

Ifrs – problems and challenges in first time adoption essay sample



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Trust and transparency led to a discussion of the fundamental purpose of financial reporting. Consistent, comparable and understandable financial information is the lifeblood of commerce and making investment. In India the Institute of Chartered Accountants of India (ICAI) has decided to adapt IFRS for accounting periods commencing on or after April 1, 2011. This paper deals with the Problems and Challenges faced in the process of convergence in Indian perspective and measures taken to address the challenges.

1. 1 Introduction:

India today has become an international economic force. To stay as a leader in the international market, India opted the changes it need to interface Indian stakeholders', the international stakeholders' and comply with the financial reporting in a language that is understandable to all of them. The International Financial Reporting Standards (IFRS) aims to make international financial reporting comparisons as easy as possible because each country has its own set of accounting rules. It is a set of international accounting and reporting standards that will help to harmonize company financial information, improve the transparency of accounting, and ensure that investors receive more accurate and consistent reports.

1. 2 Objectives of the Study:

1) To study the Problems and Challenges faced by Indian Companies in the process of Convergence to IFRS. 2) To focus on the Measures taken to address the Challenges.

1. 3 Methodology:

For the purpose of the present study, mainly literature survey and secondary data has been used. The required secondary data was collected from the authorized Annual Reports and Official Website of ICAI and IFRS, various <https://assignbuster.com/ifrs-problems-and-challenges-in-first-time-adoption-essay-sample/>

Journals and Research Papers, diagnostic study reports and newspaper articles have been surveyed in making this study.

1. 4 Problems And Challenges:

Despite several benefits as may be looked out by the different people, there will be several challenges that will be faced on the way of IFRS convergence.

1. Difference in GAAP and IFRS:

Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep rooted. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

2. Issue of GAAP Reconciliation:

The Securities Exchange Commission(SEC) laid out two options in its proposal-one calling for the traditional IFRS first-time adoption reconciliation, the other requiring that step plus an on-going unaudited reconciliation of the financial statements from IFRS to U. S. GAAP. Clearly the second one is a more costly approach for companies and for investors.

3. Training and Education:

Lack of training facilities and academic courses on IFRS will also pose challenge in India. There is a need to be educated on IFRS and its application. Charles Noski, former chief financial officer and Vice Chairman of the Board of AT&T Corporation and a former Deloitte & Touche partner noted that “ Educating 100, 000 employees on how they must do their business is not a trivial activity,”

4. Legal and Regulatory considerations:

Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory. 5.

Taxation:

IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS. 6. Fair value Measurement:

IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.

7. Re-negotiation of Contract:

The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP. 8. Reporting systems:

Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc. 1. 5 Measures

Taken To Address the Challenges:

1) For changes required in rules and regulations of various regulatory bodies, draft recommendations have been placed before Accounting Standard Board. 2) The ICAI issued 30 interpretations of accounting standards, with a view to resolve various intricate interpretational issues arising in the implementation of new accounting standards. 3) Guidance notes have been issued by ICAI for providing immediate guidance on accounting issues. 4) To facilitate discussions at seminar, workshops, etc., ICAI has issued background material on newly issued accounting standards. 5) For the purpose of assisting its members, the ICAI council has formed an expert advisory committee to answer queries from its members. 1. 6 Conclusion:

The measures taken by 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 a systematic approach to make the organization and the investors ready for the change and the standards ready for renovation. Corporatist need to gear themselves for constant updating and not only for the first time adoption.