CHAPTER - 2
REVIEW OF LITERATURE
## 2.1 REVIEW OF LITERATURE

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CHAPTER – 2 REVIEW OF LITERATURE

“These mountains that you are carrying, you were only supposed to climb”

- Najwa Zebian

2.1 REVIEW OF LITERATURE

A Review of Literature is an evaluative report of information found in the literature related to your selected area of study. The review should describe summaries evaluate and clarify this literature. It should give a theoretical base for the research and help determine the nature of your research. Use or purpose of the review of literature:

- To identify gaps in the literature.
- To avoid reinvesting the wheel (at the very least this will save time and it can stop you from making the same mistakes as others).
- To carry on from where others have already reached (review the field allow you to build on the platform of existing knowledge and ideas).
- To identified other people working in the same field (a researcher network is a valuable resource).
- To increase your breath of knowledge of your subject area.
- To identify seminal works in your area.
- To provide the intellectual context for your own works, enabling you to position your project relative to other work.
- To identify opposing view.
- To put your work in to perspective.
- To identify information and ideas that may relevant to your project.
- To identify methods that could be relevant to your project.

Extensive review of literature has been gone through the for the research purpose to ensure better understanding of the concept and avoiding application as previous work in concerned area the of convergence with or adoption of the IFRS.
Chapter – 2 Review of Literature

Classification of Review of related literature

The review of related literature is based upon key aspects of the research related to Financial Reporting Practices as per Indian GAAP, IFRS and forthcoming IND AS Convergence as per Indian Prospective. Thus, the review of literature is classified as under:

- INDIAN GAAP
- INTERNATIONAL FINANCIAL REPORTING STANDARDS
- INDIAN ACCOUNTING STANDARDS (IFRS CONVERGED)
- CONVERGENCE OF INDIAN GAAP INTO IFRS

At the end of the chapter, Conclusive remarks are given by the researcher.

2.1.1 INDIAN GAAP

(Bhatt, 2006) mentioned in the paper that with the development of the technological changes in the present global economy, accounting has a tendency to become more and more complex in all sectors of the economy. Due to this, every person, economic sector and international environment call for simplified procedures in accounting system. The second health of any corporate enterprise can be judged as well as assessed according to its financial position at any time of the year. Information that is conveyed through the various published accounts at the end of each accounting period has been accepted to be a far more effective mode of providing information for improvement and progress of the accounting standards.

(Ahuja, 2006) wrote in paper that Preparation and presentation of financial statements based on accounting standards usually known as Indian GAAP has emerged as an effective way of harmonising different accounting practices followed in India. Besides other benefits, financial statements prepared on the basis of these standards are considered to present a true and fair view of financial results of the enterprises.

(Jagdish Raiyani, 2012) mentioned that Accounting Standards are formulated with a view to harmonise different accounting policies and practices in use in country. The objective of Accounting Standards is, therefore, to reduce the accounting alternatives in
the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises with a view to provide meaningful information to various users of financial statements to enable them to make informed economic decisions.

**As section 132(1) of The Companies Act, 2013** The Central Government may, by notification, constitute a National Financial Reporting Authority to provide for matters relating to accounting and auditing standards under this Act.

**As section 132(2) of The Companies Act, 2013** Notwithstanding anything contained in any other law for the time being in force, the National Financial Reporting Authority shall:

a) Make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be;

b) Monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed;

c) Oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters as may be prescribed; and

d) Perform such other functions relating to clauses (a), (b) and (c) as may be prescribed.

**As section 133 of The Companies Act, 2013** The Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

**(ICAI, 2015)** In the book of CA Final, Financial Reporting, it is given that Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement,
treatment, presentation and disclosure of accounting transactions in the financial statements.

Accounting standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. By setting the accounting standards the accountant has following benefits:

✓ Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

✓ There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

✓ The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards adopted in different countries.

However, there are some limitations of setting of accounting standards:

o Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.

o There may be a trend towards rigidity and away from flexibility in applying the accounting standards.

o Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

2.1.2 INTERNATIONAL FINANCIAL REPORTING STANDARDS (IASB, 2010) mentioned in the Conceptual Framework that The objective of general purpose financial reporting forms the foundation of the Conceptual Framework. Other aspects of the Conceptual Framework—a reporting entity concept, the qualitative characteristics of, and the constraint on, useful financial information, elements of
financial statements, recognition, measurement, presentation and disclosure—flow logically from the objective.

(IASB, 2010) given qualitative characteristics of financial information that The Financial Information must be having qualitative characteristics like Relevance, Materiality, Faithful Representation, Comparability, Verifiability, Timeliness, and Understandability.

(Jagdish Raiyani, 2012) given in their book that IFRS are considered a “principles based” set of standards in that they establish broad rules as well as dictating specific treatments. International Financial Reporting Standards comprise:

- Standing Interpretations Committee (SIC) – issued before 2001.

(Uddin, 2007) Studied some important issues with regard to global use as well as acceptance of International Accounting Standards – IASs/ International Financial Reporting Standards – IFRSs. He attempts to examine the criticisms against IASs/IFRSs in order to understand the obstacles for the use of IASs/IFRSs.

(Singhal, 2010) focuses in the article that The pace of development in financial reporting has accelerated sharply during the last few years, especially since the decision of the European Commission to force the consolidated financial statements of listed companies to be prepared under the auspices of the International Accounting Standards Board (IASB) from 2005 onwards, which has sole responsibility for establishing International Financial Reporting Standards (IFRSs). Other components of the structure are the Trustees of the IASC Foundation, the IFRIC and the Standards Advisory Council (SAC).

(Tibe, 2010) focuses in the article that Accounting and business are interrelated in IFRS. Changes in IFRS are pervasive and not limited to accounts department. IFRS is a principle-based model as compared to rule-based Indian GAAP. IFRS requires extensive
The use of fair valuations for measurement of assets and liabilities. The objective of IFRS is to set the balance sheet right, and hence a significant volatility may come in profit & loss statement. There are three principles laid down in IFRS, i.e. substance over form, use of fair value and recognising time value of money.

(Adukia, 2013) mentioned in an article that spreading its jurisdiction across 130 countries in the world, the International Financial Reporting Standards (IFRS) a uniform set of Global Accounting Standards, has created a whole new lot of opportunities for professionals across the world. The jurisdictions include all the G20 Countries and 110 others. The 130 jurisdictions referred to above include all of the 31 member states of the European Union (EU) and the European Economic Area (EEA). Securities of close to 8,000 IFRS companies are traded on a regulated market in Europe. In 76 countries across the world, an auditor’s report is required to refer to conformity with the IFRS.

(Marulkar, 2013) mentioned in his research paper that because of increasing complexity of business operations and globalization of capital markets makes mandatory a single set of high quality reporting standards. This space can aptly be filled in with the emergence of International Financial Reporting Standards (IFRS), as formulated by the International Accounting Standards Board. IFRS has emerged as a new force in aligning the global firms on a single line.

International Financial Reporting Standards are set by the International Accounting Standards Board (IASB). The mission of IASB is to develop, in the public interest, a single set of high quality, understandable and International Financial Reporting Standards (IFRS) for general purpose financial statements. IASB is an independent standard-setting board, appointed and overseen by a geographically and professionally diverse group of Trustees of the IASC Foundation who are accountable to the public interest. It is supported by an external advisory council (SAC) and an interpretations committee (IFRIC) to offer guidance wherever divergence in practice occurs. The IASB cooperates with national accounting standard setters to achieve convergence in accounting standards around the world.
(Parmanand Barodiya, 2015) Concluded in their article that International financial Reporting Standard focuses on quality, reliability & relevancy aspects of the information to all its users all over the globe while setting a new standard. Harmonization of Accounting Standard is a need to create & develop global economy. Harmonisation wills result into true & fair presentation of financial statement that can be easily accessible to all the potential users including potential investors. IFRS provided detailed guideline for presentation of financial statement & it gives more insights about the financial information of the entity so that investor can compare it with other entity to find out best investment option. For MNC's adoption of IFRS will result into reduction in the cost of preparation of financial statement & also overcome the difficulty of consolidation of financial statements working in different country.

2.1.3 INDIAN ACCOUNTING STANDARDS (IFRS CONVERGED) (Adukia, 2013) gave in his article that Converged IFRS or Indian Accounting Standards (Ind AS) are the near final Indian Accounting Standards issued by Institute of Chartered Accountants of India and notified by the Government of India. While the draft of 36 standards issued by ICAI, are converged with IFRS, only 35 standards have been notified. The date of implementation of the Ind AS will be notified by the Ministry of Corporate Affairs at a later date. Ind AS standards are still not notified under Companies Accounting Standard Rules, 2006 therefore the hitherto accounting standards are still applicable. These standards do not resemble IFRS. Both by presentation and measurement principles they are new set of accounting standards developed in the line of IFRS.

(Agarwal, 2013) revealed in his article that The term IFRS refers to International Financial Reporting Standards issued by International Accounting Standards Board (IASB). There are many jurisdictions which have adopted IFRS with very few modifications and thus described accordingly e.g. IFRS as adopted by EU, IFRS as adopted by Australia. However, in international parlance, the term IFRS refers to pronouncements issued by International Accounting Standards Board (“IASB”). Until Ind-AS is mandatory, the present framework of Accounting Standards, Interpretations, Guidance notes and various Industry practices are collectively referred as Indian GAAP.
Ind-AS refers to converged standards notified by NACAS. In all 35 standards have been notified till date, however, the implementation date is yet to be notified. Alternatively you can describe Ind-AS in a mathematical equation say; Ind-AS = IFRS as issued by IASB Less carve outs Add IFRS pronouncement being adopted in Ind-AS.

2.1.4 CONVERGENCE OF INDIAN GAAP INTO IFRS
(Robert W. McGee, 2004) Has identified certain problems based on his study such as whether the financial statements are transparent and whether the statements were prepared using either international standards or GAAP. Foreign investors are not at all interested in reading statements prepared using Russian Accounting Standards (RAS), not only because they are not well versed in RAS, but also because they do not believe that the Russian statutory accounting rules provide good accounting information. Applying the international standards or GAAP to a company’s books will not solve this problem if some important transactions are never included in the books. Another question is how long it will take the rest of Russia to catch up to Moscow and St. Petersburg, in terms of the level of sophistication of financial reporting and in terms of accounting education. Another structural problem that needs to be overcome is the lack of knowledge of international standards on the part of the clients that retain the services of the large accounting firms. There was some disagreement as to whether the level of accounting education would improve faster in accounting firms or in universities.

(Tarca, 2004) revealed that there was some use of “international” standards in all countries, but the extent of use, and the way standard were used (that is, by adoption or supplementary use) was in accordance with the institutional framework in each country. The findings show that companies have voluntarily responded to pressure to produce more comparable financial information, and that standard setters and regulators have a key role to play in promoting the harmonization process. The study found that overall there was greater use of US GAAP than IAS. This outcome was surprising, given that IAS are more politically neutral than US GAAP. However it shows the influence of US GAAP in the international business environment, and demonstrates the importance of US capital markets and the impact of the SEC’s US GAAP reconciliation requirements.
Globalization urges organisations to cope with the emerging challenges and their necessity in the home country is sine qua non as they have to face stiff competition from the MNCs. The economic behemoths of developed nations are well-versed with the international benchmarks and accounting standards as they have already passed the test of the international accounting standards. The subcontinent has been a prime destination for investments and one of the best marketing avenues for which there has been a concerted effort by international giants to come to the forefront and enjoy the benefits. With this background, the importance of accounting standards is gaining ground and so is its convergence with international accounting standards.

(Ole-Kristian Hope, 2006) found in their study that a significant negative association between the adoption of IFRS and investor protection. The findings are consistent with the view that countries with weak shareholder protection bond themselves to superior accounting standards in order to access international investors and/or markets. Country-level institutional variables tend to be correlated with each other. The demand for IFRS might be lower for countries that have stronger local disclosure requirements in place, suggests that, in addition to promoting IFRS as a transparent and comprehensive standard, standard setters should underscore the benefits of having more comparable financial statements to countries that have yet to adopt IFRS.

(Eva K. Jermakowicz, 2006) concluded in his paper that implementing IFRS by EU publicly traded companies as required by the IAS regulation. The regulation gives Member States an option to extend this requirement to individual (separate) financial statements and to unlisted companies. Most Continental EU members with a close link between financial reporting and taxation permit the individual financial statements in accordance with IFRS but only for additional disclosure purposes. This study examines implementation of International Financial Reporting Standards (IFRS) by European Union (EU) companies. All listed EU companies are required to prepare their consolidated financial statements in accordance with IFRS for years beginning on or after January 1, 2005 (Regulation (EC) 1606/2002). It provides insight into the IFRS adoption process based on a questionnaire sent to EU-listed companies in 2004. The 112 responses received indicate: (1) a majority of respondents have adopted IFRS for more than just
consolidation purposes; (2) the process is costly, complex, and burdensome; (3) companies do not expect to lower their cost of capital by implementing IFRS; (4) the more comprehensive the approach to conversion, the more respondents tend to agree with the benefits and costs of the transition; (5) companies expect increased volatility in financial results; (6) the complexity of IFRS as well as the lack of implementation guidance and uniform interpretation are key challenges in convergence; and (7) a majority of respondents would not adopt IFRS if not required by the EU Regulation.

(Ball, 2006) concluded that extraordinary success has been achieved in developing a comprehensive set of ‘high quality’ IFRS standards, in persuading almost 100 countries to adopt them, and in obtaining convergence in standards with important non-adopters (notably, the US). On the ‘con’ side, He envisage problems with the current fascination of the IASB (and the FASB) with ‘fair value accounting’. A deeper concern is that there inevitably will be substantial differences among countries in implementation of IFRS, which now risk being concealed by a veneer of uniformity. The notion that uniform standards alone will produce uniform financial reporting seems naive. In addition. He also express several longer run concerns.

(Christopher S. Armstrong, 2007) examined European stock market reactions to 16 events associated with the adoption of International Financial Reporting Standards (IFRS) in Europe. European IFRS adoption represented a major milestone towards financial reporting convergence yet spurred controversy reaching the highest levels of government. They find an incrementally positive reaction for firms with lower quality pre-adoption information, which is more pronounced in banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption. They find an incrementally negative reaction for firms domiciled in code law countries, consistent with investors’ concerns over enforcement of IFRS in those countries. Finally, they find a positive reaction to IFRS adoption events for firms with high quality pre-adoption information, consistent with investors expecting net convergence benefits from IFRS adoption.
(Zeff, 2007) commented in his commentary that the more rigorous the enforcement mechanism - that is, the more authority and the larger budget a country gives to its securities market regulator to fortify the effort to secure compliance with IFRS - the more lobbying pressure that will be brought on the IASB, because companies in such countries will know that they have no ‘escape valve’, no way of side-stepping the adverse consequences, as they see them, of a proposed IASB standard or interpretation. If the auditor is strict and the regulator is strict, political lobbying of the standard setter, the IASB, may become more intense. Therefore, if a powerful company or group of companies do not like a draft standard, they will have an incentive to engage in politicking of the standard-setting body. We have seen that in the USA for decades, because we have a strict securities market regulator, the SEC. As a country strengthens its regulator, which many people think is good, one of the consequences may be more self-interested politicking of the IASB, which is thought by many to be bad. Hence, it becomes a Catch-22. In the areas of comparability and convergence, there seem to be obstacles to what might be termed ‘genuine’ comparability, and there are obstacles to convergence at a high level of quality. Some of the obstacles are deeply cultural, while others are more susceptible to modulation by the principal parties. It requires enlightened leadership and commitment from the accountancy profession, including academics, audit firm partners, and company accountants, as well as from company finance directors and national regulators and other instrumentalities of Government, such as the European Commission, the SEC, and legislators, to overcome these obstacles and therefore promote genuine international convergence and comparability.

(KPMG, 2008) have shared their significant experience gained from working with many European, global and Indian companies on IFRS conversion projects of all sizes, indicates that there are a number of common critical success factors: Strategy, Leadership, Communication, Resources, Knowledge, Project management, and Time.

(Songlan Peng, 2010) Found in their research article a high degree of adoption of IFRS FVA standards in China’s 2007 GAAP for financial instruments, but many differences for non-financial long-term asset investments. Standard setters justify this divergence by fundamental characteristics of the Chinese environment. The resulting differences from
IFRS in the 2007 GAAP FVA standards, and in their implementation, challenge official claims of “substantial convergence” between 2007 GAAP and IFRS. Hence, the benefits desired by Chinese regulators from adopting FVA and international accounting convergence to IFRS may not be realized.

(Zabihollah Rezaee, 2010) concluded concerns for the convergence out of which the first concerning whether practitioners and academicians have different perspectives regarding the severity of consequences of IFRS convergence. The second concerned whether those who are more familiar with IFRS are more likely to believe that convergence will have more severe consequences than those who are not familiar. The third concerned whether those who think that IFRS convergence will occur sooner, rather than later, believe that convergence will have more severe consequences. Results were mixed. Significant differences between practitioners and academicians were found on nine survey questions; between those familiar and not familiar with IFRS on 18 survey questions; and between those who believe convergence will occur sooner and later on just three survey questions. Comparability of financial reporting under IFRS is the key principle of moving toward a single set of standards. Convergence to IFRS is expected to improve the 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. This effective communication can be strengthened through convergence to IFRS.

(Salvador Carmona, 2010) reviewed in their article that the increasing globalization of the U.S. economy drives interest in international accounting standards. In this respect, the convergence process between the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) targets the completion of several major projects by 2011. The importance of the projects under consideration as well as the lack of conclusive theoretical solutions around them suggests that the target of a “common set” of accounting standards will be replaced in the short medium term by a de facto situation of a “slightly different set” of accounting standards. They draw on best
available practices to make a specific proposal for the introduction of IFRS into the curriculum of institutions of higher learning in the U.S. Their proposal is driven by the idea that accounting education should move from teaching ever temporary rules to emphasize the economic and strategic underpinnings of accounting transactions.

(Fatima Alali, 2010) discussed in their study that how IFRS's objective of the harmonization of accounting standards and improvement of quality of financial reporting may have been negatively affected due to public authorities' influences in the European Union (EU), the U.S., the U.K. and China. In addition, they discuss issues related to the inconsistent interpretations and implementations of IFRS as principle-based accounting standards. Moreover, they discuss how the funding system of the IASB may (or may not) have affected its independence. The review of relevant literature and discussion is critical to IFRS adoption/convergence efforts in the U.S.

(David Cairns, 2011) marked in their study that investigates the use of fair value measurement by 228 listed companies in the UK and Australia around the time of adoption of IFRS from 1 January 2005. They test whether within and between countries comparability in policy choices (as measured by T indices) has changed in relation to (a) mandatory and (b) optional use of fair value measurement. Mandatory requirements related to financial instruments (IAS 39) and share-based payments (IFRS 2) have increased comparability, with a weaker effect for biological assets (IAS 41). In relation to the optional use of fair value, comparability increased in relation to property (IAS 16) because some companies discontinued fair value measurement. Under IAS 39, the fair value option for other financial assets and other financial liabilities decreased comparability. Options to use fair value in other areas (intangible assets, plant and equipment and investment properties) are not generally taken up, either for on-going measurement or on IFRS adoption (under the ‘deemed cost’ option). The results suggest a conservative approach and/or lack of incentives to use fair value measurement for most companies. Exceptions include some banks and insurance companies (for other financial assets and liabilities) and companies holding investment properties.
(Mokuro Dick Oluku, 2011) focused that in accounting, the importance of culture and its historical roots is now increasingly being recognized. With increased globalization of world economy, harmonization of international standards has become the focus of increasing attention among accounting academics, researchers mid practitioners. There is the internationalization of accounting and auditing standards by IASB and IFAC which are both involved in harmonization consistent, even if the same standards are followed across nations. Differences in application of standards will reduce comparability and transparency. They identifies the cultural factor as a possible reason for reporting entities applying IFRS in different ways. It establishes the accounting values. It expounds on how cultural values and accounting values relate to each other in the development of accounting standards worldwide. It adopts the secondary data methodology which is hinged on the institutional theory literature. This information sharpens the ability to describe, analyze and predict the development of accounting standards. It finds that national cultures, traditions and practices will be increasingly challenged in the years ahead as the pressures for global convergence increasingly impact accountants and accounting practices. They concludes that since accounting is culturally determined as such peculiarities of culture should be adequately provided for convergence. They recommends the understanding of cultural diversities before converging with international financial reporting standards.

(Venus Ibarra, 2011) compared in their research paper International Financial Accounting Standards (IFRS) with Generally Accepted Accounting Principles (GAAP) for small and medium-sized entities (SMEs). It touches in part convergence by the Financial Accounting Standard board (FASB) and International Accounting Standard Board (IASB) in bringing IFRS and GAAP to become one international set of standards. Countries will adopt IFRS in response to this global convergence. Asian countries have started compliance with these standards as early as June 2003 when first time adoption was issued by London International Accounting Standards Board (IASB). They present the compliance of selected Asian countries such as China, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Thailand, and Vietnam with the IFRS as of 2009-2010.
(SHOBANA SWAMYNATHAN, 2011) investigated in their study that the financial statement implications of adopting IFRS by Wipro, it is observed that the net income position in IFRS reporting and Indian GAAP is not much varied. But there are differences in the Total liability and Equity position which is mainly because of reclassification between Equity and Total liability. The provision under IFRS is reduced mainly because dividend provision is not recognized in IFRS. Fair value measurement of Available for sale investment and the share compensation expense recognized in IFRS is higher, as in IFRS reporting accelerated amortization of stock compensation expense in the initial years following the grant of options, whereas in Indian GAAP reporting recognizes the stock compensation expenses in graded manner on a straight line basis over the requisite vesting period for the entire award which resulted in increase in share based payment reserve. Overall the return on equity, return on asset, total asset turnover and net profit ration are not significantly affected by converging to IFRS but the leverage ratio shows significant change on converging with IFRS. There is also significant changes in the Total Equity and total liability position on convergence to IFRS but not prominent changes in the Total Asset Position. After having all these observations they have concluded that IFRS is fair value oriented and Balance Sheet oriented accounting where there are more transparent disclosures and Indian GAAP is conservative approach.

(Sylwia Gornik-Tomaszewski, 2011) given concluding remarks in their report That The potential adoption of IFRS in the United States would be much more than a technical accounting exercise. The principles-based approach reflected in IFRS, if adopted, will require future accountants and auditors to exercise professional judgment more often and to a greater degree than before. FRS also have tax, internal reporting, and systems implications. This change is profound, especially when seen in the broader context of the current financial reporting environment, including an ever-intensifying movement towards fair value accounting, the implementation of the FASB Accounting Standards Codification and the mandatory use of XBRL by publicly listed companies. Many are wondering about future of IFRS in the United States. The SEC indicated that the execution of the staff work plan and the completion of the convergence projects would position the Commission to make the informed decision in 2011 (SEC, 2010). Whatever
the Commission’s decision, given the globalization of capital markets and continuing transition of companies worldwide to IFRS, there is a rising need for financial reporting constituencies to educate themselves about IFRS.

(Wen Qu, 2012) examined in their research article that whether the 2007 IFRS converged Chinese GAAP has improved the quality of accounting information for investors in the share market in China. They analyse investor’s reaction to financial information released pre and post IFRS convergence in China. Multiple regression analysis was employed using data from 309 listed Chinese companies. The findings of this study show that earnings per share, relative to book value of equity, is a stronger explanatory factor of market return in both the pre and post IFRS convergence periods, suggesting that investors rely heavily upon earnings released by listed companies when making security price decisions in the Chinese stock market. The results also suggest that investors’ reliance on the income statement information for investment decisions becomes greater in the post IFRS convergence period.

(S Yadav, 2012) revealed in their research paper that Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. An upcoming economy on world economic map, India, too, decided to converge to International Financial Reporting Standards (IFRS). While regulators, standard setters and law makers sit together to rollout the road map for implementation of IFRS in India, a wide section of the industry is already debating about the impact that they are going to have on transitioning to IFRS. They also explores the impact of adoption of IFRS, challenges that will come up and its adoption procedure in India. They also discusses the problems faced by the stakeholders (Regulators, Accountants, and Firms etc.) in the process of adoption of IFRS in India. Paper concludes with the ways through which these problems can be addressed.

(Prof. Dr. Hajah Mustafa Mohd Hanefah, 2012) discussed in their research paper that Malaysia need to compete with its ASEAN neighbours and also other countries in securing FDI, and one of the ways to maintain competitiveness is by converging to IFRS. Like many other IFRS compliant countries in the world, Malaysia also faces problems in
full adoption of IFRS at the initial stages. But, on the contrary, Malaysia is having a good platform for an easy adoption. The future challenges are also discussed as well as some salient issues pertaining to Malaysian Financial Reporting Standards (MFRS) framework compared to International Financial Reporting Standards (IFRS). This paper also discusses the notion of full adoption of IFRS and opportunities as compared to convergence, not only merely a convergence. They mentioned in their interview with Accountants Today 2012, that the Malaysian convergence success will only be determined as the full cycle of the year 2012 completes.

(Fazeena Fazneen Hussain, 2012) revealed in their research paper that the accounting profession has struggled to rebuild its reputation and restore confidence after the renowned corporate collapses of the new millennium and the demise of Arthur Anderson. The development of globalized principles-based reporting framework may be the only legitimate means of achieving this objective. A single set of reporting standards for all small and medium sized reporting entities should result in a more transparent principles-based reporting that improves comparability and consistency. While SMEs in many jurisdictions have been subject to reporting under national accounting standards, such standards deter comparability of financial statements and are usually outdated. Many jurisdictions around the globe have already adopted IFRS for SMEs and in doing so; have faced several challenges. These challenges have particularly affected the accounting profession in such jurisdictions. While the profession, particularly, the big 4 accounting firms may benefit from globalized reporting standards, local practitioners in emerging economies are likely to remain in the position they were before the adoption. This is because many of their small and medium sized clients are constantly concerned about the extra costs of reporting and may justify noncompliance to the standards based on increased reporting costs.

Further, the reporting requirements under IFRS for SMEs are such that most of them may still not be applicable to SMEs in emerging economies like Fiji. This suggests that wherever guidance has not been provided under the new reporting framework or is provided but not applicable to the current reporting environment, practitioners may refer to the old set of standards for guidance. In other words, careful consideration must be
given in deciding whether the full set of IFRS for SMEs should be adopted by emerging economies, or should they use IFRS for SMEs as a reference point in developing their own standards or should such economies adopt IFRS for SMEs with modifications to suit their reporting needs. For that reason, it is advisable for regulatory bodies in emerging economies to give considerable thought to the adoption of IFRS for SMEs and engage in wider consultations before deciding on the matter.

They have mentioned major limitation with the current study that is the small sample size, which makes it difficult to generalize the findings of the research to other emerging economies. In addition, there is always the possibility of practitioners from the same firm having different views on the issue. However, it should be noted that majority of the participants in the interview identified similar themes and issues, therefore it could be suggested that the sample is sufficient for an initial enquiry into the matter. Future research should consider increasing the sample size in order to confirm the findings of the current study. It may also be advisable to consider the implications of adopting IFRS for SMEs on the accounting profession in emerging economies once the first set of financial statements have already been prepared.

(Edward Lee, 2013) reported the evidence which shows that IFRS convergence increased the value relevance of earnings more for firms with the most need to attract capital from external investors (i.e. those firms with low or no government subsidy). This in turn suggests that the adoption of IFRS-converged CAS may have served to narrow the gap in competitiveness across firms with varying degrees of government support under state-sponsored capitalism in China. Given China’s increasing prominence in the world economy, the experience of IFRS convergence in China has useful implications for other transitional and emerging economies. Even so, the conclusion that the IFRS convergence had generally beneficial effects on value relevance does not apply for firms in or close to ST status. Arguably, this is because the scope for earnings managements is increased under the principles-based approach to financial reporting heralded by IFRS convergence.
(Antonio Marra, 2014) investigated whether the claimed higher corporate boards’ effectiveness in constraining earnings management around the time of the IFRS introduction is permanent or short-lived and, as such, it is “just an illusion.” They suggest that the transition process to IFRS represents a factor which might have affected INDs’ and ACs members’ allocation of attention to the corporate financial accounting process, thus temporarily increasing their effectiveness in monitoring earnings management. Their results are generally consistent with our predictions. The highest level of monitoring effectiveness of INDs and ACINDs is associated with 2005 (i.e., the IFRS transition year), while the level of significance and the strength of the association seem to weaken as we drift away from the introduction year, showing a linear shift in the relationship between earnings management and our variables of interest. They also find that the marginal contribution of each board and AC meeting to earnings management constraint is not constant. For board meetings (Board Meet), they find an increased effectiveness while approaching the IFRS transition period, and for ACs’ meetings (AC Meet), their results show the graphic form of an “inverted-U” path, being at the highest level while approaching the IFRS adoption time and then returning to a lower level. They interpret these changes in their monitoring effectiveness as a consequence of the temporary re-allocation of INDs’/AC members’ attention to monitoring the corporate financial accounting process. They find that CEO duality is negatively related to earnings management and strongly significant in 2005 and the size of the coefficient increases while they drift away from the IFRS implementation year. As differences in regression coefficients are statistically significant in 2005 and 2006, we argue that the boards’ higher attention to monitoring the corporate financial accounting process during the IFRS transition year has temporarily limited the structural capability of DUAL CEO to divert the board from its monitoring function and responsibility. This article contributes to the extant literature in several ways. First, they contribute to the debate on the longevity of the IFRS effects by showing that the higher corporate board’s effectiveness in constraining earnings management following the IFRS adoption may have, in countries with a weak legal enforcement, a short-lived effect. Their results suggest that in a real-world context where CEOs and boards face limitations on the time and attention they can
devote to specific issues, the efficiency gains from the introduction of new regulations may be transitory and dissipate over time as the monitoring effort shifts away to other issues. They further suggest that boards’ effectiveness in monitoring the corporate financial accounting process is contextually dependent.

(Gauri Bhat, 2014) made the comparison between the pricing of credit risk information conveyed by accounting numbers under International Financial Reporting Standards (IFRS) relative to local Generally Accepted Accounting Principles (GAAP). They measure the price of credit risk by credit default swap (CDS) spreads and focus on three fundamental accounting metrics that inform about credit risk: earnings, leverage, and book value equity. Using a difference-in-differences methodology, they find that while earnings, book value, and, to a lesser extent, leverage are significant determinants of credit risk pricing both prior to and after IFRS adoption, the adoption of IFRS did not change the credit risk in formativeness of these accounting variables as reflected in CDS spreads. This conclusion is robust to controlling for institutional differences among countries as well as a battery of sensitivity analyses. The adoption of IFRS provides a unique research opportunity to examine the impact of financial statement in formativeness on credit risk because the switch to IFRS for most firms was exogenously mandated by accounting regulators, mitigating the potential impact of confounding endogenous events. Their analysis indicates that earnings, book value, and, to a lesser extent, leverage are significant pricing determinants of credit risk both pre and post IFRS, but that the adoption of IFRS did not change the overall credit risk in formativeness of these three accounting metrics. They also find that institutional factors such as origin of law, strength of the legal system, level of earnings management, difference between local GAAP and IFRS, degree of DT, and creditor protection-affect the credit risk relevance of earnings, leverage, and book value of equity. However, IFRS adoption was not consequential for the credit risk in formativeness of any of these metrics. The lack of impact of IFRS adoption is robust to excluding financial crisis quarters, excluding U.K. or French firms, allowing all control variables to vary by period and by IFRS and U.S. samples, breaking down earnings into cash flows and accruals, and for different CDS maturities. Overall, in contrast to the evidence of the impact of IFRS on equity holders
and credit ratings, our results indicate that the adoption of IFRS is not consequential for the relevance of fundamental accounting numbers in pricing credit risk in the CDS market.

(Joanna Shuang Wu, 2014) Examined in their research article that whether the adoption of internationally recognized accounting standards is associated with a greater sensitivity of credit ratings to accounting information. They find that credit ratings are significantly more sensitive to the accounting default factor post voluntary International Financial Reporting Standards (IFRS)/U.S. Generally Accepted Accounting Principle (GAAP) adoption. Similar evidence is also found post mandatory IFRS adoption in countries with strong rules of law. Collectively, the above evidence suggests that firms’ incentives to comply are important in determining the consequences of accounting standard changes.

They examine whether the adoption of internationally recognized accounting standards is associated with a greater sensitivity of credit ratings to accounting information. Their results suggest that voluntary adoption of IFRS/U.S. GAAP comes with significant increases in the sensitivity of credit ratings to the accounting default factor. On the other hand, mandatory adoption is associated with significant increases in the sensitivity of credit ratings to the accounting default factor only in countries with strong rules of law. They contribute to the literature by adding to the understanding of the adoption of internationally recognized accounting standards and its implications for the credit markets. They also contribute to the fast-growing literature on mandatory IFRS adoption by highlighting the importance of strong enforcement of accounting standards in this setting.

(Mara Cameran, 2014) revealed in the study that EU gave the opportunity to each Member State to oblige/allow non-listed (i.e., private) companies to use international financial reporting standards (IFRS). Considering a sample of Italian private companies that switched to IFRS in the time span from 2005 to 2008, they compare financial reporting quality between IFRS adopters and a matched sample of companies still using local (Italian) generally accepted accounting principles (GAAP). This should be of interest for the EU Commission in evaluating the impact of the current financial reporting
regulation and for EU national regulators, who are left with a certain degree of flexibility in endorsing parts of the European legislation. Overall, their results show that IFRS adoption did not improve reporting quality among private companies but, on the contrary, decreased it. As companies can exploit the level of flexibility embedded in IFRS to pursue their own reporting interests, separate analyses were conducted taking into consideration firms’ incentives. In particular, assuming that entities controlled by listed companies might have switched to IFRS mainly for complying with parent company requirements and/or simplifying the financial reporting process, they run the analyses separately for this sub-sample and other firms. Findings reveal signs of earnings quality deterioration for both groups although the impact seems slightly worse for subsidiaries of listed companies.

The aim of this study is to analyze the impact of adopting IFRS on financial reporting quality of private companies. EU regulation 1606/2002 required companies listed on any European exchange to adopt IFRS from the 1st of January 2005 and gave each Member State the right to decide whether to oblige/allow other kind of companies, for example, non-listed ones, to use the same set of standards. Given the importance of understanding the effects of this regulation on accounting quality, there have been many studies exploring changes in earnings quality for publicly listed companies. However, the findings of these studies are mixed and do not reach any definitive conclusions regarding the impact of IFRS adoption on financial reporting quality. It is therefore of considerable interest to explore the effects on private firms. Private companies constitute about 75% of European GDP and the effects of adopting International Accounting Standards on non-listed companies has not been addressed in earlier studies.

They compare earnings reporting quality between a group of private companies that switched to IFRS in the period 2005-2008 and a matched set of companies that, in the same period, used local GAAP. Overall, their results show that IFRS did not contribute to the improvement of financial reporting quality among private companies in Italy. On the contrary, we find evidence suggesting that the adoption of this set of standards seems to have increased earnings management (measured by absolute AWCA) and to have led to a deterioration of timely loss recognition.
To further investigate the last point, they repeat their analyses distinguishing private companies that are controlled by listed companies from the rest of the sample. They find that earnings quality shows signs of deterioration in both groups of firms. However, the analysis of the differences indicates a slightly worse impact among subsidiaries of listed companies, especially in relation to the use of abnormal accruals. Robustness tests using only the set of IFRS adopters, thus controlling for endogeneity problems, confirm our main results. Their results have several policy implications. First, they document that IFRS adoption by private companies resulted in increased earnings management, which is worse among listed companies’ subsidiaries. IFRS were aimed at improving comparability and relevance of financial reporting. These characteristics, while being of critical importance for outside investors in making economic decisions, might be less critical for private companies, more bounded to local territory activities and not oriented to market’s sources of financing.

(Kevin D. Steinbach, 2014) reviewed in their research article that Many countries have decided to require domestic listed companies to report financial data using the IASB’s financial reporting standards, but the United States has yet to commit to any such conversion. This push toward convergence has been fueled by an expanding global economy. Uniform accounting standards have the potential to drastically increase the amount of foreign investments. Countries that already require the use of IFRS include China, Canada, Australia, and all European Union members. Of the G-20 countries, the United States, India, Japan, and Indonesia are the only nations not to require international standards. Despite the global acceptance of IFRS, the United States is concerned with its quality and has yet to commit to a convergence plan. In a recent staff report, the SEC has cited that IFRS lacks necessary transparency and clarity. Additionally, the SEC is concerned with the consistency of IFRS application between jurisdictions. Brazil, Argentina, and Mexico have recently made the transition to IFRS. Each country developed a unique adoption strategy to fit the needs of their local government, culture, and economy. Despite extensive planning, each country has faced implementation challenges. When a country decides to adopt IFRS, issuers of financial statements bear the majority of transition costs. To analyze these costs, this article has highlighted the
transition process for Coca-Cola FEMSA. In order to move from MFRS to IFRS, Coca-Cola FEMSA gained an understanding of accounting standard differences, created an implementation strategy, and finally executed and reviewed implementation.

The state of the accounting profession in the United States is at a crossroads and should look at the experiences of Brazil, Argentina, and Mexico. The first take-away is that each country will have different costs and benefits associated with conversion. The SEC has been reluctant to commit to IFRS because they feel the benefits may not outweigh the costs. The United States’ economy is already intertwined with the global economy at a level not yet achieved in Brazil, Argentina, and Mexico. While a transition to IFRS would certainly yield an increase in foreign investments, it may not be as lucrative as compared to investments with some underdeveloped countries. While this holds true in the short term, this could change if the United States’ influence on the world economy diminishes. Another take-away that the United States should consider, if they choose to adopt IFRS, is that proper planning is critical for a smooth transition.

There is no “one-size-fits-all” transition strategy. The conversion plan should be tailored to meet the needs of each individual country’s economy, business environment, culture, and government. While IFRS may not be advantageous in the short term, it may be inevitable for the United States in the long-term. With all countries moving toward international standards, there will come a point when the United States will be forced to reciprocate if it wants to stay competitive in the global market. This could be in the form of adopting the IFRS outright or working with the IASB to substantially converge U.S. GAAP with IFRS. The latter seems more likely as the United States would prefer to maintain autonomy and control with respect to accounting standards regulation. While this is a difficult issue, it is imperative that the United States continues to work with the IASB to maintain and expand its relevancy on the global stage.

(Salem Lotfi Boumediene, 2014) have tested in their research the economic crisis impact the informational content of accounting information based on the IAS-IFRS in the French context. They selected a sample of 220 companies-year observations listed on the French stock market that adopted the IAS-IFRS since 2005. The period chosen in this
study is 2006 to 2010 (five years), divided into two periods: Pre-crisis 2006-2007 and post-crisis 2009-2010-2011. The results obtained from both periods are compared. They analyzed the correlation relationship between discretionary accruals and accounting and financial data published by French firms before and after the crisis. They eliminated financial companies and other enterprises with sector-based accounting rules.

(Willmore, 2015) Revealed in his study the belief within the field that something needs to be done to bring IFRS and US GAAP closer together at the very least, if not fully converged into one single set of global accounting standards. They also point out that there are several gaping holes that still remain between the two sets of reporting standards, more than ten years after the Federal Accounting Standards Board and the International Accounting Standards Board agreed to pursue convergence at their meeting in Norwalk, Connecticut. He believes that while costs of implementation of a new set of standards would be immense, over the long term, convergence would be very beneficial to American business as a whole because it would allow companies to compare themselves with their international competitors, which is become increasingly more important as the business world becomes more globalized and competitive. The recent agreement between the FASB and IASB with regards to revenue recognition is a positive sign, because it shows that even though the process has been slow, and has missed deadline after deadline, the two sides are not giving up on the project.

(Dr. Preeti shrivastava, 2015) mentioned that Accounting Standards (AS) at par with IFRS so that the Indian corporate and the accounting professional reap the benefits of global accounting standard Irrespective of various challenges, adoption of converged IFRS in India will significantly change the contents of corporate financial statements as a result of more refined measurements of performance and state of affairs, and enhanced disclosures leading to greater transparency and comparability. Overall, the results are consistent with the view that mandatory IFRS adoption improves information comparability across countries. In particular, results indicate a significant increase in the similarity facet of cross-country comparability in the post-IFRS period.
(Pawsey, 2016) reveals in the report that the current Australian evidence available in the literature concerning the impact of IFRS adoption revealed mixed results:

- In regard to the impact of IFRS adoption on the quality of Australian financial reports, some studies reported positive outcomes through improvements in the value relevance of accounting reports post-IFRS adoption, and reductions in the number of firms engaging in earnings management. Available research evidence has further supported the adoption of the IFRS goodwill impairment regime as improving accounting quality. Other studies, however, suggested that measures of accounting quality have remained stable or consistent with AGAAP and that prior AGAAP treatments for identifiable intangible assets were more appropriate.

- Some studies reported positive results in terms of the promotion of the comparability of Australian financial reporting practices with their global peers. Not all studies, however, reported the same results.

- In general, IFRS adoption by Australian companies appears to have had a positive outcome for investors and analysts based on research revealing improved analyst forecast accuracy and dispersion.

- Survey research around the time of IFRS adoption revealed a degree of pessimism by managers from listed Australian companies towards many of the possible benefits from accounting convergence.

### 2.1.5 CONCLUSIVE REMARKS

From the above review of existing literature, it can be concluded that much study has been done all across the world so far as the IFRS adoption or convergence is concerned in the countries like Russia, U.S., European Union, China, Australia, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Thailand, Vietnam, Fiji, Brazil, Argentina, Mexico, ASEAN Countries, G-20 Countries, French Economy, Italian Economy etc. Countries are having different issues and experiences whether it’s a pre-IFRS scenario or post-IFRS scenario depending on their economical diversities, business environment, cultures, traditions, legal environment etc. After studying the experiences of all these developed or developing economies, there is a need to address positioning of Indian Economy and issues regarding convergence in this pre–convergence period. Therefore
the researcher has selected this study of issues related to converging Indian Accounting Standards into International Financial Reporting Standards. Not only issues regarding convergence but there is a need to study domestic and international accounting standards for getting better idea and clarity to address some conceptual differences and issues which will be probably there when the Indian Economy will be actually driven towards this make over process. Much many things to come and to experience for India as Indian Economy is fastest growing and switching economy in the world market.

“Problems cannot be solved at the same level of awareness that created them”

- Albert Einstein