

THE PERCEPTION TOWARDS TRANSITION TO IFRS CONVERGENCE IN INDIA AND ITS BENEFITS

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Abstract

Convergence with International Accounting Standards as issued by the International Accounting Standard Board (IASB) is receiving its due importance over a period of time. Consistent, comparable and understandable financial statements are the necessity of every companies as well as the need of all the users of the same. Now a day, companies are expecting and receiving investments from across the world. A uniform accounting standard to be maintained in the preparation of financial statements are necessary for the corporate, for the easy understandability and comparability for their global investors. Therefore, both corporate officials and professionals have similar concern in implementing IFRS. Both groups agreed on the importance and usefulness of globally harmonizing the accounting standards. On this site, India joined this band wagon and MCA in consultation with the Institute of Chartered Accountants of India (ICAI) has decided to converge with IFRS. The Council of ICAI, at its 259th meeting, held in May, 2006, expressed the view that the IFRSs may be adopted in totality at least for listed and large corporate entities keeping in view the expected advantages in saving of cost of capital for India entities raising capital abroad, saving in cost for such entities for nit preparing set if financial statements as well as for increasing opportunities for Indian professionals abroad. Paper explores the responses towards the perception of the professional towards the implementation and the features of the IFRS Convergence. The present study also focussed on evaluating the benefits to both companies and investors on the transition to IFRS Convergence

Keywords: IFRS, Convergence, Transition, ICAI, MCA, uniform accounting standards, harmonizing

I. Introduction

Convergence is harmonization of national GAAP with IFRS through design and maintenance of accounting standards in a way that financial statements prepared with national accounting standards are in compliance with IFRS. Convergence to IFRS would give Indian companies access to international capital markets without going through the unwieldy process of conversion to the relevant Generally Accepted Accounting Principles (GAAP) and subsequent processes.

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Financial reporting is the process of disclosure of financial information to the management and a company's performance over a specific period of time. Increasing globalization and integration of capital markets have made it mandatory to harmonize accounting standards across the globe. Investors require financial reporting which can give consistent comparability across countries. In this scenario it is imperative to have a single language of financial reporting. Though, adoption of IFRS is believed to lead an increase in transparency, comparability and quality of financial reporting, thereby benefiting investors and corporate.

Adoption is the process of adopting IFRS as issued by IASB, with or without modifications. It involves an endorsement of IFRS by legislative or regulatory with minor modifications done by standard setting authority of a country. Thus at present, as we cannot adapt to IFRS due to our legal constraints, we have prepared our own standards for application for a limited period known as Ind AS (Indian Accounting Standards). Actually these are IFRS converged Indian Accounting Standards.

In India, Accounting Standard Board (ASB) of India constituted under the ICAI (Institute of Chartered Accountants of India) sets and publishes the standards in tune with IAS. Since India has its own accounting standards that are different on many counts, following a set of common standards that are altogether different in practice will require some compromise between prevailing standard norms and new provisions. Thus, Ministry of Corporate Affairs (MCA) on 16, February, 2015, notified the Companies (Indian Accounting Standards) Rules, 2015 for the adoption and applicability of Ind AS in a phased manner.

Features of IFRS Convergence:

Uniform Accounting System The uniformity reflects that GAAP and IFRS financials are an antithesis to uniformity in financial statement reporting. It suggests that a harmonization in the financial statements of the corporate entities across the world becomes a necessity, for easy **comparability** and understandability to the users, especially the investors either individual or companies in the nature of merger and acquisition. As a part of globalisation, Indian corporates are in the stage of growth and development. They are in need of funds for expansion. Single set of accounting standards helps the investors to read and easily understand the financial reporting language of different companies across the countries, which increased the **investment opportunity**, this benefitted the companies to access the global capital market and easily raise funds for their expansion. Implementation of converged set of IFRS would increase the **transparency** and augment the comparability of the financial statements prepared by the companies across different countries leads to increased investor protection. One of the key feature of IFRS is that, it is a principle based standard. It requires the valuations and future forecasts, which involves the use of estimates, assumptions and management judgements. Combination of these entire have a significant impact on the reported earnings and the financial position of an organisation. Therefore, audit committees and board of directors as well as members responsible for the **better corporate governance** focussed in ensuring the appropriateness in the convergence of Indian GAAP with IFRS. Diversity in the accounting world and the convergence of standards of GAAP along with IFRS impacts the corporate management, investors, stock market, accounting professional and the standard setters. One of the major differences between GAAP and IFRS is their **methodology**, as GAAP being rule based and IFRS being

principles based. This is a challenging area while doing consolidation, inventory valuation, income statement, earning per share calculation etc. Therefore, accounting professionals find it difficult to learn the whole system of financial accounting due to **lack of knowledge** which makes it an extra burden on companies for cost of providing **training**. Convergence to IFRS is also a **costly exercise** to SMEs in India. As it involves overhauling of operational and IT processes apart from training costs. As IFRS standards are not required. It is **mandatory**, to those domestic companies whose securities trade in a public market are required to apply. Therefore, in the first phase of IFRS Convergence, SMEs are exempted. They can continue to follow the existing accounting standards, which may be modified from time to time to make the sector more competent in the international arena.

On this site, perception of the professional such as CA and ACCA are considered in the present study. In their opinion, Indian corporates are in the edge of implementing IFRS. Their perception towards the implementation is that, when countries across the world are ready to adopt a single set of accounting standards in their financial statements, which has an impact on harmonization of global accounting system as well as the culture of accounting. This enhances the Indian Corporates in savings of cost in the preparation of dual set of financial statements for different investors in each country. Therefore, it is likely to implement the same by India also, while other countries are adopting the IFRS. They also responded that the awareness of IFRS needs to be included in the university curriculum to make the young generation to get the knowledge about the new set of accounting standards.

The IFRS Convergence entails the benefit to the following:

The Investors: The investor will be benefited in, as the way the accounting information made available to them will be more reliable, relevant, timely and most importantly the information will be comparable across different legal framework. It will develop better understanding and confidence as well as protection of their funds. Encouraging the international investors lead to more foreign capital flows to the country.

The Professional: The professional, both in practice and in employment will get benefits as they will be able to provide their services in various part of the world. It offers accounting professionals more opportunities in any part of the world if same accounting practices prevail throughout the world

The Companies: If the accounting standards are converged it will promote international business and increase the influx of capital into the country. This will help India's economy to grow and expand. The industry is able to raise capital from foreign markets at lower cost, if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. A company which has dealings in several countries, it only publishes one set of financial statements that fulfil the statutory requirements of all the countries it operates in.

1.1 Statement of the problem

Ministry of Affairs has notified 35 accounting standards converged with IFRS and implemented which is beneficial to both corporates and investors. Based on the implementation of IFRS convergence, in our present study we have made an attempt to analyze the factors and perception towards the implementation of IFRS Convergence as well as to evaluate the benefits of IFRS Convergence in India to companies and investors

1.2 Scope of the Study:

The impact of globalization and harmonization is currently being witnessed around the globe, and the need to embrace the adoption of International Financial Reporting Standards (IFRSs) is becoming increasingly evident, certain jurisdictions have been much quicker in their embrace, adoption and adaptation of International Financial Reporting Standards, than others. As well as highlighting the need for the convergence of International Financial Reporting Standards. Thus, there is the scope for a further study in the implementation of converged set of IFRS in India and its benefits to both the corporates and investors, and also the perception of professionals towards the implementation of IFRS Convergence.

II. Review of Literature

Ram Singh, Santosh Kumar Srivastava, (2019), “Implementation of IFRS as Indian Accounting Standard for Similarity in Financial Reporting in India: Challenges and Benefits”. The paper reflects the notable IFRS benefits to improve quality of financial reporting; elimination of multiple reporting standards and ensuring easy to make decision; easy listing across the border and reduce cost of capital. Further, the paper reports that the IFRS is not free from the challenges, as inclusive of complicated nature; insufficient qualified personnel and lack of coordination between financial reporting regulators. Finally, the paper concludes that the benefits of IFRS convergence are real but not automatic in other hand challenges in the way of adoption and convergence can't be ignored thus the recommendation to all the stakeholders that they must participate actively for a successful move.

Dr. C. Vijai (2018), “Convergence of IFRS with Indian Perspective”– Trust and transparency prompted a talk of financial reporting. Steady, comparable and reasonable financial data is the soul of trade and making venture. Remembering this, Accounting Professionals and Accounting Bodies across the globe, amid a decade ago' had attempted to set up a financial reporting framework which is fit, hearty and have broad relevance. This examination endeavours to investigate the data accessible on IFRS appropriation process in India. It additionally talks about the IFRS reception methodology in India and the utility for India in embracing IFRS. In end part, paper draws out the routes through which these issues can be tended to.

Mrs. S. S. Kadam, (2017), “IFRS: Challenges and prospects in Indian Accounting System” Accounting Standards AS at par with IFRS so that the Indian corporate and the accounting professional reap the benefits of global accounting standards irrespective of various challenges, adoption of converged IFRS in India will significantly change the contents of corporate financial statements as a result of more refines measurements of performance and state of affairs, and enhanced disclosures leading to greater transparency and comparability. Accounting Statement prepared according to IFRS enhance understand ability, comparability, uniformity and reduce the dual set of accounting statement of companies which have operations in another country. The proper implementation process has required a complete change in formats of accounts, accounting policies and disclosure requirements. So, all parties concerned with financial reporting also need to share the responsibility of international harmonization and convergence because IFRS is a principle-based approach rather than a rule-based approach. All accounting professional requires attaining the knowledge of IFRS for smooth functioning of convergence process.

III. Objectives of the Study

- To analyze the features and perception towards the implementation of IFRS Convergence
- To evaluate the benefits of IFRS Convergence in India to companies and investors

IV. Research Methodology

Source of data: Quantitative research is used with use of structured questionnaire. The survey provided 100 responses from across Kerala.

Statistical Tools: For the analysis of data descriptive statistics like mean and standard deviation and Karl Pearson's Coefficient of Correlation are used.

V. Data Analysis & Interpretation

Primary data has been collected through a circulated questionnaire from 100 respondents, particularly the members of ACCA and CA . Hence the results are analysed and interpreted using descriptive statistics and hypotheses been tested in relation to the perception towards transition to IFRS Convergence in India and its benefits.

This section deals with the analysis of the responses given by the sample respondents. The data was collected through a survey conducted among 100 members of ACCA and CA. The data analysis was made by using statistical and mathematical tools and techniques like averages, standard deviation, ranking, Karl Pearson's Coefficient of Correlation etc., through the software SPSS. At the end of the analysis a hypothesis testing is conducted and the result is presented and interpreted. All the major outcomes from the analysis are placed in the form of tables or graphs along with interpretations.

The analysis is done in two stages. The first is an inferential analysis and in the last section hypotheses test is conducted.

Analysis of factor (f1) 'Features of IFRS Convergence to be considered in the implementation of IFRS'

An examination of the features of IFRS Convergence to be considered in the implementation of IFRS is done and the result is depicted in the following table and graph.

SI. No.	Features of IFRS Convergence	Mean value	SD	Rank
1	Uniform accounting system	1.5	0.483	1
2	Mandatory application	1.69	0.902	2
3	Transparency	1.91	1.261	3
4	Investment opportunity	2.05	1.083	4
5	Comparability	2.10	1.238	5
6	Better corporate governance	2.24	1.455	6
7	High cost of adoption	2.33	1.114	7
8	Methodology	2.43	1.272	8
9	Lack of training	2.47	1.287	9
10	Lack of Knowledge	2.53	1.112	10
11	Human psychology to adopt new things	2.62	1.226	11
Mean of Mean		2.17	0.68	

Source: Primary Data

The above table depicts the features to be considered in the implementation of IFRS Convergence. From the table it is clear that a uniform accounting system (Rank 1) is considered as the most important determinant factor by the respondents. Mandatory application (Rank 2), Transparency (Rank 3), Investment opportunity (Rank 4), Comparability (Rank 5) and Better Corporate Governance (Rank 6) which are also considered as the most relevant determinant factors in the implementation of IFRS Convergence by the corporate entities. Some challenging factors are also considered as relevant in the implementation such as high cost of adoption (Rank 7), methodology (Rank 8), lack of knowledge (Rank 10) and last but not the least resistance to adopt for new things which is human psychology (Rank 11).

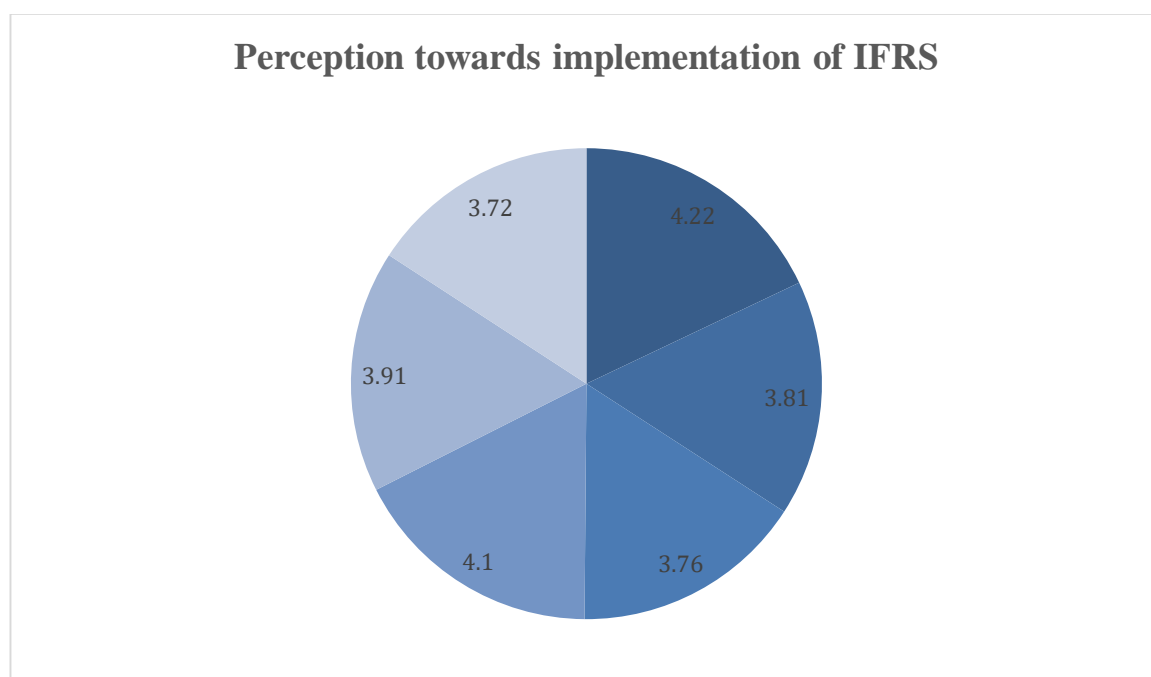
From the above analysis, we can conclude that the respondents who are in the corporate sector and self-practicing professionals from both CA and ACCA recommends for the implementation of IFRS Convergence considering the most important feature which we have included in the survey with a total MV of 2.17 and the standard deviation of 0.68 which is satisfactorily acceptable.

Analysis of factor (f2) ‘Perception towards the implementation of IFRS’

From the table given above it is clear that the professionals participated in the survey have a definite idea about features to be considered for implementing IFRS. So it is also necessary that to evaluate the perception towards implementation of IFRS Convergence. The table below shows the result of examination of the analysis done and follows the interpretation.

SI No.	Perception towards implementation of IFRS	Frequency	Mean	SD
1	A country is more likely to implement IFRS if other countries are adopting the same.	16	4.22	.702
2	The implementation of IFRS needs meticulous planning and careful execution.	15	3.81	1.115
3	IFRS professionals can provide their services as experts in different part of the world.	15	3.76	1.114
4	Convergence with IFRS eliminates the requirement for dual set of financial statement and thereby reduces the cost of raising funds by the companies.	14	4.10	.912
5	The implementation of IFRS has an impact on the harmonization of global accounting system and on the culture of each country on accounting	14	3.91	1.081
6	The awareness of IFRS to a large extent depends upon university curriculum and coordination with professionals.	15	3.72	1.005
Mean of Mean			3.92	0.53

Source: Primary Data



Source: Primary Data

The table describes the perception of respondents towards the implementation of IFRS Convergence. The statement – A country is more likely to implement IFRS if other countries are adopting the same has the highest mean value of 4.22 with lowest standard deviation of 0.702, and the statement – Convergence with IFRS eliminates the requirement for dual set of financial statement and thereby reduces the cost of raising funds by the companies has the MV of 4.10 with a standard deviation of 0.912 which indicates that majority of the respondent’s perception towards the implementation of IFRS Convergence is satisfactory . As well as the statement – The implementation of IFRS has an impact on the harmonization of global accounting system and on the culture of each country on accounting with a MV of 3.91 with a standard deviation of 1.081 which again clarifies that the implementation of IFRS Convergence is acceptable.

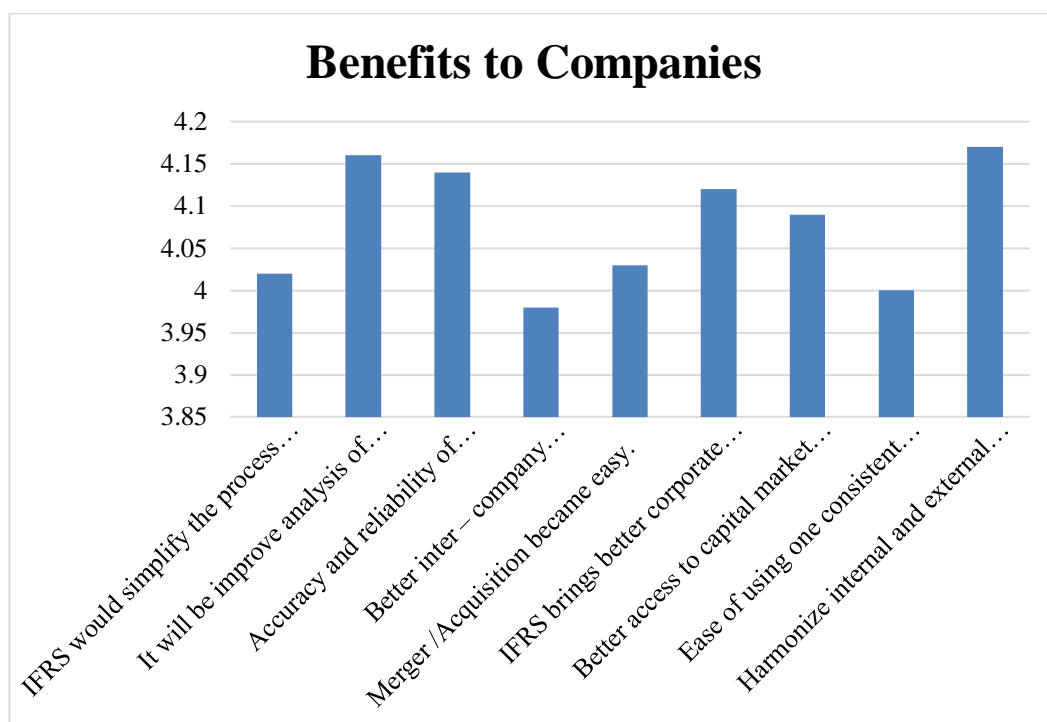
From this descriptive analysis we can conclude with the Mean of mean (3.92) and the standard deviation (0.53)that the respondents including both CA and ACCA qualified professionals from the corporate sector and practicing professionals recommending for the implementation of IFRS Convergence according to the culture of each country’s accounting practices and for the harmonization in the global accounting world which reduces the cost of raising funds in preparing financial statements as tailor made

Analysis of factor (f3) ‘Implementation of IFRS Convergence –Benefits to Companies’

Through the implementation of IFRS convergence it is certain that the economy as a whole and the company and its investors in particular will be benefited. But it is needed to know and understand those benefits in its order of its impact on business.

Sl. No	Benefits to Companies	Mean	SD
1	IFRS would simplify the process of preparing the individual and group financial statements	4.02	1.017
2	It will be improving analysis of financial statements for decision making.	4.16	.854
3	Accuracy and reliability of accounting information will be enhanced.	4.14	.84
4	Better inter – company comparison of financial statements.	3.98	1.05
5	Merger /Acquisition became easy.	4.03	.94
6	IFRS brings better corporate governance.	4.12	0.83
7	Better access to capital market (including foreign investors)	4.09	.84
8	Ease of using one consistent reporting standard in subsidiaries from different countries.	4.00	.86
9	Harmonize internal and external reporting by creating a single accounting language	4.17	.81
Mean of Mean		4.07	0.57

Source: Primary Data



Source: Primary Data

Descriptive statistical technique in 5-point Likert scale is used to analyse the responses received with Mean and standard deviation.

From the table it is clear that the implementation of IFRS Convergence is beneficial to the companies who are adopting the same. It is satisfactorily clear from the statement – Harmonize internal and external reporting by creating a single accounting language with MV 4.17 and the least standard deviation of 0.88 and the other statement with MV 4.016 and standard deviation of 0.85 narrates that it will improve the analysis of financial statements, accuracy and reliability can be enhanced (MV 4.14 and standard deviation 0.84), it brings corporate governance (MV 4.12 and standard deviation 0.84), Mergers and acquisitions are easier (MV 4.03 and standard deviation 0.94), preparation of individual and group entities can be simplified (MV 4.03 and standard deviation 1.02), ease of using one single set of accountings standards for both domestic and foreign subsidiaries (MV 4.00 and standard deviation 0.86), better inter-company comparison (MV 3.98 and standard deviation 1.01).

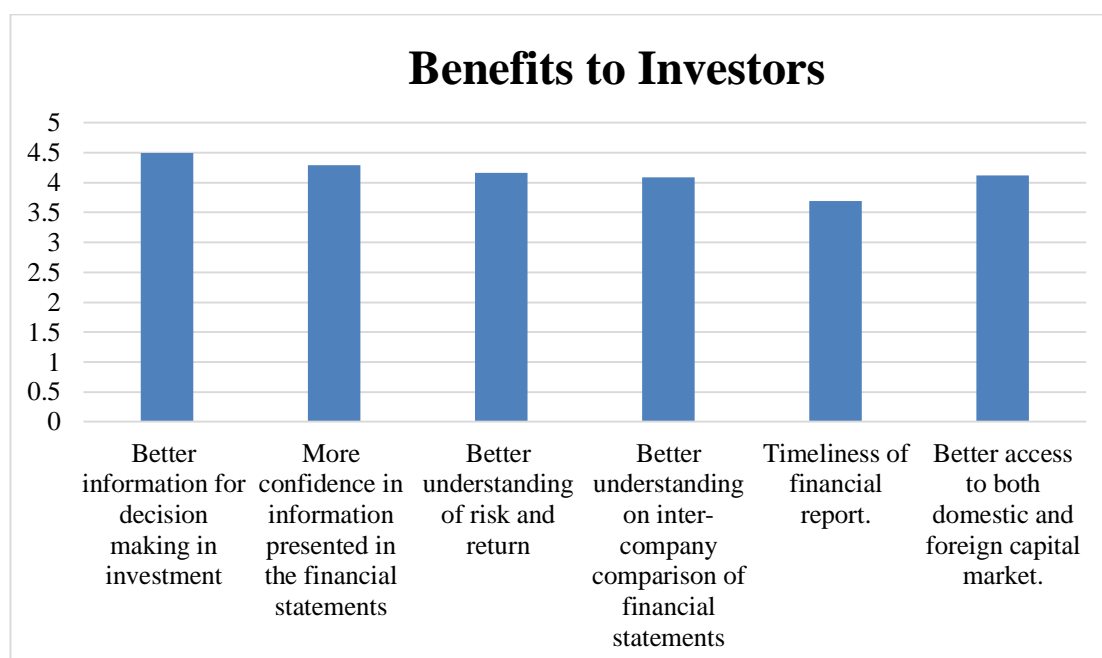
We can conclude that the implementation of IFRS Convergence is most beneficial to the corporate entities because of the harmonization of accounting standards will help the companies to access foreign capital market which will bring more foreign capital and foreign subsidiaries, which enhances company's financial position as a whole which is satisfactorily clear from the analysis (mean of mean 4.07 with a standard deviation of 0.57).

Analysis of factor (f4) 'Implementation of IFRS Convergence –Benefits to Investors'

The implementation of IFRS Convergence will benefit not only the companies but also the people investing in it. The table below shows the benefits of implementation of IFRS Convergence that can be enjoyed by the investors of the company.

Sl. No.	Benefits to Investors	Mean	SD
1	Better information for decision making in investment	4.50	.70
2	More confidence in information presented in the financial statements	4.29	.79
3	Better understanding of risk and return	4.16	.83
4	Better understanding on inter-company comparison of financial statements	4.09	.90
5	Timeliness of financial report.	3.69	1.11
6	Better access to both domestic and foreign capital market.	4.12	.84
Mean of Mean		4.14	0.59

Source: Primary Data



Source: Primary Data

From the above table it is evident that the investors will get benefits on the implementation of IFRS Convergence from the survey conducted among the CA and ACCA qualified respondents. Descriptive analysis is used in 5-point Likert Scale with mean and standard deviation. A satisfactory result with a total mean of 4.14 and low standard deviation of 0.59, suggests for the benefits to the investors in the implementation of IFRS Convergence. Better information for decision making in investment (MV 4.5 and standard deviation of 0.70), more confidence in the information presented through financial statements (MV 4.29 and standard deviation 0.79), better understanding of risk and return (MV 4.16 and standard deviation 0.83), better access to both domestic and foreign capital market (MV 4.12 and standard deviation 0.84), better understanding of inter-company comparison of financial statements (MV 4.09 and standard deviation 0.90), timeliness of financial reports (MV 3.69 and standard deviation 1.11).

We can conclude from the above table that implementation of IFRS Convergence will be beneficial to the investors in a satisfactory way (Total mean 4.14 with the standard deviation of 0.59), as the financial statements are understandable and of inter-company comparison is possible and risk and return can be analysed without much difficulty and the ease of foreign and domestic capital market made them beneficial to invest without much complications.

Testing of Hypothesis I

The first set of hypothesis tested here to know whether there is any correlation between two factors, namely [i] Factors to be considered in the implementation of IFRS and [ii] Perception towards implementation of IFRS Convergence. For that the Karl Pearson's correlation co-efficient [r] is used.

For testing the correlation between the two factors the variables constituting them are combined as a single variable using SPSS.

The output obtained is presented in the form of a table and interpreted.

[H₀]: There is no correlation between the factors to be considered in the implementation of IFRS and the perception towards implementation of IFRS Convergence.

[H₁]: There is correlation between the factors to be considered in the implementation of IFRS and the perception towards implementation of IFRS Convergence.

Correlation between the factors 'factors considered in the implementation of IFRS' and 'perception towards implementation of IFRS Convergence'

Factor	Descriptive Statistics	Factors Considered	Perception
Factors Considered	Pearson Correlation Sig.(2-tailed) N	1 58	0.159* 0.023 58
Perception	Pearson Correlation Sig.(2-tailed) N	0.159* 0.023 58	1 58

*Correlation is significant at the 0.05 level (2-tailed)

Source: Primary data

From the table it can be seen that the Pearson's coefficient of correlation is 0.159. The significance value [0.023] is less than 0.05. When the significance value is less than 0.05, the null hypothesis [H₀] stands rejected at 5% level of significance and the alternate hypothesis [H₁] stands accepted. Therefore the indication from this hypothesis testing is that the two variables are positively correlated. That means there is relationship between the factors to be considered in the implementation of IFRS and the perception towards implementation of IFRS Convergence. Hence implication is that the factors considered to be considered for the implementation

of IFRS form a perception towards its implementation. It is also can be concluded that on the basis of the perception the professionals having regarding IFRS, they consider different factors before implementing IFRS.

Testing of Hypothesis II

The second set of hypothesis put forward to test whether there is any relation between benefits the investors and the company would have after the implementation of IFRS Convergence or not. For that the following hypothesis is adopted and tested.

[H₀]: There is no correlation between the benefits of the investors and benefits of the company due to the implementation of IFRS.

[H₁]: There is correlation between the benefits of the investors and benefits of the company due to the implementation of IFRS.

Correlation between the factors ‘benefits of the investors’ and ‘benefits of the company’

Factor	Descriptive Statistics	Benefits of the Investors	Benefits of the Company
Benefits of the Investors	Pearson Correlation Sig.(2-tailed) N	1 58	0.684** 0.000 58
Benefits of the Company	Pearson Correlation Sig.(2-tailed) N	0.684** 0.000 58	1 58

** Correlation is significant at the 0.01 level (2-tailed)

Source: Primary data

From the table it can be seen that the Pearson’s coefficient of correlation is 0.684. The significance value [0.000] is less than 0.01. When the significance value is less than 0.01, the null hypothesis [H₀] stands rejected at 1% level of significance and the alternate hypothesis [H₁] stands accepted. Therefore, the indication from this hypothesis testing is that the two variables are positively correlated. That means there is relationship between benefits the investors and the company would have after the implementation of IFRS Convergence. So it can be implied the benefits of the investors is directly proportional to the benefits the company would by implementing IFRS. To be more specific, implementation of IFRS is beneficial to both investors and the company and at the same time the gravity of the benefits is in parallel. One will enhance the other too.

VI. Conclusion

Considering the challenges and difficulties in implementing a new set of accounting standards in line with IFRS is a necessary requirement to the domestic accounting world, since the global accounting system is shifting to IFRS. The uniform and single set of accounting system to the entire accounting world is most required to the companies for their global expansion. Individual and corporate investment in both domestic and foreign capital market becomes easier through the comparability of financial statements prepared in line with IFRS.

The results of the study **Transition to IFRS Convergence – Perception and Benefits** indicates that the IFRS Convergence is more beneficial to attract the investors and also that the adoption of rules regarding truthful worth accounting. Conferences, seminar and events should be held to make smooth the transition to impart the knowledge about IFRS. IFRS should be made as a part of the academic curriculum for creating basic awareness to the young generation. IFRS should be accepted as a blessing and not as an unknown, as it can prove very beneficial for India. More than 130 countries have already in line with IFRS.

Therefore, we can conclude that a change is inevitable for betterment. A transition in the corporate accounting world from Indian GAAP to IFRS can be considered and recommended as mandatory for the economic development of our nation.

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