Study of IFRS and harmonization with country specific accounting standard

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Abstract

“Study of IFRS and its harmonization with country specific accounting standard” was the topic for my dissertation which is basically a small effort towards finding out how much IFRS has affected the global business and how our country is reacting to this particular procedure.

There have been many a time where I have been summoned that why I have chosen this particular topic as my dissertation paper in my graduation. I have always replied that being a student of commerce with specialization in accounting and finance, the very beginning of accountancy ie; the definition of Accountancy teaches me that “it is the subject dealing with scientific and systematic recording of transactions is the main spine of the subject” and the practice of the subject is called accounting.

So it is very concrete to opine that whenever there will be a change in way of recording the transactions or the procedure, then reciprocally there will be a change in the subject as a whole.

We are standing on the verge of 21st century, where globalization is the ultimatum across the business world and IFRS being the nervous system carries on an invisible bridge in the veins of the trade world and it changed the whole picture of our business parameter across the oceans.

Basically my effort was to find out how far India has been successful in implementing IFRS in various Indian industries, along with to see what are the advantages of respective country specific accounting standards which stand in the way of proper implementation of IFRS in various countries.

This being the superior thought which echoed in my mind and grasped me towards this topic for my paper.

My research was an effort in finding out how much IFRS have influenced the business economy and trade of our country in respect to other countries along with its pros and cons.

1. Introduction

1.1 International Financial Reporting Standards (IFRS)

IFRS is a set of accounting standards developed by an independent, non-profit organisation, called the IASB to provide a global framework for how public companies prepare and disclose their financial statements.

Globalisation of financial markets has meant an increased focus on international standards in accounting and has intensified efforts towards a single set of high quality globally acceptable set of accounting standards. Financial statements prepared in different countries according to different set of rules, mean numerous national sets of standards, each with its own set of interpretation about a similar transaction, making it difficult to compare, analyse and interpret financial statements across the nations.

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 auspicious of the IASB from 2005 onwards, which has sole responsibility for establishing IFRSs. Other components of the structure are the Trustees of the IASC Foundation, the IFRIC and the SAC.

Country specific accounting standards mean, those separate sets of accounting standards that were developed by particular authority of that particular country and used only by that country for the preparation and presentation of the financial statements is known as Indian Accounting Standards and it is developed by the authority named ICAI.

1.2 Need of the study

In present day context we came across various opportunities that IFRS delivers to those institutions and organisations who had already adopted the IFRS as a means of their financial statements preparation and presentation by replacing their own country specific accounting standards by IFRS.

1.3 Opportunities delivers to those institutions by IFRS are as follows

1. Industries those who had already adopted IFRS get an opportunity in better accessing to global capital markets.
2. They get an opportunity of comparing their financial statements with the financial statements of the same type of industries of other countries.
3. They get rid of multiple reporting task. They prepare and present accounts according to IFRS so they need not required to prepare and present their accounts as per various accounting standards of various countries and thus relieved from the strenuous job of multiple reporting.
4. Companies who had already adopted IFRS get an opportunity in respect of easy cross border listing.
5. Those companies who had already adopted IFRS enjoy an edge over the other companies of same industry who not yet adopt IFRS, in respect of various business aspects or matters.

Thus, it is more or less clear from the above discussion that IFRS gain immense importance in present day in the whole world in respect of preparation and presentation of financial statements of various industries all over the world.
So, a close and deep study of this subject is very much necessary at present, to gain or gather more knowledge and idea about its various aspects.

Thus, IFRS indirectly play an important role in the augmentation of the world economy through its implementation in various industries of the world. Hence it becomes a very important topic for discussion and study, at present in the whole world.

1.4 Brief Review of Literature

As mentioned earlier, the available literature on IFRS and its implementation covers the data from European Union. Few studies have been carried out analysing the data from other countries. Zhou et al. (2009) in one such study of Chinese firms’ data concluded that the firms adopting IFRS are less likely to smooth earnings in the post IFRS adoption period. Their findings also pointed out the need for a stricter enforcement mechanism of financial reporting standards in emerging markets. Working on the data of European firms Armstrong et al. (2010) found out 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. In his study of 1084 European Union firms during the period of (1995-2006), Siqi Li (2010) concluded that on average the IFRS mandate significantly reduces the cost of equity for mandatory adopters. He also suggested in his research that this reduction is present only in countries with strong legal enforcement and that increased disclosures and enhanced information comparability are two mechanisms behind the cost of equity reduction. Cai & Wong (2010) in their study of their global capital markets summarized that the capital markets of the countries that have adopted IFRS have higher degree of integration among them after IFRS adoption as compared to the period before the adoption. Paananen & Lin (2009) gave a contrary view to prior research that IFRS adoption ensures better quality of accounting information. Their analysis of German companies reporting showed that accounting information quality has worsened with the adoption of IFRS over time. They also suggested that this development is less likely to be driven by new adopters of IFRS but is driven by the changes of standards. Books and articles published regarding the topic of the project are a) (IFRSs), produced and printed on behalf of: ICAI, b) (IFRSs) – published by Taxman Publications P Ltd. c) A guide through IFRSs July, 2008– Published by IASB. d) IFRS: A Quick Reference Guide by Robert Kirk, etc.

2. Methodology

Our study has been totally conducted on the basis of secondary data as collection of primary data is not at all possible for me due to huge time, cost and confidentiality constraints and also due to my negligible identity companies or institutions refused to give me their primary data on the basis of confidentiality ground. We collect data from various books journals and articles published by various supreme accounting authorities of different countries and by different individuals and non-profit organisations who either deals or research with this subject and who previously conducted study on this subject. Again data is also collected from various articles published by various companies who either already adopted IFRS or going to adopt IFRS. Information that they published through articles is basically about that procedure they had adopted for its smooth implementation, that challenges the faced during implementation, benefits reaped from its successful implementation etc.

2.1 Procedure of my study

I collected information about and through the following matters and ways respectively

1. The procedure adopted for smooth adoption, challenges faced during implementation or adoption, benefits or advantages enjoying due to adoption of IFRS by each of the following four Indian companies viz., Infosys, Larsen & Turbo, TATA Motors and ITC Ltd.
2. Two separate sets of Ratios of Infosys are computed on the basis of the data available in two financial statements for the year 2014, prepared & presented in compliance with IFRS and Ind AS.
3. Data or information regarding adoption of IFRS of several countries like Australia, Taiwan, South Africa, Russia, Montenegro, Uruguay, Newzeland etc. has been collected.
4. General information regarding adoption of IFRS in India are also collected.
5. Information has been collected regarding IFRS adoption of the European Union companies overall.
6. An overall comparison has been made between IFRS & Ind AS.

2.2 IFRS Structure

The International Accounting Standard Committee (IASC) Foundation is an independent body that oversees the International Accounting Standard Board (IASB), The IASC appoints Standard Advisory Council, The IASB and International Financial Reporting Interpretations Committee (IFRIC).

1. IASB consists of 14 members for the initial term of three to five years. IASB is responsible for technical matters including

- Preparation and issue of exposure draft,
- Setting up procedures for reviewing comments received on documents published for comments
- Issuing bases for conclusions.
2. Standard Advisory Council (SAC) consists of 40 members appointed by IASC Foundation trustees. They are appointed for a renewable terms of three years with a diverse geographic and functional background. SAC meets in public at least three times a year with IASB.

Their main objectives are to advise the IASB on agenda decisions, to pass views of the council members on the major standard setting project and other works.

3. IFRIC consists of accounting experts from 12 countries appointed by trustees.

The main objects of IFRIC are to develop conceptually sound and practicable interpretations of IFRSs to be applied on a global basis.
For newly identified financial reporting issues not specifically addressed in IFRSs. Where unsatisfactory, conflicting, divergent or other unacceptable interpretations have develop or seem likely to develop in the absence of authoritative guidance. There are total 19 IFRICs have been issued till date.

2.5 Presentation of Data, Analysis & Findings
Presentation of data
On the basis of the following data analysis have been made and from which the findings are arrived at.

3. Australia
Australian Accounting Standards Board (AASB) has issued ‘Australian equivalents to IFRS’ (A-IFRS), numbering IFRS standards as AASB 1-8 and IAS standards as AASB 101-141. Australian equivalents to SIC and IFRIC Interpretations have also been issued, along with a number of ‘domestic standards and interpretations. These pronouncements replaced previous Australian generally accepted accounting principles with effect from annual reporting periods beginning on or after 1 January 2005 (i.e, 30the June, 2006 was the first report prepared under IFRS-equivalent standards for June year ends). To this end, Australia, along with Europe and a few other countries, was one of the initial adopters of IFRS for domestic purposes (in the developed world). It must be acknowledged, however, that IFRS and primarily IAS have been part and parcel of accounting standard package in the developing world for many years since the relevant accounting bodies were more open to adoption of international standards for many reasons including that of capability.

The AASB has made certain amendments to the IASB pronouncements in making A-IFRS, however, these generally have the effect of eliminating an option under IFRS, introducing additional disclosures or implementing requirements for not-for-profit entities, rather than departing from IFRS for Australian entities. Accordingly, not-for-profit entities that prepare financial statements in accordance with A-IFRS are able to make an unreserved statement of compliance with IFRS.

The AASB continues to mirror changes made by the IASB as local pronouncements. In addition, over recent years, the AASB has issued so-called ‘Amending Standards’ to reverse some of the initial changes made to the IFRS text for local terminology differences, to reinstate options and eliminate some Australian-specific disclosure. There are some calls for Australia to simply adopt IFRS without ‘Australianising’ them and this has resulted in the AASB itself looking at alternative ways of adopting IFRS in Australia.

4. Russia
The Government of Russia has been implementing a programme to harmonize its national accounting standards with IFRS since 1998. Since then twenty new accounting standards were issued by the Ministry of Finance of the Russian Federation aiming to align accounting practices with IFRS. Despite these efforts essential differences between Russian accounting standards and IFRS remain. Since 2004 all commercial banks have been obliged to prepare financial statements in accordance with both Russian accounting standards and IFRS. Full transition to IFRS is delayed but starting 2012 new modifications making Russian GAAP
converging to IFRS have been made. They notably include the booking of reserves for bad debts and contingent liabilities and the devaluation of inventory and financial assets.

Still, several differences between the two sets of account still remain. Major reasons for deviation between Russian GAAP and IFRS / US-GAAP (e.g. when the Russian affiliate of a larger group need to be consolidated to the mother company) are the following:

1. Booking of payables in the General Ledger according to national accounting standard can only be made upon receipt of the actual acceptance protocol (good’s receipt). Indeed in Russia, oppose to IFRS and US-GAAP, the invoice (outgoing or incoming) is not an official tax or accounting document and does not trigger any booking. There is also not provision to book in the General Ledger any expense for goods and services that according to a contract are effectively received but for whom documents are still not exchanged.

2. There is no possibility under Russian GAAP to recognise the good-will as an intangible asset in the balance sheet of a company. This has a major consequence when a company in sold. Indeed, if a company (or part of it) is sold at a higher value than its book value (i.e. to account for the good-will value), the selling party need to pay tax at the relevant profit tax rate (20% in 2013) on the difference in value between selling and accounting value and the buyer has no possibility to amortize the cost and deduct it from present and future revenues.

3. There is no equivalent of IAS 37 in the Russian GAAP. Loans and monetary securities are not discounted, so the present value of such financial assets is not discounted for the relevant interest rates at the different maturities of the loans.

5. Taiwan

Adoption scope and timetable

(1) Phase I companies: listed companies and financial institutions supervised by the Financial Supervisory Commission (FSC), except for credit cooperatives, credit card companies and insurance intermediaries:

A. They will be required to prepare financial statements in accordance with Taiwan-IFRS starting from 1st January, 2013.

B. Early optional adoption: Firms that have already issued securities overseas, or have registered and overseas securities issuance with the FSC, or have a market capitalization of greater than NT$10 billion, will be permitted to prepare additional consolidated financial statements in accordance with Taiwan-IFRS starting from 1st January, 2012. If a company without subsidiaries is not required to prepare consolidated financial statements, it will be permitted to prepare additional individual financial statements on the above conditions.

(2) Phase II companies: unlisted public companies, credit cooperatives and credit card companies:

A. They will be required to prepare financial statements in accordance with Taiwan-IFRS starting from 1st January, 2019.

B. They will be permitted to apply Taiwan-IFRS starting from 1st January, 2013.

(3) Pre-disclosure about the IFRS adoption plan, and the impact of adoption

To prepare properly for IFRS adoption, domestic companies should propose an IFRS adoption plan and establish a specific taskforce. They should also disclose the related information from 2 years prior to adoption, as follows:

A. Phase I companies

(a) They will be required to disclose the adoption plan, and the impact of adoption, in 2011 annual financial statements, and in 2013 interim and annual financial statements.

(b) Early optional adoption

i) Companies adopting IFRS early will be required to disclose the adoption plan, and the impact of adoption, in 2010 annual financial statements, and in 2011 interim and annual financial statements.

ii) If a company opts for early adoption of Taiwan-IFRS after 1st January, 2011, it will be required to disclose the adoption plan, and the impact of adoption, in 2011 interim and annual financial statements commencing on the decision date.

6. Some other countries

Uruguayan companies adopt IFRS from 31st July, 2007 by order of their accounting standards setting board. Canada has fully adopted IFRS from 2011 and procedure of IFRS adaptation started from 2008. Hong Kong has adopted national standards that are identical to IFRS. Australia and NEW ZEALAND have adopted national standards that they describe as IFRS equivalents. Malaysia plans to implement IFRS fully from January 2012 as per CNBV report but they not yet fully implemented but will implement soon. They started to adopt IFRS of 1999. Venezuela adopted IFRS in 2004, though they adopt IFRS but they did not adopt any new IFRS developed from 2005.

7. South Africa

All companies listed on the Johannesburg Stock Exchange have been required to comply with the requirements of International Financial Reporting Standards since 1st January, 2005. The IFRS for SMEs may be applied by ‘limited interest companies’, as defined in the South African Corporate Laws Amendment Act of 2006 (i.e., they are not ‘widely held’), if they do not have public accountability (i.e., not listed and not a financial institution). Alternatively, the company may choose to apply full South African Statements of GAAP or IFRS.

South African Statements of GAAP are entirely consistent with IFRS, although there may be a delay between issuance of an IFRS and the equivalent SA Statement of GAAP (can affect voluntary early adoption).

8. India

The (ICAI) has announced that IFRS will be mandatory in India for financial statements for the periods beginning on or
after 1st April, 2012, but this plan has been failed and IFRS/IND-AS (Converged IFRS) are still not applicable. There was a roadmap as given below but still Indian companies are following old Indian GAAP. There is no clear new date of adoption of IFRS. Reserve Bank of India has stated that financial statements of banks need to be IFRS-compliant for periods beginning on or after 1st April 2011. First initiative was taken by T.S. Subbarao and from 2013 by Mr. Raghuram Rajan The ICAI has also stated that IFRS will be applied to companies above INR 1000 crore (INR 10 billion) from April 2011. Phase-wise applicability details for different companies in India:

Phase 1: Opening balance sheet as at 1st April, 2011*
1. Companies which are part of NSE Index – Nifty 50
2. Companies which are part of BSE Sensex – BSE 30
   a. Companies whose shares or other securities are listed on a stock exchange outside India.
   b. Companies, whether listed or not, having net worth of more than INR 1000 crore (INR 10 billion).

Phase 2: Opening balance sheet as at 1st April 2012*
1. Companies not covered in phase 1 and having net worth exceeding INR 1000 crore (INR 10 billion).

Phase 3: Opening balance sheet as at 1st April 2014*
Listed companies not covered in the earlier phases* If the financial year of a company commences at a date other than 1st April, then it shall prepare its opening balance sheet at the commencement of immediately following financial year
On 22 January, 2010, the Ministry of Corporate Affairs issued the road map for transition to IFRS. It is clear that India has deferred transition to IFRS by a year. In the first phase, companies included in Nifty 50 or BSE Sensex, and companies whose securities are listed on stock exchanges outside India an all other companies having net worth of INR 10 billion will prepare and present financial statements using Indian Accounting Standards converged with IFRS. According to the press note issued by the government, those companies will convert their first balance sheet as at 1st April 2011, applying accounting standards convergent with IFRS if

### Table 1: Bridging the gap between IND AS & IAS/IFRS

<table>
<thead>
<tr>
<th>IND AS</th>
<th>Converged Standards</th>
<th>Corresponding IAS/IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>IND AS 1</td>
<td>Presentation of Financial Statements</td>
<td>IAS 1</td>
</tr>
<tr>
<td>IND AS 2</td>
<td>Inventories</td>
<td>IAS 2</td>
</tr>
<tr>
<td>IND AS 7</td>
<td>Statement of Cash Flows</td>
<td>IAS 7</td>
</tr>
<tr>
<td>IND AS 8</td>
<td>Accounting Policies, Changes in Accounting Estimates and Errors</td>
<td>IAS 8</td>
</tr>
<tr>
<td>IND AS 10</td>
<td>Events after the Reporting Period</td>
<td>IAS 10</td>
</tr>
<tr>
<td>IND AS 11</td>
<td>Construction Contracts</td>
<td>IAS 11</td>
</tr>
<tr>
<td>IND AS 12</td>
<td>Income Taxes</td>
<td>IAS 12</td>
</tr>
<tr>
<td>IND AS 16</td>
<td>Property, Plant and Equipment</td>
<td>IAS 16</td>
</tr>
<tr>
<td>IND AS 17</td>
<td>Leases</td>
<td>IAS 17</td>
</tr>
<tr>
<td>IND AS 18</td>
<td>Revenue</td>
<td>IAS 18</td>
</tr>
<tr>
<td>IND AS 19</td>
<td>Employee Benefits</td>
<td>IAS 19</td>
</tr>
<tr>
<td>IND AS 20</td>
<td>Accounting for Govt. Grants and Disclosure of Govt. Assistance</td>
<td>IAS 20</td>
</tr>
<tr>
<td>IND AS 21</td>
<td>The Effects of Changes in Foreign Exchange Rates</td>
<td>IAS 21</td>
</tr>
<tr>
<td>IND AS 23</td>
<td>Borrowing Costs</td>
<td>IAS 23</td>
</tr>
<tr>
<td>IND AS 24</td>
<td>Related Party Disclosures</td>
<td>IAS 24</td>
</tr>
<tr>
<td>IND AS 27</td>
<td>Consolidated and Separate Financial Statements</td>
<td>IAS 27</td>
</tr>
<tr>
<td>IND AS 28</td>
<td>Investment in Associates</td>
<td>IAS 28</td>
</tr>
<tr>
<td>IND AS 29</td>
<td>Financial Reporting in Hyper Inflationary Economics</td>
<td>IAS 29</td>
</tr>
<tr>
<td>IND AS 31</td>
<td>Interest in Joint Ventures</td>
<td>IAS 31</td>
</tr>
<tr>
<td>IND AS 32</td>
<td>Financial Instruments : Presentation</td>
<td>IAS 32</td>
</tr>
<tr>
<td>IND AS 33</td>
<td>Earnings per Share</td>
<td>IAS 33</td>
</tr>
<tr>
<td>IND AS 34</td>
<td>Interim Financial Reporting</td>
<td>IAS 34</td>
</tr>
<tr>
<td>IND AS 36</td>
<td>Impairment of Assets</td>
<td>IAS 36</td>
</tr>
<tr>
<td>IND AS 37</td>
<td>Provisions and Contingent Liabilities and Contingent Assets</td>
<td>IAS 37</td>
</tr>
<tr>
<td>IND AS 38</td>
<td>Intangible Assets</td>
<td>IAS 38</td>
</tr>
<tr>
<td>IND AS 39</td>
<td>Financial Instruments: Recognition and Measurements</td>
<td>IAS 39</td>
</tr>
<tr>
<td>IND AS 40</td>
<td>Investment Property</td>
<td>IAS 40</td>
</tr>
<tr>
<td>IND AS 101</td>
<td>First Time Adoption of Financial Reporting Standards</td>
<td>IFRS 1</td>
</tr>
<tr>
<td>IND AS 102</td>
<td>Share-based Payment</td>
<td>IFRS 2</td>
</tr>
<tr>
<td>IND AS 103</td>
<td>Business Combinations</td>
<td>IFRS 3</td>
</tr>
<tr>
<td>IND AS 104</td>
<td>Insurance Contracts</td>
<td>IFRS 4</td>
</tr>
<tr>
<td>IND AS 105</td>
<td>Non-Current Assets Held for Sale and Discontinued Operations</td>
<td>IFRS 5</td>
</tr>
<tr>
<td>IND AS 106</td>
<td>Exploration for and Evaluation of Mineral Resources</td>
<td>IFRS 6</td>
</tr>
<tr>
<td>IND AS 107</td>
<td>Financial Instruments : Disclosures</td>
<td>IFRS 7</td>
</tr>
<tr>
<td>IND AS 108</td>
<td>Operating Segments</td>
<td>IFRS 8</td>
</tr>
</tbody>
</table>
the accounting year ends on 31st March. This implies that the transition date will be 1st April, 2011. According to the earlier plan, the transition date was fixed at 1st April 2010.

The press note does not clarify whether the full set of financial statements for the year 2011-12 will be prepared by applying accounting standards convergent with IFRS. The deferment of the transition may make companies happy, but it will undermine India’s position. Presumably, lack of preparedness of Indian companies has led to the decision to defer the adoption of IFRS for a year. This is unfortunate that India, which boasts for its IT and accounting skills, could not prepare itself for the transition to IFRS over last four years. But that might be the ground reality.

9. Transition in phases: Companies, whether listed or not, having net worth of more than INR 5 billion will convert their opening balance sheet as at 1st April, 2013. Listed companies having net worth of INR 5 billion or less will convert their opening balance sheet as at 1st April 2014. Un-listed companies having net worth of Rs.5 billion or less will continue to apply existing accounting standards, which might be modified from time to time. Transition to IFRS in phases is a smart move. The transition cost for smaller companies will be much lower because large companies will bear the initial cost of learning and smaller companies will not be required to reinvent the wheel. However, this will happen only if a significant number of large companies engage Indian accounting firms to provide them support in their transition to IFRS. If, most large companies, which will comply with Indian accounting standards convergent with IFRS in the first phase, choose one of the international firms, Indian accounting firms and smaller companies will not benefit from the learning in the first phase of the transition to IFRS.

It is likely that international firms will protect their learning to retain their competitive advantage. Therefore, it is for the benefit of the country that each company makes judicious choice of the accounting firm as its partner without limiting its choice to international accounting firms. Public Sector companies should take the lead and the Institute of Chartered Accountants of India (ICAI) should develop a clear strategy to diffuse the learning.

Size of companies

The government has decided to measure the size of companies in terms of net worth. This is not the ideal unit to measure the size of a company. Net worth in the balance sheet is determined by accounting principles and methods. Therefore, it does not include the value of intangible assets. Moreover, as most assets and liabilities are measured at historical cost, the net worth does not reflect the current value of those assets and liabilities. Market capitalisation is a better measure of the size of a company. But it is difficult to estimate market capitalisation or fundamental value of unlisted companies. This might be the reason that the government has decided to use ‘net worth’ to measure size of companies. Some companies, which are large in terms of fundamental value or which intend to attract foreign capital, might prefer to use Indian accounting standards convergent with IFRS earlier than required under the road map presented by the government. The government should provide that choice.

10. Recommendations & Conclusion

10.1 Recommendations

IFRS implementation in India is not at all properly and completely takes place, not only India except few countries of the world, Large no. Of countries not yet have been properly and completely implemented IFRS. Merely adopting IFRS is not enough. Directors, managers internal & external auditor and accountants of the firms along with the regulators and law makers of the country will have to work together as a team for complete, proper and efficient implementation of IFRS in any country.

Directors and managers of the firms should see that the accounts are prepared in compliance with the IFRS. Regulators and law makers must implement efficient monitoring system of regulatory compliance of IFRS. Auditors and accountants should audit and prepare accounts respectively in compliance with IFRS.

10.2 It will help India in various ways

A. Better access to global capital market
B. More foreign investors will be interested to invest.
C. Easy cross border listing
D. Better quality of financial reporting
E. Elimination of multiple reporting.
F. Corruption can be controlled.

10.3 Following are Some Procedures that should be adopted by all the Countries who not yet Implement IFRS, for Smooth Implementation of IFRS

A. The lawmakers of India will have to make necessary changes in the Companies Act 2013, Insurance Act, Tax Laws, Foreign Exchange Management Act etc to bring Indian accounting practices in line with the IFRS. As per the changes in Companies Act 2013 much focus should be given on implementing IFRS
B. For proper implementation of IFRS in a country, there requires adequate number of IFRS trained accountants and auditors, so that they can implement or adopt IFRS. Sufficient number of trained persons are lacking in most of the country so every countries who not yet adopt IFRS should consider this matter.
C. To ensure that all the firms are complying with adoption procedure, Indian law makers and Accounting Body (ICAI) should have Financial Reporting Compliance Monitoring Board.
D. Government of each country should take adequate measures for implementation of IFRS in industries of those countries.

11. Conclusion

It can be concluded that IFRS has not yet been implemented in all the industries of India, very few industries like Infosys, Larsen & Turbo etc had adopted IFRS but it is expected that all the Indian companies will implement or adopt IFRS within 2016. In case of other countries of the world the condition is same, very few countries of the world only adopt IFRS, those
are basically European countries. It will take 10 to 20 years
for adopting IFRS by more or less all the countries of the
world.
One thing, important to say that in case of each countries
including India, a coordinated effort from accountants to law
makers is needed along with an enforcement mechanism but
it is worthy to mention that only enforcement mechanism will
not be sufficient but and advisor is also required.
Now as far as project is concerned, it has been mentioned
under limitations of the project in introduction part, that the
project faced a great limitation due to non-availability of
primary data and which affects analysis and findings for
which the objectives of the project is not totally fulfilled.
It can never be say that any project on IFRS can’t be
successful totally, it will but not possible for me as because
collection of primary data from firms, industries and supreme
accounting & financial authority of those far way countries is
not possible due to huge cost, time and confidentiality
constraint for me. Indian companies also did not provide data
to me because non-published IFRS related data is very
confidential to them, as each have own confidential strategy
for IFRS implementation, which they will not tell to us until
they publicly publish it.
Moreover collection of primary data is possible for large
organisations like Zhou et al, Siqi Li who also carry out
project on this subject as they have negligible time and cost
constraint and as they are huge and naming organisations
many industries provide them there unpublished data. They
work on some primary data therefore there project is more
successful than me.

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