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"INDIA'S MARCH TOWARDS THE IFRS REGIME"

Dr. Nirmala M* **Dilip Krishna****
**Assistant Professor CBSMS, Bangalore University Bangalore.*
***Research Scholar CBSMS, Bangalore University Bangalore.*

Abstract
Such members of India Inc as have a net worth of INR 500 crores plus, have to implement the new accounting standards from 1st April 2016, aka Ind AS. The eventual migration to IFRS will help India Inc to claim that it is on a par with its international peers on the subject. The inevitable but welcome corollary of such a migration will lead to India Inc becoming more international as well as domestic investor-friendly, thanks to the resultant superior corporate governance practices and higher transparency levels the IFRS regime promises. Converging with the IFRS norms has to be hassle-free and seamless and hence the copious time permitted to the said members of India Inc is welcome. However, India Inc's preparedness for migration to the IFRS regime has to be periodically assessed by tracking the progress made in the exercise. This can help in eventually transiting to the IFRS regime seamlessly. The researcher's findings reveal that our companies cannot become fully IFRS-compliant unless and until the new company law is appropriately amended. Until such time, Indian companies should necessarily prepare their financials under Ind-AS. SEBI may not mandate it but the company law does. The corollary is that Indian companies listed abroad should present their financials under Ind-AS for complying with the company law. The Ind-AS provisions, which are 39 in number, only help in converging the Indian accounting framework with the globally recognised IFRS. In other words, the 39 Ind-AS provisions do not qualify as equivalent to the IFRS, per se. The researcher is against the companies volunteering for cent per cent compliance with IFRS now. The reason is simple: IND-AS 115 and IND-AS 109 may lead such companies to a situation where they may have bitten off more they can chew!

Keywords: Corporate Governance; IFRS; Ind-AS; India Inc; Migration; Transition.

1.1 Theoretical Background of the Topic

The Institute of Chartered Accountants of India (ICAI) has recommended that companies, with a net worth of over INR 500 crores, implement the new accounting standards that converge with global norms, from 1st April 2016. The revised schedule would provide companies "ample time" to comply with standards that converge with International Financial Reporting Standards (IFRS) norms. The norms converging with the IFRS are referred to as Ind AS (Indian Accounting Standards). The Ministry of Corporate Affairs has notified 39 Indian Accounting Standards (Ind AS). They are converged with the International Financial Reporting Standards (IFRS). The standards substantially bridge the conspicuous gaps that obtain in the current accounting guidance. As a result, the country can boast of financial reporting standards that are as good as the leading global standards. Sooner rather than later, the country will be ranked high on corporate governance and transparency in financial reporting.

1.2 Statement of the Problem

The IFRS regime will help our companies to attract scarce but valuable capital at a competitive price. This is because, global investors, prospective and existing, will be in a better position to understand the IFRS-based financials. With the deadline for adherence to the new accounting standards that converge with the global norms drawing nearer and nearer, it is necessary to ascertain the status of the country's eventual transition to the IFRS regime. The likely outcome in the context of the current status of the transition needs to be explored too.

1.3 Review of Literature

1. The Ministry of Corporate Affairs has finally notified the much awaited Indian Accounting Standards (Ind AS), which are converged with International Financial Reporting Standards (IFRS) (KPMG, India, 2015). The notification of these IFRS converged standards fills up significant gaps that exist in the current accounting guidance, and India can now claim to have financial reporting standards that are contemporary and virtually at par with the leading global standards. This will in turn improve India's place in global rankings on corporate governance and transparency in financial reporting.
2. Most of the world is now reporting under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) (Dolphy, 2014). The last of the developed countries to adopt IFRS was Japan. Earlier, China too has adopted IFRS, but retained only one difference between Chinese GAAP and IFRS. As of now, there are only two significant countries that do not use IFRS. One is USA. However, USA allows IFRS for foreign private filers. It is also being hoped that US may ultimately allow US companies to voluntarily adopt IFRS in future. Besides, since long, US and the IASB have been working together on numerous standards.

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This has resulted in the US slowly inching towards US GAAP that is similar to IFRS. The other significant exception to IFRS adoption is India. India has announced a roadmap to IFRS (known as Ind-AS), but with numerous questions remaining unanswered.

1.4 Research Gap

The reviewed literature has thrown up interesting insights into the implications of the IFRS regime for the country's economy. But the country's move towards the IFRS regime seems to be characterised by fits and starts. The reasons behind this state of affairs have not been explored by the reviewed studies. Additionally, it is believed in some quarters that the likely outcome of the implementation of the Ind-AS will pose problems to certain categories of companies. It is these gaps that the present study proposes to bridge.

1.5 Scope of the Present Study

The study confines itself to Practising Finance Professionals and Corporate Finance Executives based in and around Bangalore city.

1.6 Objectives of the Study

The objectives of the study are to:

1. Ascertain the status of the country's transition to the IFRS regime.
2. Identify the likely outcome in the backdrop of the current status of the country's transition to the IFRS regime.

1.7 Hypothesis Proposed to be Tested

The study proposes to test the following hypothesis:
"Implementation of IND-AS 115 and IND AS 109 would be onerous for companies that volunteer for IFRS"

1.8 Research Design

1.8.1 Research Methodology

This is a descriptive study, involving investigations and adequate interpretation. Since it is a fact-finding study, data has been collected through personal interviews with the sample respondents. Information so collected from the respondents was documented with the help of structured interview schedules drafted for the purpose.

1.8.2 Sources of Data

Data required for the study was collected from primary as well as secondary sources. Primary data was collected from the respondents, namely, Practising Finance Professionals and Corporate Finance Executives.

1.8.3 Sampling Plan

Practising Finance Professionals and Corporate Finance Executives represent the sampling universe.

Practising Finance Professionals: Given the limited number of practising finance professionals with exposure to IFRS and operating from Bangalore, purposive or judgment sampling under the non-probability method was deployed. Applying a minimum exposure of ten years to the IFRS space as the criterion, the Researcher selected 30 practising finance professionals operating from Bangalore.

Corporate Finance Executives: Given the limited number of corporate finance executives with exposure to IFRS and employed with the Bangalore office of the corporates, purposive or judgment sampling under the non-probability method was deployed. Applying a minimum exposure of five years to the IFRS space as the criterion, the Researcher selected 30 corporate finance executives operating from Bangalore.

These criteria, according to the Researcher, are the most appropriate ones for the present study. What is important is the typicality and the relevance of the sampling units to the study and not their overall representativeness to the population. Thus it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

1.8.4 Data Collection Instruments

Structured interview schedules were drafted and administered to the respondents for collection of primary data.

The interview schedules featured open questions and closed questions. Open questions were incorporated to identify opinions, ascertain the level of exposure to the topic and seek suggestions.

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1.8.5 Data Processing and Analysis Plan

Non-parametric statistical units were used to test the association between qualitative characters. Conclusions were arrived at on the basis of formation of H_o and H_1. To be specific, chi-square test was applied to test the association.

1.8.6 Limitations of the Study

Primary data has at times been inferred through frequent topic-oriented discussions with the respondents. This may have influenced the findings of the study insignificantly. The Researcher is however convinced that the findings of the study will not have been affected significantly, though.

1.9 Data Analysis – Practising Finance Professionals

1.9.1 Status of the Transition to IFRS

Although the roadmap for full compliance with the IFRS has been released, not many believe that it is going to be plain sailing all the way. Hence the researcher deemed it relevant to ascertain the views of the respondents on the status of the country's transition to IFRS. Their replies to the query appear in the following Table.

Table 1: Status of the transition to IFRS

Status	Number of respondents
Listed Indian companies should necessarily prepare their financials based on IND-AS	30
Listed companies cannot become IFRS-compliant until the new company law is amended appropriately.	30
The presence of several "carve-outs" under IND-AS proves that India has not fully adopted IFRS.	27
Already, at least seven Indian companies listed abroad present "full IFRS" financial statements.	24

All the 30 respondents point out that listed Indian companies should necessarily prepare their financials based on IND-AS; further, they cannot become IFRS-compliant until the new company law is amended appropriately. The presence of several "carve-outs" under IND-AS proves that India has not fully adopted IFRS, aver 27 respondents. 24 respondents remind that already, at least seven Indian companies listed abroad present "full IFRS" financial statements.

1.9.2 Likely Outcome in the Backdrop of the Current Status of the Transition

With the respondents indicating the current status of the transition to IFRS in the country, the researcher requested them to forecast the outcome in this backdrop. Their replies to the query appear in the following Table.

Table 2: Likely outcome in the backdrop of the current status of the transition

Likely outcome	Number of respondents
Indian companies listed abroad will present their financials under IND AS and under IFRS	30
Implementation of IND-AS 115 and IND AS 109 would be onerous for companies that volunteer for IFRS.	30
Indian companies volunteering for IFRS should adopt IND-AS 115 and IND AS 109 for international reporting as well.	30
Listed companies will not use IFRS-based financials as an alternative to IND-AS based financials	28
SEBI permitting IFRS-based financials will not free companies of their responsibility to present their financials under IND-AS.	27

According to all the 30 respondents, the likely outcome is that Indian companies listed abroad will present their financials under IND AS and under IFRS; Implementation of IND-AS 115 and IND AS 109 would be onerous for companies that volunteer for IFRS; Indian companies volunteering for IFRS should adopt IND-AS 115 and IND AS 109 for international reporting as well. 28 respondents believe that listed companies will not use IFRS-based financials as an alternative to IND-AS based financials. SEBI permitting IFRS-based financials will not free companies of their responsibility to present their financials under IND-AS, according to 27 respondents.

1.10 Data Analysis – Corporate Finance Executives

1.10.1 Status of the Transition to IFRS

Although the roadmap for full compliance with the IFRS has been released, not many believe that it is going to be plain sailing all the way. Hence the researcher deemed it relevant to ascertain the views of the respondents on the status of the country's transition to IFRS. Their replies to the query appear in the following Table.

Table 3: Status of the transition to IFRS

Status	Number of respondents
Listed Indian companies should necessarily prepare their financials based on IND-AS	30
Indian companies are not itching to embrace IFRS since the IND-AS regime is almost identical to the IFRS regime.	24
Listed companies cannot become IFRS-compliant until the new company law is amended appropriately.	21
The presence of several "carve-outs" under IND-AS proves that India has not fully adopted IFRS.	17

All the 30 respondents point out that listed Indian companies should necessarily prepare their financials based on IND-AS. Indian companies are not itching to embrace IFRS since the IND-AS regime is almost identical to the IFRS regime, aver 24 respondents. Listed companies cannot become IFRS-compliant until the new company law is amended appropriately, believe 21 respondents. The presence of several "carve-outs" under IND-AS proves that India has not fully adopted IFRS, according to 17 respondents.

1.10.2 Likely Outcome in the Backdrop of the Current Status of the Transition

With the respondents indicating the current status of the transition to IFRS in the country, the researcher requested them to forecast the outcome in this backdrop. Their replies to the query appear in the following Table.

Table 4: Likely outcome in the backdrop of the current status of the transition

Likely outcome	Number of respondents
Indian companies listed abroad will present their financials under IND AS and under IFRS	30
SEBI permitting IFRS-based financials will not free companies of their responsibility to present their financials under IND-AS.	30
Indian companies volunteering for IFRS should adopt IND-AS 115 and IND AS 109 for international reporting as well.	24
Listed companies will not use IFRS-based financials as an alternative to IND-AS based financials	21
Implementation of IND-AS 115 and IND AS 109 would be onerous for companies that volunteer for IFRS.	19

According to all the 30 respondents, the likely outcome is that Indian companies listed abroad will present their financials under IND AS and under IFRS; SEBI permitting IFRS-based financials will not free companies of their responsibility to present their financials under IND-AS. Indian companies volunteering for IFRS should adopt IND-AS 115 and IND AS 109 for international reporting as well, according to 24 respondents. Listed companies will not use IFRS-based financials as an alternative to IND-AS based financials, according to 21 respondents. Implementation of IND-AS 115 and IND AS 109 would be onerous for companies that volunteer for IFRS, according to 19 respondents.

1.11 Summary of Findings

In the following paragraphs, a summarised version of the findings arrived at in respect of the two categories of respondents, namely practising finance professionals and corporate finance executives is furnished.

1.11.1 Practising Finance Professionals

1. All the 30 respondents point out that listed Indian companies should necessarily prepare their financials based on IND-AS; further, they cannot become IFRS-compliant until the new company law is amended appropriately. The presence of several "carve-outs" under IND-AS proves that India has not fully adopted IFRS, aver 27 respondents. 24 respondents remind that already, at least seven Indian companies listed abroad present "full IFRS" financial statements.

2. According to all the 30 respondents, the likely outcome is that Indian companies listed abroad will present their financials under IND AS and under IFRS; Implementation of IND-AS 115 and IND AS 109 would be onerous for companies that volunteer for IFRS; Indian companies volunteering for IFRS should adopt IND-AS 115 and IND AS 109 for international reporting as well. 28 respondents believe that listed companies will not use IFRS-based financials as an alternative to IND-AS based financials. SEBI permitting IFRS-based financials will not free companies of their responsibility to present their financials under IND-AS, according to 27 respondents.

1.11.2 Corporate Finance Executives

3. All the 30 respondents point out that listed Indian companies should necessarily prepare their financials based on IND-AS. Indian companies are not itching to embrace IFRS since the IND-AS regime is almost identical to the IFRS regime, aver 24 respondents. Listed companies cannot become IFRS-compliant until the new company law is amended appropriately, believe 21 respondents. The presence of several “carve-outs” under IND-AS proves that India has not fully adopted IFRS, according to 17 respondents.
4. According to all the 30 respondents, the likely outcome is that Indian companies listed abroad will present their financials under IND AS and under IFRS; SEBI permitting IFRS-based financials will not free companies of their responsibility to present their financials under IND-AS. Indian companies volunteering for IFRS should adopt IND-AS 115 and IND AS 109 for international reporting as well, according to 24 respondents. Listed companies will not use IFRS-based financials as an alternative to IND-AS based financials, according to 21 respondents. Implementation of IND-AS 115 and IND AS 109 would be onerous for companies that volunteer for IFRS, according to 19 respondents.

1.12 Conclusions

Conclusions are inferences / generalisations drawn from the findings. They relate to the hypotheses. They are answers to the research questions or the statements of acceptance or rejection of hypotheses.

As explained in a previous paragraph, the study proposes to test the following hypothesis:
“Implementation of IND-AS 115 and IND AS 109 would be onerous for companies that volunteer for IFRS.”

Hence H_0 and H_1 are as follows:
H_0: “Implementation of IND-AS 115 and IND AS 109 would not be onerous for companies that volunteer for IFRS.”

H_1: “Implementation of IND-AS 115 and IND AS 109 would be onerous for companies that volunteer for IFRS.”

On the basis of the primary data collected from the respondents, vide Tables: 2 and 4, a chi-square test was applied to ascertain the association, if any, between the two variables. The following Table reveals the computation made using MS-Excel:

Category	**Observed Values**		
	Agree	**Disagree**	**Total**
PFPs	30	0	30
CFEs	19	11	30
Total	49	11	60
	Expected Values		
Category	**Agree**	**Disagree**	**Total**
PFPs	24.5	5.5	30
CFEs	24.5	5.5	30
Total	49	11	60
	Agree	**Disagree**	
o-e	5.5000	-5.5000	
	-5.5000	5.5000	
(o-e)^2	1.0000	1.0000	
	1.0000	1.0000	
((o-e)^2)/e	0.0408	0.1818	
	0.0408	0.1818	
CV	0.0816	0.3636	0.4453
TV			3.8415
p			0.0092

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The calculated value of χ^2 is *0.4453*, lower than the table value of *3.8415* for an alpha of 0.05 at one degree of freedom. Hence the null hypothesis is accepted. p=*0.0092* is the inverse of the one-tailed probability of the chi-squared distribution.

1.13 Researcher's Recommendations

1. Indian companies should necessarily prepare their financials in line with Ind-AS although SEBI does not mandate it. What is important is that the company law mandates it. There are indeed several carve-outs in the recently released Ind-AS. This in itself is a tacit admission on the part of the various stakeholders that there is still some way to go before we become fully IFRS-compliant.
2. Ironically, listed companies that want to go fully IFRS-compliant cannot do so since the company law is yet to be amended to permit full IFRS compliance as an alternative to Ind-AS compliance. This means that Indian companies listed abroad should present their financials under Ind-AS for complying with the company law. Additionally, they can present their financials in the IFRS format in full. Hence the full IFRS format plays only a supplementary role at this stage.
3. The Ind-AS, 39 in number, only help in converging the Indian accounting framework with the globally recognised IFRS. The former does not qualify as equivalent to the latter, per se.
4. Only in due course of time, the companies will know if the impact of the mandated carve-outs is significant or negligible. If it turns out to be significant, presenting the financials under the two formats will be an onerous task for the companies.
5. Implementation of IND-AS 115 (accounting standard) on revenue and financial instruments (IND AS 109) could prove tricky for companies that volunteer for full IFRS. (Ind-AS 115 establishes the principles that a company should apply to report useful information to users of financial statements. The information concerns the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Under Ind AS 109, classification of financial assets is based on a company's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Under Ind AS 109, a company should recognise all derivative instruments at fair value on the balance sheet. Presently, in the case of financial instruments, Indian GAAP does not mandate application of any detailed guidance. Thus Ind AS 109, bridges this gap). This is because they are required to adopt these standards in international reporting too. Unfortunately, in such a case, they will be ahead of the adoption curve internationally. This defeats the very purpose behind migration to the IFRS regime because comparison with the financials of international players will be rendered difficult. It could turn out to be a "damned if you do and damned if you don't" case for the companies embracing full IFRS. The researcher therefore recommends that such companies think twice before embracing the full IFRS regime. They could err on the side of caution by opting for the Ind-AS regime instead!

1.14 References

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