Partial adoption of IFRS steering India to achieve growth in GDP – A Descriptive Study

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Abstract: According to RBI Governor D Subbarao in a speech to the Federation of Telangana Chamber of Commerce and Industry on India@75, India is a developing nation that is expanding quickly. If India can reach 9% GDP growth in another five years and overcome some obstacles like improving productivity, creating jobs, increasing investment, raising agricultural productivity, and maintaining macroeconomic stability, India will soon have a $5 trillion economy. Honorable Prime Minister Narendra Modi set a goal in 2019 to transform India into a $5 trillion economic powerhouse by 2024–2025.One significant step done in the realm of accounting to realize this ambition is the adoption of IFRS. Companies must implement these both voluntarily in the 2015–16 fiscal year and compulsorily starting in the 2016–17 fiscal year. However, due to a number of obstacles, including a lack of ICAI infrastructure, a shortage of experts with specialized training, and a variety of legal and economic conditions, India was unable to fully adopt IFRS. In light of the difficulties in implementing IFRS, ICAI introduces and removes carves in the accounting standard. In India, these modified IFRS are referred to as IND-AS. This study examines whether partial adoption allowed India to attract the necessary cross-border investment, job opportunities, and improvements in accounting quality and transparency or whether it needed to adopt fully in order to reach its GDP target.

Keywords: IFRS, IND-AS, GDP, Carve-outs, Carve-in, Growth, partial adoption.

Introduction

In his speech at the Federation of Telangana Chamber of Commerce and Industry on India@75 - Marching Towards $5 Trillion Dollar Economy, RBI Governor D Subbarao underlined the eight major obstacles that India must overcome to reach this milestone. These difficulties include expanding agricultural production, generating jobs, increasing investment, preserving macroeconomic stability, enhancing health, sustaining global megatrends, and enhancing governance. India is attempting to fulfill all these goals in one of its major initiatives, the adoption of IFRS in a converged form known as IND-AS. Companies must implement these both voluntarily in the 2015–16 fiscal year and compulsorily starting in the 2016–17 fiscal year. Whereas, due to various challenges such as lack of infrastructure with ICAI, lack of professionally trained experts, different legal and economic environment India was not in a position to go for full adoption of IFRS. In light of the difficulties in implementing IFRS, ICAI introduces and removes carves in the accounting standard. In India, these modified IFRS are referred to as IND-AS. Various studies indicate that the transition from National Accounting Standards to IND-AS has an impact on financial reporting and accounting quality, but it is still unknown whether such partial adoption with different carve-ins and carve-outs by India really helps to achieve the goal of increased FDI, job creation, uniformity in financial reporting, and improving governance, which are major obstacles on the path of India marching toward a $5 trillion economy

Review of literature

Srivastava and Kulshreshtha (2021) examined the preparedness of India for IFRS implementation along with the advantages and challenges associated with implementation. Questionnaires were collected from the 75 chartered accountants who belongs to different sectors by following purposive sampling from July to December 2018. Data is analysed and interpreted using 5 point Lickert scale, correlation and Kruskal walis test. Study reveals that still today Indian Financial reporting system is not ready to fully convergence with IFRS due to various challenges but if these challenges are addressed in strategically manner then advantages of adopting IFRS outweigh the cost.

Chhaya (2022) stated that there are various macro factors which need to be addressed such as socio-economic factors, diasporic impact including international economic scenario, international financial relations and stability in order to achieve the vision of India becoming $5 trillion economy. Structural changes are also need to be addressed in order to stay on the path. Growth process should not be accrued to handful people and sectors, rather it should be inclusive to all the sectors of economy and people with different class.

Basu (2021) examines the reasons behind why IFRS has not adopted in Full rather convergence route is taken and what are the main carve outs in IND AS as well should India continue its implementation. Study is purely descriptive and exploratory in nature and is based on secondary data from websites, published books and journal. Study concludes that deviations are required due to difference in legal and regulatory requirements of country but deviations should be kept at minimum. Convergence is better option than adoption due to difference in accounting and legal environment. India should implement IND AS as it brings flow of FDI, improves accounting quality and comparability.

Tawiah and Boolaky (2020) Conducted study on India to know how the route adopted by India of convergence to IFRS will have an impact on accounting values and on determinants of variation in equity adjustment in Indian companies. They have chosen top 500 listed companies by sales in year 2015-2017 as per economic times. T-test, F-test were used to test the hypothesis along with Wilcoxon signed-rank test to compare the variables. Results reveals that there is less impact of converged IFRS on financial statements except in case of Goodwill, current liabilities and extraordinary items which results in significant impact on financial statements. The variations in equity adjustment were significantly influenced by capital structure, level of family control and auditor type. They further concluded that IND AS Bridge the gaap between IFRS and GAAPs, but convergence is not equal to full adoption and India with time will go for full adoption.

Giri and Dev (2020) examined the effect of IFRS on financial position of company and challenges faced while adopting them. Key differences in Indian GAAP, IFRS and IND AS are also highlighted in the study. On the basis of qualitative study conducted by referring to secondary data, websites and various articles the study revealed that IFRS adoption leads to positive impact on financial statements as well as cost effective. Though it has its own challenges such as lack of experts and Awareness amongst stakeholders exist.

Sontakke and Bhargav (2019) stated that liberalisation has opened up many doors for India across borders which contributes significantly in attaining the vision of India becoming $5 trillion economy. There are many factors which act as input to achieve economic activities but financial segment acts the lifeblood and backbone for achieving economic activities. In order have sound business system, financial segment should be effective and conducive.

Das and Deb (2018) examined the expectation gaps about convergence of IFRS of Indian Practitioners (CA, CMA, CS, CFA, Ph.D., Postgraduate) due to legal and regulatory environment. Cross sectional study has been done with the help of online survey from Jan to mid June 2017. Questionnaires were sent to 337 respondents out of which 159 responded and they were assessed on 5 point lickert scale. Secondary data such ICAI guidelines, articles in reputed journal also form the part of study. Data is analysed using paired sample T-test, Spearman's Rank Correlation and Kruskal Walis test. Study concludes that Converged IFRS are not giving the expected results of better reporting practices, analyst's forecasting and audit quality due to effect of changes made in IFRS considering regulatory requirement.

Uzma *et al.* (2016) examined the issues emerged during the convergence to IFRS as well the successful practices which helps in smooth transition in BRIC nations, East Asian countries and specially the emerging economies like India. They concluded adoption of IFRS certainly brings change in financial reporting quality but there is a need for India to bring all IND AS in line with IFRS and differences should be narrowed down so that better comparison of information and improved compliance of overseas transactions can take place.

De George *et al*. (2016) examined the comprehensive picture of IFRS adoption done through empirical archival literature. Comprehensive Study is done with the help of empirical archival literature and is purely qualitative in nature. Study reveals that IFRS adoption improves reporting quality of capital market and comparability across the countries. More foreign investors are attracted and cross border opportunities are created. Financial statements drawn after IFRS adoption increases the credit lender confidence which leads to less restrictive covenants in comparison to non-adopters.

Gokulnath and Karthi (2015) examined the advantages and challenges of IFRS adoption in India along with differences in IGAAP and IFRS. Study is purely qualitative in nature and based on existing Literature in leading accounting Journals. Study reveals that IFRS adoption helps in improving financial statements, boost investor's confidence and promotes cross-border investment. There are certain challenges which need to be overcome for successful adoption of IFRS such as training to required staff, awareness amongst users about adoption of IFRS, and amendment to existing laws including taxation law.

Chakrobaty (2014) analyses the need and benefits as well as issues and challenges in implementing IFRS in India. By reviewing various reputed articles from national and international journals, newspapers and refereed books he came to the conclusion that there are various benefits available of adopting IFRS like foreign direct investment, cross border opportunities for corporate professionals, reduction in duplication of efforts for MNCs operating cross borders but there are various challenges to overcome such high cost involved specially for small and medium enterprises, lack of trained personnel etc. He also emphasized about the speech given by IASB chairman Hans Hoogervorst in event organized by ICAI is, the only way to achieve single set of high quality global accounting standard is to go for full adoption of IFRS.

Brown (2011) in his study examine the need, benefits and effectiveness of adoption of IFRS and how more benefit can be derived from the adoption of IFRS in various countries. He mentioned in his study that benefits of adoption of IFRS depends on many factors such as legal environment of the country, previous nature of accounting standards used by the country, degree of compliance, monitoring and enforcement. Study is purely qualitative in nature and based on existing Literature in leading Journals. Study concluded that adoption of IFRS certainly improve the comparability of financial statements and cross border investing. However complex nature of IFRS along with the cost of adopting IFRS will remain the most important challenges to be dealt with. He also highlighted the effective enforcement and implementation in order to reap the desired benefits of IFRS.

Objectives of study

1. To have an insight about convergence adoption of IFRS instead of Full adoption.
2. To gain an understanding about carves in and carves out from IFRS.
3. To explore whether partial adoption of IFRS led to economic growth and bring more Foreign Direct Investment in economy.

Research Methodology

This descriptive and exploratory study aims to shed some light on India's partial adoption of IFRS as one of the key steps toward becoming a trillion-dollar economy. It is examined in light of the different benefits, drawbacks, and the extent to which India has successfully adopted IFRS in its convergent version. Information and statistics are gathered from a variety of secondary sources, including books, websites, journals, and articles published by ICAI.

Major deviations in IND-AS corresponding to IFRS

Following Comparative statement helps to depict the differences between IFRS and IND-AS.

S. No.	International Financial Reporting Standards (IFRSs)		Indian Accounting Standards (IND-AS)		Major Differences
	No.	Title of the Standard	No.	Title of the Standard	

1.	IFRS 1	First time adoption of Ind-AS	Ind-AS 101	First time adoption of Ind-AS	1. Ind- AS 101 says if there is any foreign exchange unrealised gain/loss on long term monetary assets or liabilities it can be spread over the life of asset and liability prospectively or retrospectively on transition date. 2. IFRS 1, on date of transition, in case of investment property offers an option to take fair value or revaluation value as per previous GAAP as a cost. However no such option is provided by Ind-AS 101. 3. If material breach of covenants of loan agreement has occurred by reporting date making such loan repayable on demand and lender has agreed after balance sheet date but before approval of accounts, not to demand loan then such loan will be treated as NCL. Whereas in case of IFRSreclassification needs to be done on the basis of status till balance sheet date. 4. Ind- AS 101 gives option to companies not to provide reconciliation of total comprehensive income, cash flow statement, change in equity and comparatives statement on transition date. If companies want they can provide the same on memorandum basis. If companies opt for not to provide comparatives or reconciliation still they are expected to mention

					significant changes in total comprehensive income. 5. Ind-AS 101 allows option of amortization in case of intangible assets arising from service concessional arrangements, in case of toll roads which are recognised in balance sheet just before 1st time adoption of Ind-AS 101. Whereas no such option is available in IFRS.
2.	IFRS 15	Revenue form contracts with customers	Ind AS 115	Revenue form contracts with customers	1. Real estate transactions are accounted in books on the basis of Guidance note issue in Ind AS 115 for real estate transactions. Guidance note refers percentage completion method to be adopted and recognise the revenue after completion of some work even though ownership or possession is yet to be transferred. Whereas IFRS 15 adopts continuous transfer model where revenue is recognised only when all criteria related to sale of goods are met continuously. 2. IFRS 15 recognise excise duty as part of cost of sales and included in revenue whereas, Ind AS 115 states it is to be recognised as part of cost of production and recovery of excise duty is included in revenue.
3.	IAS 16	Property, Plant and Equipment	Ind AS 16	Property, Plant and Equipment	1. IFRS/IAS 16 permits property, plant and equipment, inventories, class of intangible assets and inventories to be remeasured at fair value.

					Whereas Ind AS 16, in accordance with fair value model do not require investment property to be remeasured at fair value. 2.IFRS requires all significant components of plant, property and equipment to be recognised and depreciated separately. Ind AS 16 in addition requires componentization of schedule II of companies act 2013 is to be met.
4.	IFRS 16	Leases	Ind AS 116	Leases	1. If land and building is classified as an investment property and fair value model is adopted then IFRS 16 do not require separate measurement of elements in case of land and building, However, such alternative is not available in case of Ind As 116 as it prohibits the use fair value model. 2. IFRS 16 requires lease rentals to be recognised on straight line basis under operating lease Whereas Ind AS 116 requires it to be recognised on cash basis and not on straight line basis in case of escalation in lease rentals due to inflation in order to compensate lessor for such expected inflation. 3. Fair value measurement of property is not available for leased property under Ind AS 116.
5.	IFRS 9	Financial Instruments	Ind AS 109	Financial Instruments	1. As per Ind AS 109, Mostly hybrid contracts

					with financial assets as hosts likely to fail the "solely payment of principal and interest" test and entire contract is measured at fair value. 2. IFRS 9 requires all changes in fair value of financial liabilities designated at fair value since inception through profit and loss account is to be recorded in other comprehensive income. Whereas Ind AS 109 states all changes in fair value of financial liabilities designated at fair value since inception through profit and loss account due to companies own credit risk is to be ignored.
6.	IAS 21	The Effects of Changes in Foreign Exchange Rates	Ind AS 21	The Effects of Changes in Foreign Exchange Rates	1. IFRS 21 requires recognise exchange difference arising on conversion of monetary items from foreign currency to functional currency directly in profit and loss account whereas in certain cases of conversion of long term monetary items from foreign currency to functional currency in equity and to be amortised in Profit and loss account in appropriate manner.
7.	IAS 19	Employee Benefits	Ind AS 19	Employee Benefits	1. IAS 19 requires discount rate should be based on market yield on high quality corporate bonds whereas Ind AS 19 allows departure if currency involves is Indian rupees, in that case

					discount rate should be based on market yield on Govt. Bonds Ind AS 19.
8.	IAS 7	Statement of Cash Flows	Ind AS 28	Statement of Cash Flows	1. Contrasting to IAS 7, AS 3 provides no option with respect to classification of interest paid except in case of enterprises other than financial enterprises, and requires the same to be classified as item of financing activity. 2. Contrasting to IAS 7, AS 3 provides no option with respect to classification of interest received and dividend receives except in case of enterprises other than financial enterprises, and requires the same to be classified as item of investing activity. 3. As per Ind AS 3, Dividend paid is to be classified as financing cash flows only. There is no alternative treatment to it.
9.	IFRS 3	Business Combination	Ind AS 103	Business Combination	1. IFRS 3 requires to measure identifiable assets acquired and liabilities assumed at fair value on the date of acquisition. Whereas Ind AS 103 allows departure in case of common control transactions to be measured at book value if fair value is not available. 2. IFRS 3 requires gain arising on purchase bargain in case of business combination to be recognised through profit and loss account. Whereas

					in case of Ind AS 103, such bargain purchase gain is to be recognised in other comprehensive income and accumulate in equity as capital reserve till there is no clear evidence of such classification. once there is clear evidence of such classification then it is recorded directly in equity as capital reserve.

Findings and Discussions

A thorough review of the literature revealed that India implemented IFRS on April 1, 2016, despite pressure (Joshi et al., 2017; Tawiah and Boolaky, 2020). Due to a lack of resources, India was not ready for the convergence, especially the small businesses (Tripathi, 2018). The implementation of IFRS is fraught with difficulties everywhere, including in India, due to the lack of infrastructure, inadequate training, and untrained professionals (Srivastava and Kulshreshtha, 2021; Weaver and Wood, 2015; Adhana, 2015; Dhankar and Gupta, 2014; Puri and Singh, 2020; Sharma et al., 2017; Joshi et al. 2017). But research shows that if implementation and legal enforcement are done effectively (Marra and Mazola, 2014; Brown, 2011), benefits such as better accounting quality and reporting, cross-border comparison, increased flow of FDI, and reduction in insider trading will outweigh the costs (Srivastava and Kulshreshtha, 2021; Puri and Singh, 2020; Giri and Dev, 2020; Aggarwal, 2019; Jain, 2011).

However, according to research, if implementation and legal enforcement are carried out successfully, benefits such as improved accounting quality and reporting, cross-border comparison, an increase in FDI, and a decrease in insider trading will outweigh the costs (Srivastava and Kulshreshtha, 2021; Puri and Singh, 2020; Giri and Dev, 2020; Aggarwal, 2019; Jain, 2011). Due to the impact of revisions made to IFRS taking into consideration legislative requirements of the country (Pascan, 2015), including Europe (Ball, 2006), convergent IFRS are not providing the expected results of better reporting practices, analyst forecasts, and audit quality (Das and Deb, 2018). While (Basu, 2021) disagrees with other studies and claims that although variances are necessary because each country has different legal and regulatory needs, they should be maintained to a minimum. Due to differences in the accounting and legal environments, convergence is a preferable option to adoption (shivastrava and singh, 2019(Chakrobaty, 2014) stressed that the only approach to attain a single set of high quality worldwide accounting standards is to go for complete adoption of IFRS instead of the convergence route. This was said in the address made by IASB Chairman Hans Hoogervorst at an event hosted by the ICAI.

The adoption of IFRS undoubtedly affects the quality of financial reporting, but India must align all IND AS with IFRS and reduce differences in order to improve information comparison and compliance with international transactions over time (Uzma et al. 2016, Muthupandian, 2008). The financial sector is crucial to attaining economic activity and serves as the backbone and support structure for the economy. In order to have a healthy business climate and to help India achieve its goal of being a $5 trillion economy, it is crucial to have a stable financial system (Sontakke and Bhargav, 2019).

Conclusion

India has made significant strides toward international competition by adopting IFRS. Additionally, it increases foreign investment, job possibilities, and international financial relations—all crucial elements in boosting GDP and assisting India achieve its goal of becoming a $5 trillion economy. However, due to a number of difficulties, including a lack of ICAI infrastructure, a shortage of experts with specialized training, and a different legal and economic context, India has chosen to only partially implement IFRS in the form of IND-AS. Even though ICAI and NACAS made an effort to maintain the gap between IND-AS and IFRS as small as possible, many accounting experts believe that India should fully embrace IFRS and harmonize IND-AS with IFRS in order to improve accounting quality and financial reporting.

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