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INTERNATIONAL FINANCIAL REPORTING STANDARD: A NEW DIMENSION IN THE AREA OF FINANCIAL REPORTING IN INDIA

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INTRODUCTION

HISTORICAL BACKGROUND

In 1973 IASC (International Accounting Standard Committee) was formed in England with a membership of many developed countries. IASC was originated to design various uniform accounting methodologies to be followed by member countries to bring them a common platform of understanding and operations. India became a member of IASC in 1974. The member of the accounting standard issued by IASC and integrates the same to the India Business Environment and legal framework. ICAI also promotes the use of accounting standards in preparing and presenting the financial statements. They also give clarification on the various issues arising on accounting standard, review and modify the same and ensure a high compliance rate. In the year 2001 IASC was replaced by IASB (International Accounting Standard Board). This organization has released forty one accounting standard and so far thirty one of them have been inducted in the Indian companies and next two years it will be replaced by IFRS.

WHY WE REQUIRED IFRS?

Many developing countries and countries with economies in transition strive to mobilize financial resources from domestic and international source to attain for their economic and social development goals. The availability of relevant information on potential investment targets has a bearing on effort to mobilize investment for financing economic and social development. Such information plays an important role in critical investment decision and risk assessment. It contributes to improve investor’s confidence and decrease cost of capital.

Recognizing the significance influence the corporate reporting has on investment decision, developing countries and countries with economics in transition are attaching greater importance to corporate transparency and reporting are making efforts to strength the various components of the accounting infrastructure so that financial resources can be mobilized and used more efficiently.

However, different countries use different national accounting standard which makes it difficult and costly to compare opportunities and make inform financial and investment decision. In addition, faster globalization the growing interdependence of the international financial markets and increase markets and increased mobility of capital have increased the pressure on demand for the harmonization of reporting frameworks and related standards.

The need of a global set of high quality of financial reporting standard has long being apparent. The process of international convergence towards a global set of standards started in 1973 when 16 professional accountancy bodies agreed to form international accounting standard committee(IASC) which in 2001 was reorganized into the IASC.

The IASB develops a global standard and related interpretation that are collectivity known IFRS. The process gained when the international organization of securities commission (IOSCO) endorsed the IASC standards for international listing in may 2000. It was further facilities by European Union.

A number of interpretation organizations are involved in the process of harmonization accounting requirement and practice. While the IASB formulates the IFRS, another global standards setter. The international Federation of accountants (IFAC) formulates international standards on audit (ISA) and other professional requirement needed for the harmonization of accounting practices, including the area of education and ethics. The World Bank and UNCTAD are also involved in the harmonization process, particularly in the context of economic development and how it could be enhanced through implementation f the best accounting and reporting practice in developing countries and countries with economic in transition.

The United Nations has contributed for over three decades to global efforts to promote comparable and reliable corporate reports. It provides a important forum where policymakers regulators, stakeholders deliberate with a view to increasing the comparability and reliability of corporate reports.

The year 2005 marked a watershed in the history of financial reporting. An unprecedented number of numbers of enterprise and countries around the world has adopted IFRS as their basis of their financial reporting.

FACTORS WHICH CONTRIBUTED TO THE EVOLUTION OF IFRS

- Over the last decades the world economy and the capital market have become increasingly globalized and integrated.
- The need for IFRS to support the stability of international financial markets has become so critical that the financial stability forum has indentified.
- It helped to achieve greater mobility of capital and more efficient allocation of resources by reducing technical barriers created by the national accounting.
- It will provide the Indian firms in the globalization brining them in a common flat form and therefore by increasing international transaction in more simple and speedy way. .
- After the liberalization the Indian companies started comparing themselves with their global competitors which will help in assessing their own performance.

- By IFRS they can communicate their financial position and profitability to attract foreign investors to India. it will results into identifying opportunities and boundaries.

- A company located in multiple countries fall under multiple jurisdictions. So they ought to prepare multiple set of financial statements so IFRS will help to solve the matter.

- It will provide a fair view of accounting in the business combination and collaboration between 2 or more nations.

- Provide transparency to the stakeholders also will help them to study about investment.

- IFRS balance Sheet will be closer to economic value by providing that Historical cost will be substituted by fair values for several balance sheet items, which will enable a corporate to know about its true worth.

- Benefits for the industry that will results the company to prepare additional financial statement based on the multiple reporting to raise capital in the global market.

CHALLENGES IN IMPLEMENTATION OF IFRS

- A country transition action plan to IFRs should have a logistic framework of targeted activities to complete a specific period of time which shows the road to present the objectivities of transition to IFRS, raising the awareness regulatory bodies of the potential impact of the conversion identifying regulatory services.

- The application of IFRS should be clearly should be clearly defined in respect to the size and type of entities as well as defining clearly whether IFRS will apply for the preparation of consolidated separate financial statements.

- Challenges to the regulatory environment for the success the environment should be regulated and the prescribed. The Companies Act in India prescribes the format for the presentation of financial statement significantly differs from IFRS.

- Lack of preparedness is one of the main factor that arise in implementation of IFRS

- Educating the stakeholders comprising investors, lenders, employee, auditors, audit committee etc would be a big challenge etc would require a considerable time and efforts.

- Significant cost is one time cost of converting to IFRS (including cost of internal personnel time, adapting IT systems implementation revised reporting policies and processes, training personnel and educating investors analyst and member of the board.

- Process complexity in the financial reporting under IFRS companies would need to increasingly use the fair value measures in the preparation of the financial statements, auditor's users and regulators would need to get familiar with fair value measurement technique.

- Impact on financial performance due to significant difference between Indian GAAP and IFRs adoption of IFRS is likely to have a significant performance of the most Indian companies.

CONCLUSION

India has set a roadmap for convergence with International Financial Reporting Standards (IFRS) commencing from 1 April, 2011. The convergence with IFRS standards is set to change the landscape for financial reporting in India. IFRS represents the most commonly accepted global accounting framework as it has been adopted by more than 100 countries. With the growth of Indian Economy and increasing integration with the global economies, Indian corporate are raising capital globally and the fair financial reporting with the help of IFRS will be the corporate to grow with the value of Indian economy.