

UNVEILED THE IMPACT OF IFRS ON INDIAN CORPORATE SECTOR

Neelam Yadav*, Shurveer S. Bhanawat**

Abstract IFRSs are International Financial Reporting Standards, which are issued by the International Accounting Standard Board (IASB)¹. IFRS is the globally accepted accounting standards. Indian accounting standard is converged with IFRS and called (IND AS). The objective of this paper is to examine the challenges and benefits of adoption of full-fledged IFRS in India. For the study, the survey method has been conducted. For data analysis, descriptive statistics and chi-square test have been used. Descriptive statistics results found the most effective, serious benefits and challenges on the basis of higher rank of mean score. Results of chi-square test revealed that there is no significant difference among different benefits and challenges available after the adoption of full-fledged IFRS, every benefit and challenge have equal importance for the Indian corporate sector:

Keywords Full-Fledged IFRS, Convergence, Challenges, Benefits, IND AS

INTRODUCTION

Globalization has changed the closed economy into the open economy. Due to globalization now a day's Indian economy is integrating into the international market with other countries by spreading trade and business outside the borders. In order to do business in the broader economy, uniform accounting is need of an hour. Now investors are spread throughout the world. At international level efforts are being made by International Accounting Standard Board to issue accounting standards which are acceptable at the global level. After 2001, these international accounting standards are known as IFRS. International Financial Reporting Standards (IFRS) are a set of accounting standards, developed by an independent, based in London, private sector standard-setting body for a non-profit organization called International Accounting Standards Board (IASB). It has issued a set of standards to be used when preparing financial statements, namely 41 International Accounting Standards (IAS) and 16 International Financial Reporting Standards (IFRS). IAS are standards issued by the IASB by 2001 and IFRS are standards issued after that year. Accounting Standards was issued from 1973 to 2001 by the broad of the International Accounting Standards Committee. On April 1, 2001, the new IASB took over the responsibility of setting the International Accounting Standards Committee from (IASC)². IFRS represents a set of generally accepted accounting principles (GAAP)³ used by companies to prepare financial statements. International Financial Reporting Standards (IFRS) have gained rapidity

all around the globe. IFRS convergence objective is to make companies financial accounts understandable across international boundaries.

Approximately, out of 150 nations, 126 nations require IFRS standard for all or most domestic publicly listed companies and 13 nations require IFRS for some domestic companies. Out of 150 nations, 7 nations neither require nor permit IFRS standards for any domestic publicly companies.

No doubt due to the adoption of full-fledged IFRS several challenges and benefits emerged. Here an attempt has been made to analyses benefits and challenges being faced by the Indian corporate sector through survey method.

The present survey analysis has been divided into the following sections:

Section I Provides a detailed review of the literature.

Section II Briefly describe significance and challenges after the adoption of IFRS.

Section III Research Methodology.

Section IV Analysis and discussions of the survey.

Section V Concluding remark.

REVIEW OF LITERATURE

A number of empirical studies have been reviewed related to present research work.

* Senior Research Fellow, Department of Accountancy and Statistics, Mohanlal Sukhadia University, Udaipur, Rajasthan, India.
Email: neelamyadav071993@gmail.com

** Professor, Department of Accountancy and Business Statistics, Mohanlal Sukhadia University, Udaipur, Rajasthan, India.

Parvathy (2017) focused on the convergence of IFRS with Indian Accounting Standards, its utility, issues, and challenges faced by the stakeholders. Results revealed that convergence of IFRS with the Indian Accounting Standards will, of course, ensure greater credibility in the international capital market. Adequate time is required to react to new changes and an intensive effort by all the stakeholders is imperative in order to achieve that goal. The process of convergence has been making a slow but steady progress in India and is expected to have a common set of high quality standards in adoption.

Tabassum (2017) tried to know the level of compliance with International Financial Reporting Standards in the Indian corporate sector. This study is quantitative in nature. Data collected for the period of 2011-2016. Study it can be increasingly felt that IFRSs would be the right choice for a single global standard since it would help to play safely and effectively in the global market.

Sharma (2016) discussed the meaning, evaluation and process of issuing IFRS in his article. Indian accounting standard is considered as the better way of implementation of IFRS in the Indian form. As is well known that, IFRS was not implemented in its original form due to the requirement of huge legislative changes. Indian accounting standards are to be implemented in a phased manner, which will surely be beneficial to all the interested parties.

Pascan (2015) analyzed the effect of the transition from the national accounting standards to IFRS on accounting quality in Europe. Results obtained from empirical research regarding the effects of IFRS adoption on accounting quality should be interpreted in relation to the country-specific factors and firm-specific factors. Testing the effects of IFRS adoption on the quality of accounting data is necessary, but not enough; knowing whether IFRS contributed to enhanced accounting quality is not the end of the road.

Ratheesh and Anjula (2015) examined challenges and opportunities after the adoption of IFRS in India. Results found that most significant opportunities i.e. single reporting, global comparability, high quality and transparency, higher economic growth, increase investment opportunities, true and fair accounting statement, reduce the cost of capital, IFRS also reduced the risk of foreign investors. Result also revealed that challenges after the adoption of IFRS in India viz., lack of awareness about IFRS, required proper training to the accounting professionals, required amendments in current taxation laws, the high cost of adoption of IFRS, lack of IFRS knowledge among employees and auditors and lack of IFRS implementation guidelines. Paper also shows IFRS adoption procedure in India.

Shrivastava et al. (2015) focused on the conversation of IFRSs have the primary objective of uniformity and

comparability of the financial statements prepared in India with the rest of the countries of the globe. This study was based on descriptive and exploratory work. For the result, data was collected from secondary sources. Results showed consistency 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.

Kaur and Kumar (2014) highlighted the IFRS adoption procedure, its utility in India and the problems and challenges faced by the stakeholders and its impact on India. Result concluded that the convergence with IFRS is strongly recommended because the measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS are credible and give the positive idea that the country is ready for convergence. Its fact, it needed to harmonize and converge with the international standards and this, in fact, can be achieved only through mutual international understanding both corporate objectives and rankings attached to it. Results also found challenges of IFRS adoption i.e. Issue of GAAP Reconciliation, Training and Education, Legal and Regulatory considerations, Taxation, Fair value Measurement, Re-negotiation of Contract and Reporting systems. Also found Convergence of Indian Accounting Standards with IFRS makes accounting information more reliable, relevant, timely and comparable across different legal and economic frameworks.

Jain (2011) discussed the problems faced by the stakeholders (Regulators, Accountants, Firms etc.) in the process of adoption of IFRS in India. Results found that high quality corporate financial reporting environment depends on effective Control & Enforcement Mechanism. Merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure.

Ramanna and Sletten (2009) investigate heterogeneity in countries' decisions to adopt IFRS. For the study, they applied Descriptive Statistics, Chi-square test, and Hazard analysis. 102 Non-European Countries data for the period of 2002 to 2007 had used. They found that a country is more likely to adopt IFRS if its trade partners or countries within its geographical region are IFRS adopters. Result also revealed that IFRS being adopted when governments are

capable of timely decision making and when the opportunity and switching cost of domestic standards are relatively low.

Significance/Challenges After the Adoption of Full-fledged IFRS in India

Adoption of IFRS at International level is major accounting reform after adopted double accounting system of Luca Pacioli. India has also adopted IND-AS (Converged IFRS). IND-AS is a modified version of IFRS. Review of literature indicated that after adoption of full-fledged IFRS by several countries, several opportunity/ benefits have emerged viz., Single reporting, possibility of comparability at global level, high quality and transparency in financial statements, will increase foreign investment and transactions, will make True and Fair accounting statements, will reduce the cost of capital, will decrease information asymmetry and all these benefits will impact on the economic growth of the country. But on the other hand, the adoption of IFRS has also faced some challenges because the adoption procedure of IFRS is not easy. Some of these challenges faced by the Indian corporate sector and stakeholders are viz., lack of awareness about IFRS, Requirements of training for accounting professionals, High cost on adoption of IFRS, amendments required in current taxation and company laws, lack of IFRS implementation guidelines, lack of employees and auditors knowledge regarding IFRS. Here an attempt has been made to analyze benefits and challenges emerged on adoption of full-fledged IFRS by India. Through the opinion survey, it is tried to get this answer.

RESEARCH METHODOLOGY

- **Objective**

To analyze benefits and challenges available to Indian corporate sector on adoption of full-fledged IFRS as issued by IASB.

- **Hypotheses**

H₀₁: There is no significant difference among different benefits available to the Indian corporate sector on the adoption of full-fledged IFRS in India i.e. every benefit has equal importance to the Indian corporate sector.

H₀₂: There is no significant difference among the different challenges faced by the Indian corporate sector on the adoption of full-fledged IFRS in India, i.e. every challenge has a same degree of significance for Indian corporate sector.

DATA COLLECTION & RESEARCH METHODOLOGY

In order to examine the benefits and challenges which shall arise on the adoption of full-fledged IFRS by Indian corporate sector, opinion of respondent's have been gathered through a questionnaire. The list of possible benefits and challenges have been compiled through a review of the literature. Responses have obtained on the basis of five points Likert measurement scale, from 62 respondents, its belonging to various accounting educational backgrounds, i.e. C.A., Ph. D. Scholars and PG students. This study used descriptive statistics to describe the basic features of the dataset i.e. Mean, Kurtosis, Skewness, and Coefficient of variance. To identify important benefits and challenges sample mean is calculated. In order to check an asymmetry in the questionnaire, data Skewness has been calculated. In order to check the shape of the distribution (Mesokurtic, Platykurtic, and Leptokurtic), Kurtosis has been administered. In order to check consistency regarding the respondent's opinion, the Coefficient of Variation has been administered. For testing of hypotheses i.e. any significant difference existing between all benefits and challenges highlighted after the adoption of full-fledged IFRS in India, chi-square test has been administered. Data has been analyzed using MS Excel software.

ANALYSIS & DISCUSSIONS

List of benefits derived from a review of the literature has been examined on the five-point Likert Scale. The score has been summarized in the following table 1. The characteristics of the score data have been analyzed through descriptive statistics. Mean, Kurtosis, Skewness, and Coefficient of Variation have been calculated and rank has been assigned on the basis of mean.

Table 1: Benefits of Adopting Full-Fledged IFRS in India

S. no.	Benefits	Mean	Kurtosis	Skewness	Coefficient of variation	Rank
1.	Increased quality of financial statements.	4.48	-0.76	-0.50	12.60	1
2.	Increased comparability of financial statements.	4.30	1.42	-1.07	17.13	2
3.	Increased access to the global capital market.	4.26	-1.08	-0.49	17.72	3
4.	Improved transparency of financial statements.	4.17	-0.64	-0.66	21.02	4
5.	Increased understandability & consistency of financial statements of companies.	4.16	1.38	-0.82	16.96	5

6.	Increased True & Fair Accounting of Statements.	4.11	0.14	-0.75	20.23	6
7.	IFRS adoption has ensured the use of a standard for both the holding and subsidiaries companies.	4.08	0.27	-0.61	18.75	7
8.	Enhanced Global listing & global market for Indian companies.	4	0.53	-0.77	23.08	8
9.	IFRS adoption harmonized of internal & external reporting.	3.95	-0.59	-0.46	22.84	9
10.	Impact on value relevance of financial statements.	3.93	-0.15	-0.20	17.89	10
11.	Positive effect on the information for control and decision making by investors.	3.91	0.67	-0.87	24.07	11
12.	Significant impact on economic growth.	3.86	-0.14	-0.47	21.54	12
13.	Significant impact on foreign cash inflow & FDI.	3.67	-0.85	-0.07	25.22	13
14.	Improved Liquidity of firm's financial statements.	3.65	0.77	-0.67	25.41	14
15.	Improved ability to predication in companies and investors.	3.64	0.23	-0.59	24.89	15
16.	Reduced risk for investors.	3.59	-0.02	-0.51	28.03	16
17.	Reduced Information asymmetry of financial statements.	3.41	-1.06	0.23	30.14	17
18.	Reduced Cost of capital of companies.	3.25	-0.03	-0.14	28.68	18
19.	Reduced cost of compliance.	3.17	0.76	-0.34	25.18	19
20.	Decreased Earning management in financial statements.	3.16	-0.62	-0.07	33.24	20

Chi-square mean (χ^2) calculated value at 5% level of significance for 19 degree of freedom is 0.729875 and its table value is 30.14.

Source: Own Calculation (MS-EXCEL 2013)

The above table 1 presents various benefits on the adoption of IFRS in India. In order to get the opinion of the respondents regarding their preference for various benefits, opinion has been collected through a questionnaire. Out of 20 benefits, respondents believe that due to the adoption of IFRS, the quality of financial statements will be increased. It is evident by the highest mean score that is 4.48. In order to check the asymmetry in the questionnaire data, skewness has been calculated. The skewness value of the first benefit is -0.50. Value shows that data is negatively skewed or less than 0, which is evidence that the first benefit is near to symmetric distribution. In order to check the shape of the distribution, Kurtosis has been administered. Kurtosis describes the degree of concentration of frequencies in distribution. Kurtosis value of the first benefit is -0.76 which is less than $-0.76 < 3$, which means that the degree of concentration frequencies for the first benefit is platykurtic. As far as consistency in benefits on adoption of IFRS is concerned, the highest inconsistency has been observed in benefit no. 20 decreased earning management in financial statements its evident by highest C.V. is 33.24. The highest consistency has been observed regarding the quality of the financial statement. It is evident by the lowest C.V. that is 12.60. It clearly indicates that there is a consistent opinion among the respondents that due to the adoption of IFRS the quality of the financial statement shall be increased. The second most important benefit which the respondents believe is that due to the adoption of IFRS the comparability of financial statements will be increased. It is evident by its mean score that is 4.30. The skewness value of the second benefit is -1.07, which shows that the second benefit is near to symmetric distribution. Kurtosis value of the

second benefit is 1.42. Its value is $1.42 < 3$ which means that the degree of concentration frequencies of the second benefit is platykurtic. Second highest consistency has been observed regarding comparability of financial statements. It is evident by the second lowest C.V. that is 17.13. Respondent's opinion laid out the third most important benefit, 'increases access to the global capital market'. It is evident by a third highest mean score that is 4.26. The skewness value of the third benefit is -0.49. Value shows that data is negatively skewed or less than 0, which is an evidence is near to symmetric distribution. Kurtosis value of the third benefit increases is -1.08. Its value is $-1.08 < 3$ which mean that the degree of concentration frequencies of the third benefit is platykurtic. Third highest consistency has been observed regarding increase access to the global capital market. It is evident by third lowest C.V. that is 17.72. The fourth benefit that the adoption of IFRS will improve transparency in Financial Statements, is evident by a fourth highest mean score i.e. 4.17. The skewness value of the fourth benefit is -0.66. Value shows that data is negatively skewed or less than 0 which means it is near to symmetric distribution. Kurtosis value of the fourth benefit -0.64. Its value is $-0.64 < 3$ it means that the degree of concentration frequencies of the benefit is platykurtic. Fourth consistency has been observed regarding IFRS will improved transparency in Financial Statements. It is not evident by fourth lowest C.V. that is 21.02. It clearly indicates that there is a no consistent opinion among the respondents that 'IFRS will improve transparency in Financial Statements' as compared to the fifth benefit. Due to the adoption of IFRS, the respondents believe is the 'increase understandability and consistency of financial statements' in

companies. It is evident by a fifth highest mean score that is 4.16. The skewness value of the fifth benefit is -0.82. Value shows that data is negatively skewed or less than 0, which an evident is near to symmetric distribution. Kurtosis value of the fifth benefit is 1.38. Its value is $1.38 < 3$. It means that the degree of concentration frequencies is platykurtic. Fifth highest consistency has been observed regarding 'increase understandability and consistency of financial statements in companies'. It is evident by fifth lowest C.V. that is 16.96. Results show that C. V. value of the benefit of adoption of IFRS 'decrease earning management practices' is lowest as compared to other benefits. It is evident by highest C.V. i.e. 33.24 and lowest mean value 3.16.

Testing of Hypothesis I

In order to test the hypothesis that there is no significant difference among different benefits available after the adoption of full-fledged IFRS in India, chi-square test has been administered. The result is shown in above table 1 that calculated value is less than table value which means hypothesis, there is no significant difference among different benefits available for adoption of full-fledged IFRS in India have accepted. It indicates that almost all benefits are equally significant for the Indian corporate sector. The visible difference among various average scores of different benefits is due to sampling distribution not due to any major

reason. Chi-square result shows every benefit has equally important for the Indian corporate sector.

On the basis of statistical analysis (mean score) of an opinion survey, the following 5 important benefits on adoption of full-fledged IFRS are found–

- The quality of financial statements will be increased.
- The comparable capacity of financial statements will also increase.
- The access to the global capital market will be increased.
- The transparency of financial statements will also increase.
- The understandability & consistency of the financial statements of companies will increase.

Challenges Faced by Indian Corporate Sector on Adoption of Full-Fledged IFRS

In order to identify challenges faced by the Indian corporate sector on adoption of full-fledged IFRS in India, descriptive statistics and chi-square test have been administered. Table 2 given below lists of the challenges which faced by the Indian corporate sector after the adoption of the full-fledged IFRS in India. All these challenges are arranged on the basis of the mean value obtained and given rank accordingly.

Table 2: Challenges of Adopting Full-Fledged IFRS in India

S.no.	Challenges	Mean	Kurtosis	Skewness	Coefficient of variation	Rank
1.	Require training & academic courses on IFRS	4.30	0.03	-0.82	17.63	1
2.	Lack of awareness about IFRS	3.96	-0.61	-0.40	21.87	2
3.	High cost on adoption of IFRS	3.90	-0.49	-0.55	23.98	3
4.	Increased complexity in financial statements	3.79	0.08	-0.77	27.91	4
5.	Effects of adoption of IFRS will show after the long period	3.69	-0.55	-0.40	24.80	5

Chi-Square mean (χ^2) calculated value at 5% level of significance for 4 degree of freedom is 0.055757 and its table value is 9.49.

Source: Own Calculation (MS- Excel 2013)

In above table 2 contains various challenges on adoption of full-fledged IFRS. Out of the 5 challenges, respondents believe that due to the adoption of IFRS training and academic courses on IFRS are required. It is evident by a higher mean score that is 4.30. In order to check asymmetry in the questionnaire, data skewness has been calculated. The skewness value of the first challenge is -0.82. Value shows that data is negatively skewed or less than 0 it means that, is near to symmetric distribution. In order to check the shape of the distribution, Kurtosis has been administered. Kurtosis value of the first challenge is -0.03. Its value is $-0.03 < 3$ it means that the degree of concentration frequencies for the first challenge is platykurtic. IFRS consistency is concern regarding the opinion of respondents, highest consistency

has been observed regarding the requirement of training & academic courses on IFRS. It is evident by the lowest C.V. that is 17.63. It clearly indicates there is a consistent opinion among the respondents regarding require training & academic courses on IFRS in India. The second most serious challenge is the lack of awareness about IFRS. It is evident by second highest mean that is 3.96. The skewness value of the second challenge is -0.40. It's an evidence that the second challenge is near to symmetric distribution. Kurtosis value of the second challenge is -0.61. Its value is $-0.61 < 3$ which mean that the degree of concentration frequencies is platykurtic. Second highest consistency has been observed regarding lack of awareness about IFRS. It is evident by the second lowest C.V. that is 21.87. The challenge ranked

third by the respondents is 'high cost on adoption of IFRS in Indian corporates'. It is evident by third highest mean 3.90. The skewness value of the third challenge is -0.55. Value shows are near to symmetric distribution. Kurtosis value of the third challenge is -0.49. Its value is $-0.49 < 3$ which mean the degree of concentration frequencies in the third challenge is platykurtic. Third highest consistency is observed by high cost on adoption of IFRS. It is evident by third lowest C.V. that is 23.98. Fourth challenge that adoption of IFRS will be increased complexity in financial statements. It is evident by fourth highest mean 3.79. The skewness value of the fourth challenge is -0.77. Value shows are near to symmetric distribution. Kurtosis value of the fourth challenge is -0.08. Its value is $-0.08 < 3$ which mean that the degree of concentration frequencies of the challenge is platykurtic. Last fifth challenge 'the effect of the adoption of IFRS will show after the long period'. It is evident by the lowest mean score of 3.69. The skewness value of the fifth challenge is -0.40. Value shows that data of the fifth challenge is near to symmetric distribution. Kurtosis value of the fifth challenge is -0.55. Its value is $-0.55 < 3$ it means that is a degree of concentration frequencies of the challenge is platykurtic. There is no evidence of the consistency of the fourth challenge, increased complexity of financial statements. It is evident by the C.V. value of the increased complexity of financial statements and effect of the adoption of IFRS will show after the long period. Last challenge the effect of adoption of IFRS will show after the long period is more consistent compared to fourth challenge increase complexity financial statements which are 27.91 and C.V. value of the effect of adoption of IFRS will show after the long period is 24.80.

Testing of Hypothesis II

In order to test the hypothesis that there is no significant difference among different challenges faced by Indian corporate sector on adoption of full-fledged IFRS in India, i.e. every challenge has the same degree of significance, chi-square test has been administered. The result shown in above table 2 that calculated value is less than table value which means hypothesis, there is no significant difference among different challenges faced by Indian corporate sector on adoption of full-fledged IFRS in India have accepted. Chi-square result shows every challenge has the same degree of significance and equally important.

On the basis of statistical analysis (mean score) of an opinion survey, the following 5 serious challenges faced by the Indian corporate sector on adoption of full-fledged IFRS are identified-

- Training and academic courses on IFRS are required.
- There is a lack of awareness about IFRS.
- The high cost of adoption of IFRS.

- The complexity of financial statements will increase.
- Effects of adoption of IFRS will show after the long period.

CONCLUDING REMARK

IFRSs brings in standardization and comparability of the financial statements which is prepared by companies in different countries. It obviously helps the investors to understand and interpret the financial statements. This study examined whether any significant difference among different benefits available or not on the adoption of full-fledged IFRS in India. Results of the chi-square test indicated that there is no significant difference among different benefits available after the adoption of full-fledged IFRS. However, on the basis of the mean score calculated as per the Likert scale, the following five most important benefits have been identified viz.,

- The quality of financial statements will increase. (4.48)
- The comparable capacity of financial statements will also increase. (4.30)
- The access to the global capital market will increase. (4.26)
- The transparency of financial statements will also increase. (4.17)
- The understandability & consistency of the financial statements of companies will increase. (4.16)

As far as challenges are concerned, it was found that there is no significant difference among different challenges being faced by the Indian corporate sector, i.e. every challenge having a same degree of significance. However, the following five most challenges faced by the Indian corporate sector has been identified on basis of mean score. On the basis of mean score five serious challenges faced by the Indian corporate sector on adoption of full-fledged IFRS, viz.

- Training and academic courses on IFRS are required. (4.30)
- There is a lack of awareness about IFRS. (3.96)
- The high cost of adoption of IFRS. (3.90)
- The complexity of financial statements will increase. (3.79)
- Effects of adoption of IFRS will show after the long period. (3.69)

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Endnotes

- ¹ The International Accounting Standards Board is the independent, accounting standard-setting body of the IFRS Foundation. The IASB was founded on April 1, 2001, as the successor to the International Accounting Standards Committee.
- ² The International Accounting Standards Committee was founded in June 1973 in London and was replaced by the International Accounting Standards Board on 1 April 2001
- ³ **GAAP** (generally accepted accounting principles) is a collection of commonly-followed accounting rules and standards for financial reporting. The acronym is pronounced “gap.” **GAAP** specifications include definitions of concepts and principles, as well as industry-specific rules.