

## **IFRS CONVERGED IND AS IN INDIA - AN ANALYSIS OF BENEFITS AND CHALLENGES**

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### **Abstract:**

Uniformity in accounting records is more necessary as it helps each one to understand all accounting records. Hence, the global set of accounting standards emerging today to show the uniformity in representing financial statements. Modern economies rely on the international transactions with free flow of capital in the international market business firm hunt for diversification and investment opportunities across the border to raise capital to engage in international operations as well as subsidiaries in other countries previously. Such cross country comparison was complicated as each country maintains their set/format of accounting standards. Accounting is a very dynamic profession that is constantly adapting itself to varying needs of its users. Accounting is the analysis and interpretation of book keeping records and also the preparation of financial and economic information which involves the measurement of transactions and other events relating to the entity. The Data requires for the study has been collected from various sources, primary data required for the study has been collected by distributing structured questionnaires to the respondents and also by interacting with them. The study is descriptive in nature and also based on secondary data. The data has been collected from internet by exploring the secondary sources available on the websites. Analysis of the data done with the support of MS excel software, tables, charts, percentages, diagrams, graphs etc. Formed hypotheses have been tested with the help of correlation and regression. To collect data required for the study a total number of 120 respondents have been selected using convenient sampling technique to know the responses regarding IFRS converged Indian accounting standard and its benefits and challenges.

**Key-words:** IFRS, Ind AS, ICAI.

### **Introduction:**

Accounting is often called the language of business because the purpose of accounting is to communicate or report the result of business operation and its various aspects to various accounting information users. Accounting is a very dynamic profession that is constantly adapting itself to varying needs of its users. Accounting is not only the analysis and interpretation of bookkeeping records, but also the preparation of financial and economic information which involves the measurement of transactions and other events relating to the entity. We can also say that accounting is a science of keeping the business records regularly and most systematically to know business results with minimum trouble. Therefore, it is said to be the statistical procedure for the collection, classification and summarization of financial information.

Now a day's the uniformity in accounting records is more necessary, it helps each one to understand all accounting records. Hence, the global set of accounting standards emerging today to show the uniformity in representing financial statements. Modern economies rely on the international transactions with free flow of capital in the international market business firm hunt for diversification and investment opportunities across the border to raise capital to engage in international operations as well as subsidiaries in other countries previously such cross country comparison was complicated as each country maintains their set/format of an accounting standard. This hodgepodge of accounting requirement often increases cost complexity and risk to companies IFRS standards deals with this confront by providing a set of accounting standards of high quality as well as international acceptable which will also bring accountability and efficiency to the financial market of the world.

## **IFRS**

International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standard Board (IASB) that is becoming the global standard for the preparation and disclosure of public company financial statements. IFRS, being a single set of worldwide standard simplified accounting procedures by allowing a company to use one reporting language that will be recognized globally. The process of implementation of IFRS started in the year 2000 at the European Council meeting held on 23/24 march 2000. European Union mandated the adoption of IFRS for listed entities from 1<sup>st</sup> January 2005. Certain other countries have announced their intention to follow IFRS from future dates. These globally accepted set of accounting regulations should now get better promises in India.

## **Ind-AS**

IFRS is now becoming universally accepted reporting language of accounting standards. In these swing of global trend, the government of India declared the convergence of accounting of the Indian accounting standards with IFRS. Convergence can be considered “to design and maintain national accounting standards in a way that financial statement prepared by national accounting standards draw an unreserved statement of compliance with IFRS”

On 16<sup>th</sup> February 2015 ministry of corporate affairs announced a new road map for implementation of new accounting standards (Ind AS) which effect from 1<sup>st</sup> April 2015 as a voluntary basis and from 1<sup>st</sup> April 2016 as mandatory. Indian accounting standards are prescribed under section 211(3C) of the companies act 1956. MCA issues 39 accounting standards as been notified in a way to convergence with the globally and accepted IFRS.

## **Literature review:**

**Dr.Mukti Bapna (2017)** has made a study on “**A study of IFRS and its adoption in India”- prospect and challenges**”. The research paper explained the applicability of IFRS's upcoming challenges and its adoption in India and also discussed the implementation and prospects of Ind-AS. The author has clearly explained the overall roadmap about Ind-AS and adoption in India and they identify challenges regarding the cost of convergence, lack of education IFRS fair value principles etc. and they suggested some factors regarding the adoption of Ind-AS relief from tax policies, proper feedback compulsory adoption and theoretical training regarding Ind- AS preparation. Finally, there is a crucial need to deal with the challenges and working towards full adoption of IFRS by implementing the roadmap in India. Adoption of IFRS helps to a mutual international understanding about corporate target financial reporting, target these factors help to the development of the economy.

**Indiael DanielKaaya, Abdual Noorbasha (2017)** has made a study on “**Applicability of IFRS converged Ind-AS in India: benefits, challenges and must do reflection**”. The study is purely based on desktop and library research methodology. The research paper has dealt with adoption of IFRS and related implementation challenges. The paper reveals that the IFRS leads to increased credibility and understandability of financial statements domestically and across the border. IFRS brings about enhanced competitiveness of local companies and consequently bringing the company to the global market and more importantly facilitate efficient allocation of resources. Finally, the paper concluded that the benefits of IFRS convergences are real but automatic.

**Parvathy P R (2018)** carried out a research titled “**IFRS convergence: opportunities and challenges in India**”. The main focus of the study was opportunities and challenges or problems faced due to convergence of IFRS with Indian Accounting Standards. The study is also organized with different sections such as the need for convergence, need for single globally accepted Accounting Standards also. The author made a study on advantages of convergence of IFRS in India, The advantages she majorly discussed are; better access to global capital markets, the better

quality of financial reports, elimination of multiple reporting, global comparability, investment, etc., and the major challenges are training, awareness, etc. Here the author mainly discussed the advantages and challenges faced due to convergence. Even though she discussed the awareness, she didn't suggest measures that can be taken to improve the awareness and simplification of Ind-AS in this study.

**Neha Bajaj et.al., (2019):** has made a study on “**Adoption of international financial reporting standard in accounting curriculum in India**”. The present study is an attempt to examine the impact of extent of introducing IFRS in the accounting curriculum and its learning outcomes. The proposed research has established that there is an exigent need for IFRS adoption to be introduced in the field of Indian accounting curriculum since most of the students are not aware of IFRS which is significant to bring about a change in the recording of financial statement as per the global need. The findings of the research study revealed that though the knowledge of IFRS is essential to use in business terminology for both accounting and non-accounting operations and present a valuable contribution in the existing field of accounting curriculum, but the success is purely dependable on efficient training of instructions and interest of stakeholders concerned.

### **Objectives of the study**

- To inspect the benefits of Ind –AS and its adoption.
- To know the opportunity and challenges of convergences to IFRS.
- To study the impact of IFRS convergences on Indian accounting system.
- To draw the suggestion based on the findings of the study.

### **Hypotheses of the study**

- There is no significant relationship between convergence of IFRS with IND AS and overall company's performance.
- There is a significant impact of IFRS convergence on Indian Accounting System.

### **Data and methodology**

The Data required for the study has been collected from various sources; primary data required for the study has been collected by distributing structured questionnaires to the respondents and also by interacting with them. The study is descriptive in nature and also based on secondary data. The data has been collected from internet by exploring the secondary sources available on the websites. Analysis of the data has been done with the support of MS excel software, tables, charts, percentages, diagrams, graphs etc. Formed hypothesis tested with the help of correlation and regression. To collect the data required for the study, a total number of 120 respondents have been selected consisting of 60 commerce postgraduate students, 40 faculties from commerce stream, 10 auditors and 10 investors. Convenient sampling technique has been used to draw the sample and to know the responses regarding IFRS converged Indian accounting standard and its benefits and challenges.

### **Results and discussions**

**Table 1: Reasons for Implementation of Ind AS**

SL No	Particulars	Rank					
		1	2	3	4	5	6
Transparency	Respondents	40	36	12	8	10	14
	Percentage (%)	33.33	30	10	6.67	8.33	11.67
Comparability	Respondents	12	14	38	24	20	12
	Percentage (%)	10	11.67	31.67	20.00	16.67	10
Investment	Respondents	14	30	26	26	12	12

opportunity	Percentage (%)	11.66	25	21.67	21.67	10	10
Mandatory	Respondents	12	8	22	2	24	52
application	Percentage (%)	10	6.67	18.33	1.67	20	43.33
Corporate	Respondents	8	24	18	36	24	10
Governance	Percentage (%)	6.67	20	15	30	20	8.33
Uniformity	Respondents	32	8	4	14	36	26
accounting	Percentage (%)	26.67	6.67	3.33	11.67	30	21.67

(Source: Primary source)

The above table shows the respondents opinion about the reasons for implementation of IND AS, majority (33.33%) of the respondents ranked 1 for the transparency reason behind IND AS implementation, and ranked 3 for comparability benefit, followed by 30% ranked 5 for corporate governance, 26.67% ranked 1 for the reason of uniformity in accounting. However for the reason of mandatory application majority 43.33% ranked 6 as it is still except for few companies from its implementation.

**Table 2: Benefits of IND AS Convergence with IFRS**

Particulars	Not at all		Somewhat		Neutral		Much		Very Much	
	NR	%	NR	%	NR	%	NR	%	NR	%
Ind AS would simplify the process of preparing the individual and group financial statements	8	6.67	6	5.0	22	18.33	52	43.33	32	26.67
Ind AS improve analysis of information for decision making	8	6.67	10	8.33	18	15.0	50	41.67	34	28.33
Better inter-company comparison of financial statement	2	1.67	10	8.33	28	23.33	30	25.0	50	41.67
Ind-AS brings better corporate governance	2	1.67	14	11.67	30	25.0	36	30.0	38	31.67
Ease in using consistent reporting standard for subsidiaries from different countries	10	8.33	12	10.0	42	35.0	32	26.67	24	20.0

(Source: Primary source)

The above table shows opinion of respondents about the benefits of IND AS convergence with IFRS, Out of total 120 respondents majority (43.33%) of the respondents opined there are much benefits as IND AS would simplify the process of preparing the individual and group financial statements, 43.67% opined IND AS improves the analysis of information for better decision making, and also facilitate better inter-company comparison of financial statements and 31.67% opined that IND AS will bring better corporate governance.

**Table 3: Challenges due to IND AS Convergence with IFRS**

SL No	Particulars	SA NR	%	A NR	%	N NR	%	D NR	%	SD NR	%
1	Immediate changes in accounting policies and Practices	46	38.33	42	35	16	13.33	10	8.33	6	5
2	Inadequate training facilities	24	20	48	40	36	30	8	6.67	4	3.33
3	Increased therisk of errors and omissions	26	21.67	46	38.33	32	26.67	14	11.67	2	1.67
4	increases tax burden to companies	20	16.67	30	25	36	30	22	18.33	12	10

(Source: Primary source)

The above table indicates the challenges faced due to the convergence of IND AS with IFRS. Out of total 120 respondents, majority (40%) of the respondents agree that due to IND AS convergence, inadequate training facilities lead to chaos among the practitioners, 38.33% opined convergence lead to immediate change in the accounting policies and practices and increased the risk of errors and omissions.

### **Hypotheses Testing:**

#### **Hypothesis: 1**

- $H_0$ : There is no significant relationship between convergence of IFRS with IND AS and overall company's performance.
- $H_1$ : There is a significant relationship between convergence of IFRS with IND AS and overall company's performance.

**Table 4: Correlation test (Convergence and Performance)**

	Convergence	Performance
Convergence	1	0.28546
Performance	0.31299	1

Source: MS Excel

From the above data of correlation between the convergence of Ind AS with IFRS and performance of company, it was found that the relation between Performance (0.31299) and convergence is (0.28546) which indicates that there is a positive correlation. Both the variables change in the same direction. This denotes rejection of  $H_0$  hypothesis and acceptance of  $H_1$  which clearly indicates that there is a significant relationship between convergence of IFRS with IND AS and overall company's performance.

#### **Hypothesis: 2**

- $H_0$ : There is no significant impact of IFRS convergences on Indian Accounting System.
- $H_1$ : There is a significant impact of IFRS convergences on Indian Accounting System.

**Table 5: Regression Test**

<b>Regression Statistics</b>	
Multiple R	0.31299313
R Square	0.097964699
Adjusted R Square	0.076487668
Standard Error	8810.654714
Observations	120

<b>ANOVA</b>	<b>DF</b>	<b>SS</b>	<b>MS</b>	<b>F</b>	<b>Significance F</b>
Regression	1	354088424.1	3.54E+08	4.561371	0.038575362
Residual	118	3260360732	77627636		
Total	119	3614449156			

	<b>Coefficients</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>P-value</b>
Intercept	45253.42912	1357.599607	33.33341	7.66E-32
Impact	-0.103681367	0.048545953	-2.13574	0.030337

Source: MS Excel

Regression analysis was used to determine the strength of impact of IFRS convergences on Indian Accounting System. Based on the above result it was found that the R square value is 0.097964699 with total observation of 120 numbers and significant p value is 0.030337 which is less than 0.5 indicate the null hypothesis is rejected and alternative hypothesis got accepted and concluded that there is a significant impact of IFRS convergences on Indian Accounting System.

### **Findings of the study**

- Most of the respondents opine that further improvements should be made in the context of Ind AS such as simplifications of standards, simplified procedure and formalities, and proper guidelines for effective implementation.
- All most all respondents agreed that Converged Ind AS is better than adoption. Because it exceeds entity obligation and suits for developing the country's economy.
- Majority of the respondents' opine that Ind AS aim to maintain uniformity in accounts and helps to prepare a standardized financial statement.
- Most of the respondents opine that Ind AS help the investors to analyse risk, return and take better financial decisions.
- Majority of respondents opine that after Ind AS application in the accounting affairs, company will maintain uniformity and consistency in its financial report.
- Preparations of a financial statement under Ind AS have certain challenges such as immediate changes are required in rules and regulation, complexity in operations of financial statement, need for training, communication of impact, and more work and burden on accounts.
- There is a significant relationship between convergence of IFRS with IND AS and overall company's performance.
- There is a significant impact of IFRS convergences on Indian Accounting System.

### **Suggestions**

- As Ind AS is an emerging issue that is applied in the preparation and presentation for financial statements, there must be a need for the creation of awareness.
- As awareness regarding Ind AS is very much needed. So awareness should be created



effectively through training, conducting seminars and workshops on Ind AS.

- There is a need for further improvement in the context of Indian accounting standards which are necessary for the preparation and presentation of FSs. In this context, timely steps to be taken to ensure regular amendments in the existing laws.
- Each interested party, namely top management and directors of the firm, independent auditors and accounts, and lawmakers will have to come together to work for smooth adoption of Ind AS by firm.
- ICAI should play an advisory role in the adoption of Ind AS by firm.

### **Conclusion**

The world is in fast growing phase. Hence, we need some advanced treatment for problems of accounting and finding suitable solutions. The Ind AS are required for fair valuation of assets and financial instruments for bringing transparency between book value and fair value. The challenges arise that it will be a hectic work for a company to compute the fair value of assets. The Ind-AS will improve the disclosure and provide additional information about the rated company's financial reports. Hence, the regulatory bodies should take measures to create awareness regarding Ind AS among stakeholders which helps understand the financial reports of the firm and in taking an investment decisions. Looking at the present scenario of the world economy, adoption of Ind AS in preparations of financial statements by the business is more beneficial because many Indian companies have their business in foreign countries also. Therefore, preparations of financial statements as per Ind AS will be helpful to them to have a single comparable report around the world and also save the cost incurred in the maintenance of dual accounting report.

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