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IFRS- Challenging and Opportunities in Global Accounting

by **Krishna Kumar,** *Associate Professor,*
Faculty of Commerce,
D.A.V. P.G. College, Siwan - 841226, India
(J.P. University, Charpa)

Abstract :

In the present era of globalization and liberalization the world has become an economic village. A number of multinational companies are establishing their business in emerging economies and are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside their own country. Such environment requires uniform accounting standards for global business. To deal with such issues, one global accounting standard for reporting financial statement i.e. IFRS was developed. During the switch over phase from local GAAP to IFRS companies will have to modify their accounting system and processes as well as provide comparative financial information between their previous GAAP and their new IFRS compliant report. The main aim of IFRS standards are bring Transparency, Accountability and Efficiency to financial report around the world. This article examines the IFRS challenges & opportunities in Global Accounting.

Keywords : International Financial Reporting standards, Indian Accounting Standards

Introduction :

IFRS consist of a set of accounting rules that determine how transactions and other accounting events are required to be reported in financial statements. They are designed to maintain credibility and transparency in the financial world, which enables investors and business operators to make informed financial decisions. The IFRS establishes accounting standards and practices that every company adhering to it must observe. It is a rule book that must be followed while recording business transactions in the books of accounts. Also, as it yields transparency and consistency in financial reporting, governments use it to regulate direct and indirect foreign investments. It is accepted worldwide as it facilitates the free flow of capital. In other world, only U.S investor will be more confident to invest, in suppose, an Indian company after scrutinizing it financial records prepared in conformity with this accounting standard. Various nations across the globle are pursuing convergence of their national accounting standard with International Financial Reporting Standards. It is very imperative to have a single globally accepted financial reporting system since a number of multinationals companies are engaging in cross-border business transaction. They are getting them selves listed on stock exchanges of different countries. Capital markets are thus becoming integrated.

IFRS stands for International Financial Reporting Standards, formerly known as International Accounting Standards (IAS) are the Standards, Interpretations and frame work for the preparation and presentation of financial statements developed by the International Accounting Standards Board (IASB) earlier known as International Accounting Standard Committee (IASC) as an Independent body. On April 1st 2001, the new IASB took over the responsibility of setting International Accounting Standards from IASC. It has since then continued to develop standards called as the new Standards IFRS. International financial reporting Standards is designed as a common global language for business affairs, so that Company accounts are under standable and Comparable across international boundaries. They are a consequence of growing international shareholding and trade. The IFRS is particularly important for companies that have dealing in several countries. They are progressively replacing the many different national accounting standard. The IFRS began as an attempt to harmonize accounting across the european union, but the value of harmonization quickly made the concept attractive around the world. This was significantly noticed in 2005 when european union officially adopted IFRS and made it mandatory for certain class of companies to report consolidated financial statement in conformity with IFRS w.e.f. January 1, 2005. However many Companies in Europe and Asia, before 2005, were allowed to adopt International Accounting Standard (IAS) as substitute to their local GAAP (Generally Accepted Accounting Principles) but such adoption was not mandatory. But it was legally adopted by EU in 2005 only that led other countries with developed capital markets to adopted or move towards the convergence of National Accounting Standard with the IFRS for financial reporting purpose. The objective of IFRS is to make international comparisons as easy as possible. It will benefit the accounting profession in a way that they are able to render their expert services in different countries. IFRS created to establish a common language so that Financial Statements can easily be interpreted from company to company and country to country. At present, IFRS has complete profiles for 167 jurisdictions and countries worldwide including the european union.

Beginning from 1st April 2011, Companies listed in National Stock Exchange (Nifty 50), Bombay Stock Exchange (Sensex 30), Companies whose stocks are listed outside India and Companies which are listed or not but which have their net worth exceeding ₹1000 Crores are required to carry out the convergence of Indian Accounting Standard with IFRS. Reliable, Consistent and uniform financial reporting is an important part of good corporate governance practices worldwide in order to enhance the credibility of the business in the eyes of investors to take informed investment decisions. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in the Ministry of Corporate Affairs through wide ranging consultative exercise with all the stakeholders. Thirty Five Indian Accounting Standards converged with International Financial Reporting Standards was notified by the Ministry of Company Affairs of India.

Challenges In The Process of Adoption of IFRS :

There are several challenges that will be faced on the way of IFRS :

- **Awareness of International Financial Reporting Practices :**

Adoption of IFRS means a complete set of different reporting standards have to bring in. The awareness of these reporting standards is still not there among the stakeholders like Firms, Banks, Stock exchange, Commodity exchanges, etc. To bring a complete awareness of these standards among these parties is a difficult task.

- **Training :**

Lack of training and academic knowledge in IFRS is a challenge as far as Indian economy is concerned. Thus, adequate training should be given to the stakeholders such as chief financial officers, auditors, tax authorities. Then only it can be uniformly understood and consistently applied.

- **Amendments to the Existing Laws :**

In order to adopt to IFRS, we need to amend our existing rules and regulations. As Indian accounting practices are governed by the companies Act 1956 and now by the Companies Act 2013, Income Tax Act 1961, RBI Act, etc. Which are different from IFRS adequate changes must be made in order to follow IFRS. Thus, legal constraints are major challenges would be faced.

- **Use of Fair Values as Measurement Base :**

IFRS uses fair value to measure majority items in financial statements. The use of Fair value Accounting can bring a lot of Volatility and subjectivity to the financial statements. Thus fair value results in gains or losses which are reflected in the Income statements and valuation is reflected in Balance Sheet. Indian corporate world which has been preparing its Financial Statements or Historical cost. Basis will have tough time while shifting to fair value accounting.

- **Financial Reporting System :**

In India, financial reporting is done according to standards issued by Institute of Chartered Accounts of India (ICAI). We need to amend the same to suit the requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segments disclosures, related party transactions, etc.

- **Taxation :**

The implementation of IFRS will change the structure and methods for preparing financial statement and are bound to change the tax liabilities. For example : In India, there is no change in Indian tax laws with respect to the implementation of IFRS, as the tax authority uses Tax Accounting Standards for the purpose of taxation. Although enough changes are made to recognise the IFRS converged Indian Accounting Standards. A complete change in the structure will pose a serious challenges for Indian authorities.

- **SME Concerns :**

Scarcity of resources and lack of expertise with SME (Small Manufacturing Sector) act as a barrier for the process of convergence to IFRS. As far as SME are concerned, cost would surpass its benefits as a result of convergence with the IFRS. Hence, it acts as a challenge.

- **Change in IT Systems :**

Financial Accounting and reporting system must be able to produce robust and consistent data for reporting. The systems must be capable of capturing new information required for disclosure such as fair values of financial instruments, related party transactions, Segment information, etc.

- **Integration with GAAP :**

Replacing GAAP with IFRS, it is a debating Subject. There are a lot of controversies going on integrating GAAP with IFRS. In the world of accounting, a convergence of GAAP along with IFRS impact :

- Corporate Management
- Investors
- Stock Markets
- Accounting professionals and accounting standard setters.

As GAAP is being rule-based and IFRS being principle-based, this difference has posed a challenge in -

- Consolidated Statements
- EPS calculation and development costs.

Thus, IFRS has many challenges which make if difficult to adoption.

Opportunities of IFRS :

Economies across the globe have benefitted by adopting IFRS for financial reporting purposes. Some opportunities of IFRS are following :

- **Better Access to Global Capital Markets :**

During the last decades, India has emerged as a strong economy on the global economy map. As a result of global expension, or so called globalization, along with the growth and expension, of course, they need funds from cheaper sources. Convergence to IFRS helps Indian firms to procure capital from abroad.

- **Easier Global Comparability :**

As we know IFRS are becoming the global language for financial reporting. With the adoption of IFRS by Indian firms the Comparison becomes easier. Investors, Bankers, Lenders and other Stakeholders also find it easy to compare the two financial statements following same reporting procedure. Indian Companies in the process of raising funds from overseas Capital markets have to provide financial result to interested parties.

- **Easy Cross Border Listing :**

As Indian firms acquire funds for their major expansion plans from outside the boundaries of India, it is imperative for them to follow IFRS. Thus by following IFRS it becomes easier for the Indian Companies to list abroad.

- **Elimination of Multiple Reporting Standards :**

Large business entities will have their subsidiaries registered in India as well as outside. Firms in India prepare their accounting according to Indian

Accounting Standards where as those registered in foreign countries have to prepare accounting according to financial reporting standards of these countries. Convergence of IFRS ensures elimination of multiple financial reporting by these firms by following a single set of International Financial Reporting Standards.

- **Better Quality of Financial Reporting :**

IFRS are high quality, understandable, enforceable and globally acceptable accounting standards. Adoption of IFRS will result in better quality of financial reporting due to the consistent application of Accounting principles and thus improves the reliability of the financial statements.

- **Elaborated Guidance :**

IFRS reporting provides elaborated guidance on the procedures to apply principles given in standards in varied situations.

- **Wider Acceptability :**

IFRS reporting is accepted globally. The financial statements prepared as per IFRS are widely accepted in all the countries.

Conclusion :

On the above discussion, we can say that the switching over to IFRS is a major challenges but it is also an opportunity for audit firms to review their programs, procedures and practices to make them more effective and efficient. Like any major shift, the change over will not be easy and will require considerable resource of time. To have greater transparency and uniformity, a company has to ensure high quality corporate financial reporting, maintain records and report expenses and revenues. We need a common accounting language that can be easily understood by shareholders and investors worldwide. Convergence of IFRS across the globe, will of course ensure greater credibility in the International Capital market. The process of convergence has been making a slow but steady progress in India and is expended to have a common set of high quality standards in adoption. There are several challenges that we came across which converging of IFRS but the benefits from the same are worthier than that of its challenges. It is overjob as auditors to be acquire all the necessary knowledge and skills and be prepared.

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