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315, New Charni Road, Mumbai 400 004.

CERTIFICATE

This is to certify that Dr. / Mr. / Ms. Sunita Tidke
from Prahladsai Dalmia Lions College of Commerce & Economics
participated / presented a Research Paper titled. 'IFRS And Its Impact on
Adoption of Financial Activities of Companies In India'

at the International Seminar on 'Changing Trends in the International Environment:
A Boon to the Indian Economy' on April 21, 2018.

Rajeshwary

Dr. Rajeshwary G.
Conference Convener

M Madlani

Prin. Dr. Minu Madlani
Conference Chairperson

J. Aherkar

Dr. Jitendra Aherkar
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ISSN 2319 - 359X

AN INTERNATIONAL MULTIDISCIPLINARY
HALF YEARLY RESEARCH JOURNAL



IDEAL

Peer Reviewed Referred and
UGC Listed Journal
(Journal No. 47026)

IMPACT FACTOR / INDEXING
2017 - 4.988 www.sjifactor.com

Volume - VI, Issue - II
March - August - 2018

Part - IV



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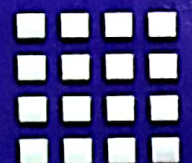
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21. IFRS and its Impact on Adoption of Financial Activities of Companies in India

Dr. Sunita Tidke
Miss. Dishita Ratadia

Abstract

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. There is a growing international consensus on the International Financial Reporting Standards acceptable standards for assessment of the financial health of a company across the globe. For entities that are globally active, the differences in financial reporting requirements create extra complications in terms of preparing, consolidating, auditing, and interpreting financial statements. IFRS are issued by the International Accounting Standards Board (IASB) are increasingly being recognized as the Global Financial Reporting Standards. Convergence with IFRS has gained momentum in recent years all over the World. India being an important emerging global economy, the Government of India has committed to convergence of Indian Accounting Standards with IFRS from April 1, 2011. Moreover the financial communication such as accounting and financial results is just as important for business leaders and employees to master. Hence Proponents of International Financial Reporting Standards (IFRS) claim that mandating a uniform set of accounting standards improves financial statement comparability that in turn attracts greater cross-border investment. The purpose of this paper is to analyze the impact of the new accounting system involving a major shift from prescriptive norms to the system involving greater judgment.

Key words: Financial Statement, Accounting Standards, Convergence.

1. Introduction

1.1 International Financial Reporting Standard

India is one of the emerging economies in the world. For the economic development Foreign Direct Investment (FDI) is needed, to facilitate the investment climate it wants to integrate its financial reporting with rest of the economies of the globe, so that the investors from outside will understand the financial results and the financial positions of the companies. The

needs to communicate across the borders has increased with the increase in global trade consequently there is globalization of capital market. Company in one country is borrowing in the capital market of another country. Therefore, financial statements produced in one country are used in other country more and more frequently, these has raised the issue of harmonization of accounting policies, presentation, disclosure, etc. To achieve complete harmonization is not possible because of difference in the economic, political, legal and cultural environment in the countries. However the much deviation can be eliminated by standardization of accounting policies, which had result in issuance of accounting standards.

Accounting unions of 10 countries have formed International Accounting Standard Committee (IASC) in 1973 and it issued International Accounting Standards. In 2001 the responsibility got transferred to IASB whereby standards were restructured and are known as IFRS. International Accounting Reporting Standards is a provider of information aiding economic decisions, giving importance preference and changes in financial position of the entity. India needs major improvement in Accounting Standards. More than 100 countries now require changing and many are in the way of replacing and accepting it. It is mainly based on two concepts and are principle based on

- Accrual
- Going Concern

Its framework is qualitative and characteristics are

- Understandability
- Relevance
- Reliability
- Comparability

2. Research Methodology

2.1 Objectives

1. To study the implications of IFRS in the present situation and the process in adopting IFRS.
2. To study the factors affecting the most in the IFRS adoption.

2.2 Scope

For the purpose of the study the researcher has collected data from various secondary sources such as journals, novels, newspapers, etc. The researcher had through this study listed

procedure of accounting under IFRS. The researcher has also tried to evaluate the concept of IFRS and its implementation in detail.

2.3 Limitation

- a) Manpower b. Funds c. Geographical area d .Time

2.4 Selection of Problem

India adopting the International Financial Reporting Standard (IFRS) can not only ensure justice to investors but also huge opportunities for the country to emerge as a dominating force in the new accounting standards, experts today claim. And hence the researcher choose to study the same in detail to know the basic concept of IFRS.

3. Literature Review

“A single set of high quality, understandable and enforceable global accounting standards that Abstract: Globalization has laid down a way for all the countries to adopt a single set of accounting standards. Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. More than 100 countries have converged or recognized the police of convergence with the IFRS. IFRS are the globally accepted accounting standards and interpretations adopted by the IASB. An upcoming economy on world economic map, India, too, decided to converge to International Financial Reporting Standards (IFRS). This paper discusses the IFRS adoption procedure in India and the utility for India in adopting IFRS, the problems and challenges faced by the stakeholders and its impact on India.

3.1 Adoption of IFRS

Adoption of IFRS has become a vital issue of discussion and debate in the different country. Due to the variation in different country's GAAP of an individual country, a threat is always sustain on the harmonization of accounting standards. IFRS is one of the best financial reporting systems, which does not include any country with variation of accounting policies. Now a single set of financial reporting is final statement to present across the world at a reduced cost and more reliable, transparent and fair reporting of an entity.

Phase I 1st April 2016: Mandatory Basis

- a. Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth > INR 5 Billion
- b. Unlisted Companies having net worth > INR 5 Billion

- c. Parent, Subsidiary, Associate and J.V. of Above

Phase II 1st April 2017: Mandatory Basis

- (a) All companies which are listed/or in process of listing inside or outside India on Stock Exchanges not covered in Phase I (other than companies listed on SME Exchanges)
- (b) Unlisted companies having net worth INR 5 Billion > INR 2.5 Billion
- (c) Parent, Subsidiary, Associate and J.V. of Above

3.2 Companies listed on SME exchange not required to apply Ind AS.

- Once Ind ASs is applicable, an entity shall be required to follow the Ind AS for all its subsequent financial statements.
- Companies not covered by the above roadmap shall continue to apply existing but if professionals are still having difference on how to get fair value of assets and liabilities
- Therefore India needs to develop its conference regarding to IFRS convergence.
- Also need to develop some training programs for IFRS policies. For the purpose of successful conversion of IFRS with Indian Corporate, India needs to have efficient professionals to operate in this field.
- Apart from this, IFRS require the fair market value applications in financial reporting this may create significant differences in financial information currently presented in financial reports.

3.3. IFRS adoption procedure in India

To rationalize accounting practices in the country, the Indian government in 1949 established Institute of Chartered Accountants of India by passing ICAI Act, 1949. Accounting Standard Board was Constituted by ICAI in 1977 in order to create harmony among the diversified accounting policies and Practices in India. Three steps process was laid down by the accounting professionals in India which are Summarized as follows:

Step 1 – IFRS Impact Assessment

This is the first step. In this step the firm will assess the impact of IFRS adoption on Accounting and Reporting issues, on procedures and systems, and on core business of the entities. Then the firm will find the key conversion dates according to IFRS training plan has laid down. As and when the training plan is in place, the firm will have to identify the important Financial Reporting Standards which will apply to the firm and also the variations among the present financial reporting standards being followed by the firm and IFRS both.

Step 2 – Preparations for IFRS Implementation

This is the second step of the process, which will carry out such activities required for IFRS implementation process. Then the firm will reform the internal reporting systems and processes. IFRS first deals with the adoption and implementation of first time adoption process.

Step 3 – Implementation

This is the final step of the process which deals with the actual implementation of IFRS. The initial phase of this step is to prepare an opening Balance Sheet at the date of transition to IFRS. To understand the actual impact of the transition from the Indian Accounting Standards to IFRS is to be developed. This will follow the full application of IFRS as and when it is required.

3.4. Beneficiaries of Convergence with IFRS

- 1) The Investors
- 2) The Industry
- 3) Accounting Professionals
- 4) The Economy

3.5. Problems and Challenges

IFRS are formulated by International Accounting Standard Board. However, the responsibility of convergence with IFRS vests with local government and accounting and regulatory bodies, such as the ICAI in India. Thus ICAI need to invest in infrastructure to ensure compliance with IFRS. India has several constraints and practical challenges to adoption and compliance with IFRS. So there is a need to change some laws and regulations governing financial accounting and reporting in India.

Therefore there are several challenges that will be faced on the way of IFRS convergence. These are:

- 1) Difference in GAAP and IFRS:
- 2) Training and Education
- 3) Legal Consideration
- 4) Taxation Effect
- 5) Fair value Measurement

5. Conclusion

Convergence to IFRS is expected to improve the relevance, reliability and comparability of financial reports and thus benefit global investors. It is expected that the global financial

reporting process will eventually be based on a single set of high-quality accounting standards as issued by the IASB. The efficiency and competitiveness of global capital markets depend on the ability of financial statement preparers to effectively communicate with investors through financial reports.

IFRS is a demand of the day as already 150 countries and more than 12000 companies has already adopted IFRS. Finally, as India has already playing an important role in the global economy and many Indian companies occupied significant positions in International Capital Market. IFRS adoption is need of the day in order to enter global market. IFRS will not only help economy, but also further the acceptance of IFRS as global accounting language which provide be single set of high.









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CONTACT FOR SUBSCRIPTION

AJANTA
ISO 9001: 2008 QMS/ISBN/ISSN
Vinay S. Hatole
Jaisingpura, Near University Gate, Aurangabad (M.S) 431 004.
Cell : 9822620877, 9579260877 Ph: 0240 - 2400877
E-mail : ajanta1977@gmail.com
Website : www.ajantaprakashan.com