Needs of ifrs education in india

Education

Needs of IFRSEducationin India Prepared By Dr. Atul Bansal, Principal , M. Com. , LL. B. , PM&IR, M. B. A (Fin.), Ph.

D. , MIAA, MICA C. Z. Patel College of Business and Management (S. P. University), Vallabh Vidya Nagar – 388120. Distt.

Anand (GUJARAT) Mobile : 09377023808 Fax : 02692-236700 e. mail : dr. com Introduction “ In the age ofglobalizationIndia insulates itself from development taking place worldwide and it is imperative for us to make a formal strategy for convergence with IFRS to harmonize with accounting standards accepted worldwide. The global trend towards IFRS represents a significant change and opportunity for many investors, companies and capital market. IFRS a global set of accounting standards may provide benefits such as greater transparency and comparability of financial information across countries. As companies compete globally, the movement towards IFRS is rapidly becoming one of the most important issues for companies to address today.

Starting April 1, 2011, India has made it mandatory for every listed company to adopt International Financial Reporting Standards or IFRS. One year is a very short time when it comes to a major overhaul of the accounting process. Currently, India has an extremely limited pool of resources that have any form of training or experience in IFRS. To broaden the pool of trained resources, it is important to incorporate IFRS training in colleges, universities, and the professional accounting syllabus of the ICAI. Initiative by individual institutions to come up with the task of providing training and expertise in IFRS will also go a long way as it’s a big task and ICAI alone will

not be able to bridge the gap. This paper throw lights on importance and need of IFRS education in India, the extent to which IFRS are recognized around the world and explore the possibilities of implementing IFRS in the Indian Keywords: IFRS, Accounting, Research, Purpose, Applicability, Education, IASB, ASB, Consideration, Convergence, Access, Design, Implementation International Financial Reporting Standards (IFRS) is a set of accounting standards, developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements. The IASB is an independent accounting standards body, based in London.

Importance of IFRS While converting to IFRS is a complex process, these standards have important and positive implications for organizations and individuals that adopt them. For companies: Reduced cost of capital and the ease of using one consistent reporting standard from subsidiaries in many different countries. For investors: Better information for decision making, leading to broader investment opportunities. For national regulatory bodies: Better information for market participants in a disclosure- based system. The Purpose of IFRSToday businesses are crossing their national boundaries, promoting the synchronization of accounting standards across the globe. The objective behind the IFRS is to create a common platform for better understanding of accounting, internationally. By adopting IFRS, a business can present its financial statements on the same basis as its foreign competitors, making comparisons Wider Applicability Furthermore, most jurisdictions that report under IFRS, including the EU, mandate the use of IFRS only for the listed companies.

However, in INDIA, IFRS would apply to a wider group of entities than their international counterparts. This is primarily because of a large number of private enterprises getting covered under the size criteria, based on their turnover and/or their borrowing. Companies also may need to convert to IFRS if they are a subsidiary of a foreign company that must use IFRS, or if they have a foreign investor that must use IFRS. It’s Time to Learn IFRS ICAI has announced convergence to IFRS by 2011 which is not far away, since firms would need to start preparing themselves right now to adopt this change. It is time to prepare for the change, which will bring substantial and significant business transfiguration. European Union 2005, Brazil 2010, Canada 2011, India 2011, Russia Undecided, Australia 2005, Israel 2005, New Zealand 2005 Conversion to International Financial Reporting Standards (IFRS) The adoption of IFRS compliant accounting standards in India will, among other things, allow Indian companies greater access to international capital markets. However, IFRS adoption is not without its challenges.

For instance, companies that have already adopted IFRS have had to enhance their systems and processes to generate the requisite amount of information that is necessary for IFRS reporting. In addition, education and training are important for the company’sfinanceas well as general management staff. But perhaps the biggest challenge today is that of educating finance professionals so that they can reconstruct the global economy while adding value to their organizations. Need of IFRS Education ICAI, CII, C. Z. P. C.

B. M and many private bodies are conducting IFRS awareness program through Seminars and Presentations and it is making the companies aware

of the compulsion to prepare for the inevitable and how it is going to help. We believe that IFRS expertise demand could be fulfilled only through dedicated IFRS trainings and diplomas that equip finance professionals/ students with all necessary skill set required. “ An IFRS Degree and Diploma holds great significance in a professional’s resume today. IFRS transition is a good opportunity for finance professionals in India as it holds a big business opportunity in the country and abroad. And as the norm is going to become a mandatory feature for Finance companies to adhere from 2011, the importance of professionals with an IFRS diploma will increase manifold. It will certainly act as a great tool to select the best professionals from the world of finance, thereby giving a major boost to the industry as a whole”.

Many Indian companies have still not started investing time and efforts on the implementation of this transition process considering the overall lack of clarity on several key aspects. However, as this clarity emerges and the deadline draws closer, consultants expect to see a lot more companies working on implementing the changes and increasing their internal readiness through technical up gradation, process and technological changes which in urn should translate into a greater demand for IFRS expertise. “ IFRS transition in Europe, Canada, South America and Asian countries including India is creating huge requirements of people having good understanding of IFRS. A person with IFRS expertise will prove to be a valuable resource having an excellent job opportunity”, opined Abhishek Asthana, Chartered Accountant and member of ICAI. Adoption of IFRS by a number of listed companies by 2011 would result in a significant demand for IFRS resources. Substantially, all of these resources would need to be generated internally by

training existing staff. So, Finance professionals and students should definitely gear up and focus on getting their hands on IFRS expertise to widen opportunities and strengthen their resume.

Consistent, comparable and understandable financial information is the lifeblood of commerce and investing. Presently, there are many sets of reporting standards applicable in different parts of the world. In search of a new financial order: one global standard for financial reporting makes sense. 50% of Indian accounting standards are similar to IFRS, but does that mean that fifty percent of our problem is solved? Answer is definitely a No. A big difference between Indian GAAP and IFRS is that accounting in India is not only governed by accounting standards but also by various legislations and governing bodies like Income Tax Act, Companies Act, SEBI, etc. In case of divergence between accounting standards and these legislations, accountants usually prefer a way which is most beneficial to them, says Abhishek Asthana, an IFRS expert, Chartered Accountant and member of ICAI. However, IFRS is not less than a law.

All key areas and financial results may vary considerably on transition to IFRS. The key differences between Indian GAAP and IFRS: Firstly, under IFRS, a company would be able to recognize revenue with reference to stage of completion, if and only if, the agreement transfers control to the buyer, as well as the significant risks and rewards of the ownership of the work. But the guidance note and accounting standards issued under Indian GAAP considers it appropriate to recognize revenues once there is a legally enforceable agreement for sale and other conditions for recognition of revenue are met. Secondly, under IFRS, if certain non-employee obligations

are settled through ESOP, IFRS will require fair value accounting for such options and cost differential between grant price and fair value will have to be recognized. Moreover, subsidiaries will need to account for the ESOP costs for options granted to its employees by the parent company. This is likely to have a major impact in the case of multinational subsidiaries operating in India, since many of their senior executives are given stock options in the parent company listed in the US/global markets, and where such accounting was not required under Indian GAAP so far. Thirdly, IFRS entails discounting of future receivables and payables to their current values using expected interest rates.

The application of time value ofmoneyconcept will have impact on the amounts recorded for long-term security deposits, payables falling due after one year and revenues earned in advance for long-term contracts/ arrangements. Fourthly, Companies will also have to comply with IAS 39 on financial instruments, particularly with regard to accounting for derivatives. Under IFRS, hedge accounting is permitted for such transactions provided certain conditions are met. Fifthly, IFRS requires use of fair value. Whereas Indian GAAP follows historical cost convention except for fixed assets-which could be revalued. For tax purposes, the potential problem with fair value accounting is that it gives rise to the recognition of unrealized profits and losses. The question is whether these profits should form the starting point to calculate taxable profits where no specific tax rule currently exists to the contrary.

Sixthly, Entities in India prepare their financial statements in Indian rupees while under IFRS reporting is required under functional currency, i. e. he

currency of the primary economicenvironmentin which the entity operates, which may be different from the local currency. For an Indian entity it is possible that a significant portion of revenues may be derived in foreign currencies, pricing is determined by global factors, assets are routinely acquired from outside India and borrowings may be in foreign currencies. All these factors need to be considered to determine whether the Indian rupee or foreign currency is indeed the functional currency. Convergence to IFRS is not a mere accounting exercise but will have significant business implications. Hence, companies would augur well to start preparing early and not wait for the last moment to rush to.

Suggestions for Improvement Adoption of IFRS by a number of listed companies by 2011 would result in a significant demand for IFRS resources. Substantially, all of these resources would need to be generated internally by training existing staff. So, Finance professionals and students should definitely gear up and focus on getting their hands on IFRS expertise to widen opportunities and strengthen their resume. Central and state government should adopt IFRS Education system. Improvement programs i. e. symposium, seminar is helpful for IFRS system.

Graduate level accounting syllabus should be modified as per Latest Aspects of accounting including IFRS. University Grants Commission [UGC] and All India Council for Technical Education [AICTE] adding IFRS Accounting System in the Universities and Institution course curriculum. Looking at the present scenario of the world economy and the position of India convergence with IFRS can be strongly recommended. But at the same time it can also be said that this transition to IFRS will not be a swift and painless process.

Implementing IFRS would rather require change in formats of accounts, change in different accounting policies and more extensive disclosure requirements. Therefore all parties concerned with financial reporting also need to share theresponsibilityof international harmonization and convergence. Keeping in mind the fact that IFRS is more a principle based approach with limited implementation and application guidance and moves away from prescribing specific accounting treatment all accountants whether practicing or non-practicing have to participate and contribute effectively to the convergence process.

There is an urgent need to address these challenges and work towards full adoption of IFRS in India. The most significant need is to build adequate IFRS skills through IFRS Education and an expansive knowledge base amongst Indian accounting professionals to manage the conversion projects for Indian entities. This can be done by leveraging the knowledge and experience gained from IFRS conversion in other countries and incorporating IFRS into the curriculum for professional accounting courses. References 1. Lantto, Anna-Maija and Sahlstrom, Petri (2009). Impact of International Financial Reporting Standard adoption on key financial ratios. Accounting and Finance, 49, 341–361.

a 2. Armstrong, Chris S. , Barth, Mary E. , Jagolinzer, Alan D. and Riedl, Edward J. (2009). Market Reaction to the Adoption of IFRS in Europe.

Accounting Review Forthcoming. 3. Daske, Holger, Hail, Luzi, Leuz, Christian and Verdi, Rodrigo S. (2008). Mandatory IFRS Reporting Around the World:

Early Evidence on the Economic Consequences. ECGI – Finance Working Paper No. 198/2008; Chicago GSB Research Paper No.

12. 4. Callao, Susana, Ferrer, Cristina, Jarne, Jose I. and Lainez, Jose A. (2009). The impact of IFRS on the European Union: Is it related to the accounting tradition of the countries?. Journal of Applied Accounting Research, 10(1), 33 – 55.

5. Ramanna, Karthik and Sletten, Ewa (2009). Why do Countries Adopt International Financial Reporting Standards?. HarvardBusiness School Accounting & Management Unit Working Paper No. 09-102. 6. Barry J.

Epstein and Eva K Jemarkowicz ‘ IFRS’ John Wiley & Sons, Ltd IASB Due Process Handbook of International Accounting Standards Committee Foundation . 7. Ralph Tiffin’ “ The Complete Guide to IFRS including interpretation”, Thorogood Publication, London. 8. http://www. researchandmarkets. com/reports 9.

Web: www. iasb. org