERNATIONAL FINANCIAL REPORTING STANDARDS EXECUTION

All the activities related to the process of International Financial Reporting Standards implementation are included in this step. It will start with documentation of International Financial Reporting Standards accounting manual. The firm will then reconstruct the internal reporting processes and systems. The procedure to be followed for the adoption of International Financial Reporting Standards is guided by IFRS 1, which deals with the first time execution of International Financial Reporting Standards. So, IFRS 1 also includes some exemptions for making the process of convergence smooth. These are identified and applied exemptions. Control systems are designed to ensure the consistency and accuracy, when the International Financial Reporting Standards applied. In this step the firm will reform the internal reporting process and systems which makes the process of IFRS implementation easier.

3. IMPLEMENTATION

In this actual implementation of International Financial Reporting Standards is held, firstly opening Balance sheet is prepared at the date of transition to International Financial Reporting Standards. The impact of transition due to replacement of Indian Accounting Standards by International Financial Reporting Standards is to be properly understood. This will follow the whole execution of International Financial Reporting Standards as and when needed. When International Financial Reporting Standards are implemented first time, firms experience some difficulties, so lot of training is required for the proper implementation of International Financial Reporting Standards. This step will follow the full application of International Financial Reporting Standards as and when they are required.

## MAIN TEXT

We have studied the Wipro's annual report prepared on 31st March, 2015. Wipro ltd. is one of the largest global product engineering, Business Process Outsourcing and Information Technology services company in India. Wipro limited not only focuses on information technology businesses but also make consumer products and lighting solutions for niche marketing segments. The company started business in the field of technology in 1980. In India National stock exchange and Bombay stock exchange listed its equity shares and in US, the New York stock exchange listed its shares.

In the year 2009-10, Wipro ltd. presented its consolidated financial statements according to both the standards that are Indian GAAP as well as IFRS. When consolidated financial statements prepared as per IFRS are compared with consolidated financial statements as per Indian accounting standards, many changes are seen. But to show the variation between these two statements, some ratios are selected to analysis.

After analysing consolidated financial statement of Wipro limited, following changes are noted:

- 6% decrease in total assets value due to adoption of IFRS in place of Indian AS.
- 471%increase in Net tax assets value including deferred taxes
- 17% decrease in the value of other assets
- Nearly 2% increase in the total equity of the firm
- Decrease in current liabilities by 20%
- Difference in short term provision by 96%
- Increment in current ration by 21.56%
- Decrease by 5.56% in earning per share.

We are reviewing the effect of International financial Reporting Standards 9, 15 and 16 adopted by Wipro ltd. In their Interim condensed consolidated financial statements. Here, the brief description of these three International Financial Reporting Standards adopted by Wipro ltd. is as follows:

**IFRS 9 –** FINANCIAL INSTRUMENTS

International Accounting Standards Board issued International Financial Reporting Standard-9 on 24th July, 2014, which results in replacement of International Accounting Standard-39, Financial Instrument: measurement and recognition. The standard comprises needs for measurement and recognition, derecognition, impairment. International Financial Reporting Standard -9 separates all financial assets into two parts-those measured at Fair value and those measured at amortised value. According to 75% European banks, the profit and loss volatility will increase by adoption of International Financial Reporting Standard -9, in two measurement categories the major changes seen in the consideration of own credit risk and changes towards an expected loss impairment model.

**IFRS 15 –** REVENUE FROM CONTRACTS WITH CUSTOMERS

Wipro ltd. adopted International Financial Reporting Standard-15 on 1 April, 2018 applying progressive catch-up transition technique used to contracts which were not accompanied as of April 2018. Due to adoption of International Financial Reporting Standard-15, the companies opening retained earnings is reduced by Rs. 2213, accrued revenue Rs. 26691 which are billable and classified as unbilled receivables due to passage of time. During the time period of these three months ended June 30, 2018 the adoption of International Financial Reporting Standard-15 did not show any material impact on the consolidated income statement

- **IFRS 16 –** LEASES

International Accounting standards Board (IASB) issued International Financial Reporting Standard – 16 on January 2016. The existing standard i.e. International Accounting Standard 17 leases is replaced by International Financial Reporting Standard (IFRS) 16, and all interpretation related to it are also replaced by it. Principles for the recognition, measurement, disclosure and presentation of leases are set out by this standard. It gives a single lease accounting practices. The objective of International Financial Reporting Standard (IFRS) 16 is to ensure that information provided by lessees and lesser is relevant, and it represents the transaction faithfully. Due to the implementation of International Financial Reporting Standard 16, there is an increase in leased assets and liabilities on the lessee's balance sheet.

**BENEFITS OF IFRS IMPLEMENTATION**

Many companies adopting International Financial Reporting Standards and prepare their financial statements according to Financial Reporting Standards because International Financial Reporting Standards offers huge range of benefits:

- HIGH QUALITY : If we prepare financial statements as per International Financial Reporting Standards then it gives more relevant information as compared to Indian GAAP (Generally Accepted Accounting Principles), which provides quality information to all the users of financial statements.
- MAKING COMPARISON EASIER: Consistent financial information can be obtained by preparing accounts as per International Financial Reporting Standards, Thus it makes process of comparison of financial statements among two companies/countries easier.
- PRECIOUS DECISIONS: If companies prepare financial reports/statements on the basis of International Financial Reporting Standards, then this helps in taking valuable decisions by managers and investors for business purposes. It provides a way to take decisions effectively, efficiently and timely.
- COST DEDUCTION; The main motive to implement International Financial Reporting Standards globally is to make the work of Multinational companies easier by providing them a single set of standards (i.e. International Financial Reporting Standards) instead of preparing accounts in two different standards that is according to domestic country standards as well as

foreign country standards( where they have businesses), thus, implementation of IFRS globally helps in reducing the wastage of money as well as time.

- MAKE WORLDWIDE SHIFTING OF ACCOUNTING STAFF EASIER: If companies use International Financial Reporting Standards to prepare Financial Statements than they can easily shift their accounting staff globally, because there is no change in the methodology of preparing accounts due to International Financial Reporting Standards adoption.

**CHALLENGES IN THE CONVERGENCE OF DOMESTIC STANDARDS WITH IFRS**

Due to various benefits, the law makers and regulators have realized the requirement of International Financial Reporting Standards, many challenges arises. Some of these are as follows:

- DIFFERNCE IN METHODOLOGY: There are huge variations in the methods of preparing financial statements according to Indian GAAP and IFRS. So these variations become the challenge for the users of financial statements.
- REQUIRE SPECIALISED KNOWLEDGE: To prepare financial statements as per International Financial Reporting Standards, the accountants have to be specialized and require lot of training for implementing IFRS.
- LEGAL OBLIGATIONS: In India, if companies want to record transactions as per International Financial Reporting Standards. Then they have to fulfil many legal formalities that become a challenge for these companies.
- SME's CONCERNS: Limited resources and insufficiency of expertise in Small Manufacturing Enterprises create hurdles in adoption of IFRS as they are not capable to implement these financial reporting standards properly.
- NOT ACCEPTED GLOBALLY: as some countries are not ready to implement International Financial Reporting Standards due to high cost, so they denied accepting, i.e. US has not yet implemented IFRS.

## CONCLUSION

Based on the data review it can be concluded that to comply with global reporting enactment, International Financial Reporting Standards is the need of Indian corporate sector for standing in global market and to make them competent enough. After analysing the consolidated financial statement of Wipro, it can be seen that there is a tremendous effect of International Financial Reporting standards; it proves to be beneficial for the companies. It helps in the economics and financial development of the company. Convergence of IFRS in place of Indian GAAP will bring awareness among Stakeholders {shareholders, creditors, directors, government, suppliers, employee, union and the community from the business draws its resources} and also helps in maintaining stability in financial statements. International Financial reporting standards should be made a mandatory part in the academic modules. IFRS provides a standard Performa of financial statements and thus the confusion can be easily removed related to preparation of financial statements. There are unpredictable variations in earnings by adopting International Financial Reporting Standards; it is due to fair value accounting system. It is expected that if Indian enterprises adopt International Financial reporting Standards then it will enhance financial reporting transparency, making reporting of transactions consistent and also increase global competition. By adopting one financial language, the audit costs and preparation time will also be reduced. It will enforce International investors to invest in Domestic companies and thus inflow of foreign capital in the country. Outcomes of this paper supports that a strong execution of reporting standards. Enhance transparency of investors as well as increase the market position of the adopters.

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