Chapter 7: CONCLUSIONS AND RECOMMENDATIONS

In this chapter researcher has reached at some conclusions. Researcher has also summarises challenges which India Inc. will face in convergence process. Researcher also recommends some views to various related parties who are concerned with accounting changes such as government, ICAI, Companies etc.

7.1 CHALLENGES IN CONVERGENCE

Looking at the various benefits, the policy makers in India have now realized the need to follow IFRS and it is expected that a large number of Indian companies would be required to follow IFRS from 2013. There are a number of challenges that India is likely to face while dealing with convergence with IFRS. In fact convergence with IFRS is not just a technical exercise but also involves an overall change in not only the perspective but also the very objective of accounting in the country. The researcher points out certain key areas that require close attention while dealing with conversion from Indian GAAP to IFRS. It has to be realized that this conversion is not just the any technical exercise. Even after the later gets introduced, the preparers, users and auditors will continue to encounter practical implementation challenges. This is because the consequences of the same would have far wider financial reporting issues and extend to various significant business and regulatory matters like, structuring of ESOP schemes, training of employees, tax planning, modification of IT system, compliance with debt covenants and so on. Another important challenge is to ensure that their investors understand the shift from Indian GAAP to IFRS. There are significant differences between IFRS and Indian-GAAP. In fact, Indian Accounting Standards have not kept pace with changes in IFRS. This is because Indian Standards remain sensitive to local conditions, including the legal and economic environment.¹

Researcher has concluded after collecting primary data from primary sources following challenges which India will face for successful convergence with IFRS. By analyzing
questionnaire and conducting interviews with accounting professionals researcher have covered all the challenges in to following categories:

(i) **Regulatory environment of India:**

In India accounting practices are affected by regulatory requirements. There are so many Laws which prevail over accounting rules main laws are Companies act, SEBI regulations, Banking law and regulation, insurance laws and regulations etc. IFRSs are international standards and these are not framed as per our requirements but in our country companies have to follow our laws and regulations first. So there are so many disputes arises in following IFRS as it is and it is the big challenge for our companies to adopt IFRS. Although ICAI and MCA have framed new standards but that standards are majorly depends on IFRS or we can say these is mostly the copy of IFRS. So it is the big challenge for corporate to follow IFRS as it is. And it’s tough to get the feature of harmonization.

(ii) **Fair valuation requirements**

As IFRS requires fair valuation of assets and financial instruments for bringing transparency between book value and fair value the challenge arises that it will be a hectic work for companies to compute fair value of assets because there are a large numbers of assets of the companies to be valued so it is tough to find out the fair value of all assets including financial instruments.

(iii) **Who will be the fair valuer**

In India this is not decided that who will be the fair valuer. In IFRS or Ind AS there is not mentioned that who will be the fair valuer. The challenge is, if a person values assets in undue influence or in control of any authority he can make wrong valuation that can increase or decrease the value of assets which will increase the net worth of companies. So the government should decide the liabilities of fair valuers and should make rules and regulations about it.

(iv) **High convergence cost**

Initial costs of convergence are very high because implementation of IFRS will need training process and can also need new professionals. IFRS will apply on whole company so it will
need more expertise which is necessary to easy convergence so it will need a high cost for convergence.

(v) **Trained professionals**

Convergence will need so many trend professionals for timely convergence but as we analysed in our primary data it is quite evident that in our country training programs for convergence process is very slow. So it is a big challenge for India. If we need trained professional at large scale we will not be able to provide it on time. So it should be necessary for all accounting professional to take training and companies should start training program on mass basis.

(vi) **Level of preparedness**

Next challenge is our level of preparedness. Success of implementation is wholly depends on our preparedness. But as we analysed in primary data it is clearly evident that our corporate are not too much prepared and it need some strict decisions by government to implement it timely.

(vii) **Education to investors, bankers and other users**

If we converges our accounts as per IFRS, the ultimate users will not be able to understand accounts as per IFRS so there is also need to educate the investors and other parties also. Because they have to use these accounts for decision making.

(viii) **Information technology and computers related changes**

Use of IFRS will change the whole IT system of the companies. Because new system will replace the old system so it is necessary to change the IT system of companies for successful implementation. So this accounting change will affect the system of whole company.
7.2 CONVERGENCE WITH IFRSS – BENEFITS²

The economy: As the markets expand globally the need for convergence increases. The convergence benefits the economy by increasing growth of its international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby economic growth. It encourages international investing and thereby leads to more foreign capital flows to the country.

Investors: Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions. Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. For better understanding of financial statements, global investors have to incur more cost in terms of the time and efforts to convert the financial statements so that they can confidently compare opportunities. Convergence with IFRS contributes to investors' understanding and confidence in high quality financial statements.

The industry: 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. With the diversity in accounting standards from country to country, enterprises which operate in different countries face a multitude of accounting requirements prevailing in the countries. Convergence of accounting standards simplifies the process of preparing the individual and group financial statements and thereby reduces the costs of preparing the financial statements using different sets of accounting standards.

The accounting professionals: Convergence with IFRS also benefits the accounting professionals in a way that they are able to sell their services as experts in different parts of the world. The thrust of the movement towards convergence has come mainly from accountants in public practice. It offers them more opportunities in any part of the world if same accounting
practices prevail throughout the world. They are able to quote IFRS to clients to give them backing for recommending certain ways of reporting.

**The corporate world** Convergence with IFRS would raise the reputation and relationship of the Indian corporate world with the international financial society. Moreover, the corporate houses back in India would be benefited because of, one, achievement of higher level of consistency between the internal and external reporting, two, because of better access to international market, three, convergence with IFRS improves the risk rating and makes the corporate world more competitive globally as their comparability with the international competitors increases.

### 7.3 CONCLUSIONS

1. Newly framed Indian AS are the converged form of IFRS and ICAI and MAC has accepted most of the provisions of IFRS as it is. The table of difference shows that except few items almost all the provisions are same as IFRS. So it is a good thing about Indian AS that we have not any major changes in India GAAP.

2. There are significant differences between IFRS and Indian-GAAP. In fact, Indian Accounting Standards have not kept pace with changes in IFRS. This is because Indian Standards remain sensitive to local conditions, including the legal and economic environment.

3. No significant differences have been found in profitability of companies as per statistical tools used by researcher. Although differences in actual figures of profits are material and it can affect the decision of any decision maker.

4. We are going to converge our accounts with IFRS with half preparedness and less knowledge that’s why the date for transition is again and again shifting forward and it will be harmful to implement IFRS with less knowledge.

5. IFRS could bring in volatility in earnings and that is primarily because of the fair valuation accounting which is being brought into by the IFRS. But over the period both analyst and investors will take that into account. In European Union, IFRS has been accepted as good process and people have appreciated the use of IFRS.

6. The impact on the profitability or the net worth of a company need not be looked at as favorable or unfavorable or positive or negative because finally IFRS is an accounting
change and it is different. It actually gives a lot of insight into the financial statements of the company. Financial statements make it more transparent and the investors would be able to make a decision which will be a well informed decision. Whether impact on the profitability is material or non material depends from company to company.

7. Any accounting change won’t impact the real economic profit, this will just change the way of presentation and disclosure practices of accounting information and due to these changes in accounting treatment, the profitability will get affect.

8. IFRS will definitely facilitate various areas such as cross border takeover, share based payments etc.

9. ICAI is the prominent body regarding the adoption of the IFRS. ICAI have performed their duty with full respect and honour. ICAI have performed their duty in a very organized manner. ICAI formed the different task force for smoothly adoption of the IFRS. ICAI has organised different conferences, seminars and workshop for educating and awareness about IFRS to the different stakeholders. It also started the short term courses for fulfilling the demand of the IFRS trained skilled accounting persons. These efforts are valuable for effectively adoption of the IFRS however these are not sufficient for effectively adoption of the IFRS. ICAI being a top accounting regulatory body of India should take initiatives for successful implementation and training process because now it is clear that IFRS are the requirement of time and we are going to adopt these changes so training is compulsory for all.

10. Indian AS framed by ICAI and MAC are revised form of IFRS which are made with regulatory requirements required by various regulatory bodies.

7.4 RECOMMENDATIONS

On the basis of analysis of primary and secondary data researcher wants to provide some recommendation to various parties relating directly and indirectly to convergence process of IFRS. These recommendations are based on the views of professional Chartered accountants and Accounting Professionals which researcher has collected from primary data collected through questionnaire and personal interviews.

7.4.1 Recommendations to Governments:
a) Government should set some rules and regulations for early and successful implementations of IFRS in country because deferment of convergence date will hurt the reputation of Indian accounting process because convergence is not a national matter it is an international matter. Many mergers and acquisition are only depends on international reporting. And if we delay the period then international mergers and acquisitions can get stuck. Internationally our reputation will also affect due to postponement of date for convergence.

b) Government should bring all the regulatory bodies who affects the accounting process in India at single platform to sort out all the problems which they will face on convergence. This is required because if afterward some discrepancies will found or any conflict will arose between two laws then it will be tough to make amendments. So at the time of making regulations it is necessary to bring all the bodies under a single roof.

c) Government should set rules regarding Fair Valuation Accounting which is an important challenge in convergence process. Government should clearly mention the rules of fair valuation in easy and simple form so that laymen can also understand the fair valuation rules. Fair valuation can affect the financial reports vary highly.

d) Government should make some certified courses for fair valuers who will help in determining the fair valuation process because this area can become an apple of discord in future. Fair values can make financial position stronger or weaker. Government should start some certificates for fair valuation. Only those who have certificate for fair valuation should be allowed to become fair valuers. Government should also decide responsibilities and liabilities of fair valuers.

e) Government should make certain Authorities and determine responsibilities for monitoring and easeful implementation. Without proper control an authority will not properly perform so government should step forward for successful implementation and make proper authorities and delegate responsibility to officers of that authority.

f) Government should provide helpline desk for guidance for successful implementation. In initial stage government should perform as helping hand for
corporate. If corporate feels any problem then government should provide help to corporate.

g) Government should make some changes in syllabus of accountancy in various boards and universities for giving knowledge about new regulations of IFRS because the youth is the ultimate group who will become the future accounting professionals.

7.4.2 Recommendations to ICAI

a) ICAI should introduce IFRS and IAS in their courses which will make enable to new accounting professionals to get awareness about IFRS and its regulations.

b) To give knowledge about IFRS to existing accounting professional and chartered accountants ICAI should implement a compulsory short duration certificate course for all existing chartered accountants and accounting professionals.

c) ICAI should make compulsory certificate course for members of ICAI to give knowledge of IFRS.

d) Some simplified literature should be provided for all the common users of accounting such as investors, bankers and analysts etc so that they can also understand the changes.

e) ICAI should increase their role in the IASB by holding the important position in the IASB Foundation monitoring board. So that emerging issues in accounting of India can also be merged in accounts.

f) ICAI should examine the impact on issuers, both large and small, including changes to accounting system, contractual arrangements, corporate governance consideration and accounting for litigation contingencies.

g) ICAI should continuously co-operation with the other regulatory bodies like a RBI, SEBI, IRDA, and MCA (Ministry of corporate affairs) for effectively convergence of the IFRS.

h) ICAI should conduct more and more conferences, seminars, workshop, and short term programs for awareness to different users about the IFRS.
i) Being the premium accounting standard setter body ICAI should start awareness campaign for all users about IFRS and start helpline desk for all the users to gain knowledge about IFRS.

7.4.3 Recommendations to Companies:

a) Companies should start early so that they will get significant advantage that they are better suited to confront the numerous of tactical and strategic decisions (e.g. impact on existing operations and information systems, impact on other technical or strategic initiatives currently under way at your bank) that would need to be made as the project progresses.

b) Starting early would also enable them to better manage the expectations of internal stakeholders such as the Board of Directors and senior management, regulators and external investors and analysts about the impact on earnings and equity. This can also enable them to determine any potential need for additional capital that you may need on mandatory adoption of IFRS at a future date.

c) Make effective plan for convergence successfully
   a. Preliminary impact assessment
   b. Design and planning
   c. Testing and problem solution
   d. implementation

d) Provide training to staff or arrange some dedicated staff for the convergence process. So that planning and implementation both will get start soon and ends with proper care and on time.

e) Spend sufficient time and strategy on impact assessment of IFRS because in initial stage impact assessment will be the most critical phase of whole IFRS convergence process.

f) Involve the following staff on priority basis for successful convergence:
   a. Steering committee
   b. Information technology department
c. Divisional business head

d. Human resources.

**g)** Use some external advisors for successful implementation and impact assessment.

References


2. Concept Paper on “Convergence with IFRS in India” by The Institute of Chartered Accountant of India)