

## CHALLENGES IN IFRS CONVERGENCE IN SMEs IN INDIA

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### ABSTRACT

*India is developing country and Small and medium sizes enterprises (SMEs) play vital role in economy of India, as it most support in employment aspect, GDP aspect and so on. But right now the phenomenon are changed each and every company want to go globally for more growth so there is required equality in accounting aspect to compare the real condition of the company in the global market for both company as well as external parties like investors, government and others. So IFRS play important role to make uniformity in accounting aspect at global level but still it is under study to prepare final standard for the SMEs. If any country want to implement IFRS effectively then most three aspect considered people, process and technology as it is affected most and also required deep knowledge and time and initial implementation cost for SME, but in India near around 150000 population having knowledge regarding this aspect so it is very difficult for the Indian SMEs to adopt the IFRS. Generally company which are working at national level then there is no need to maintain the records as per the IFRS so they will be denied to adopt the IFRS as it increase the cost and also Indian legislation expected some difference from it.*

**Keywords:** IFRS, SMEs, Challenges.

### INTRODUCTION

Now a days world become small village due to the globalization so there is highly required to make similarity in each and every aspect, for the company IASB has prepared the IFRS for creating similarity in books of account of same company in different countries, It become yardstick language of accounting and it is beneficial for both company as well as investor they come to know the real position of the company in the global market. IASB is performed good task for small and medium size enterprises but due to certain problem it doesn't work.

Business communicates to their stakeholders thought their financial results, arrived at by using various sets of recognized reporting framework and standards. Such a practice ensures that reported financial information is credible, universally understood and comparable to business, within and across industries. Businesses that do not follow such practices lose their competitive advantage for raising funds at lower interest rates; fail to secure new suppliers, bankers and customers; and also in arriving at an acquisition or cooperative agreements. In

order to implement these reporting practices across the global, the International Accounting Standers Board (IASB) has published international financial reporting language in a very short time. However, applying comprehensive financial reporting standers comes with a cost. Business need to employ more qualified personnel, new processes and controls, and training right from the accounts receivable clerk, to the financial controller, the CEO and the audit committee members. This is more complicated in case of setting up financial reporting rules for small and medium Enterprises, popularly known as SMEs.

Small and Medium Enterprises (SMEs.) are regard as key engines for economic growth, job creation, promotion of exports and entrepreneurial developments in any country. These small entities often rube into trouble, not due to the poor quality of products, but due inadequate funding, They are unable to raise the funds from banks and other financial institutions, especially for their high risk project. This keeps them out of competition, further weakening the support required for their operations and growth. Often banks ask for collateral representation of entities financial result. Various governments across the globe, as part of their growth initiative for SMEs, has even reduced barriers on Foreign Direct Investment (FDI) and manufactured exports into SMEs. However, the successful implementation of these initiatives requires transparency in reporting entities that can be brought only by adopting Global Accounting Standers.

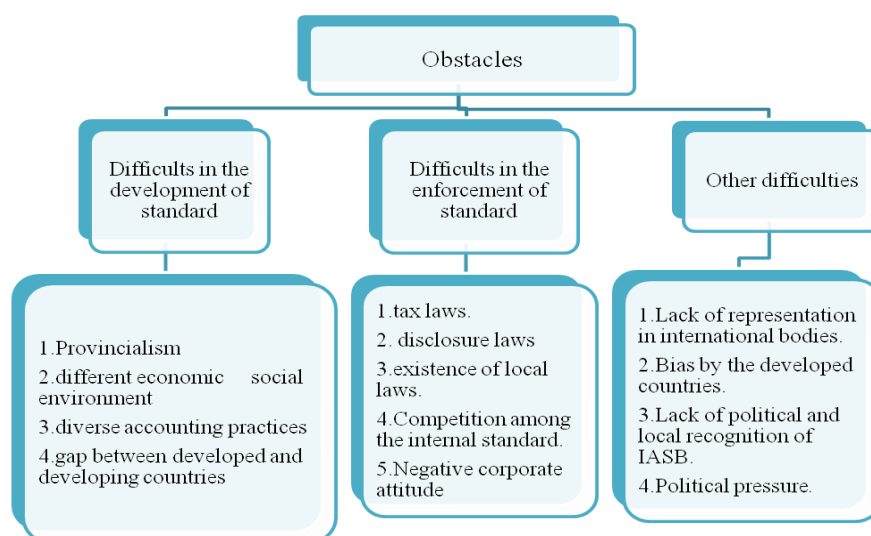
## OBJECTIVES

- To study the challenges of IFRS implementation in SMEs in India
- To analyze the obstacles of IFRS
- To know which factor of SMEs affect most in the IFRS adoption

## Challenges of IFRS Implementation

### Challenges of IFRS implementation in world

IFRS become yardstick or business language but even though it faces various obstacles for implementing IFRS in any country of the world.



## Challenges in IFRS implementation in SMEs in India

### Challenges by External decision aspect

#### Standard setter has adopted national GAAP for SMEs

Most of the standard setter decided that existence Indian GAAP is perfect for the SMEs so there is less chance for the adoption of new IFRS and mostly it depends on regulatory body if they have adopted then it's very difficult to accept and adopt.

#### IFRS for SMEs are under study

The standards for SMEs by IFRS are not still ready for implementation as there is high requirement for training. IFRS has taken step and provide enough training session for the IFRS aspect, but still this is not enough as SMEs have less experienced people and resources for the adoption of IFRS in India.

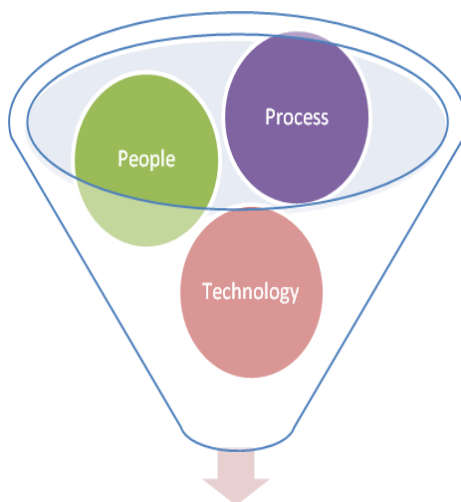
### Challenges by Internal Decision aspect

#### Work at local market

The SMEs which are working at local market why they will go for the IFRS adoption as they are raising fund from India only and only Indian investors are investing in that local level SMEs so no need to prepare the books of account as per the IFRS

#### Cost aspect

Most of the companies are prepared their report on time by hard and tough working if they want to adopt IFRS then there is requirement of Initial high cost, change in the process, people and technical aspect. It requires both the cost time cost and financial cost



IFRS creat cost in Organisation

**General Challenge****Accounting Profession and Industry**

In India the availability of accounting profession is rare in nature as near around two lack population having degree of the chartered accountant and other professional are less knowledgeable and also charge higher fees for that so its costly for the SMEs.

**LITERATURE REVIEW**

- Though there are a lot of positive effects of the adoption of global accounting standards, there are some challenges too. These are differences in economic condition of countries will differentiate in interpretation; Application of fair value concept by Indian GAAP will definitely result in volatility in reports.
- There is a shortage of professionals with practical IFRS conversion experience and therefore many companies will have to rely on external advisers and their auditors. There is an urgent need to address these challenges and work towards full adoption of IFRS in India. The most significant need is to build adequate IFRS skills and an expansive knowledge base among Indian accounting professionals to manage the conversion projects for Indian
- Companies should devote time and resources in educating and training employees and other stakeholders. Considering the cost and resources required to migrate to IFRS, very few companies are geared to move to IFRS. More efforts are required to bring awareness on the conceptual framework and timeline to prepare companies, particularly small and medium enterprises (SMEs), to switch to IFRS seamlessly.
- “The SME sector, which contributes significantly to the Indian economy, will continue to follow existing Indian accounting standards , which may be modified from time to time to make the sector more competent in the international arena,” said Uttam Prakash Agarwal , president, Institute of Chartered Accountants of India (ICAI).

**RESEARCH METHODOLOGY****Research Design**

<b>Population</b>	Amreli district business
<b>Sample</b>	SMEs of Amreli District
<b>Sample size</b>	30
<b>Sampling Technique</b>	Simple Random sampling

**Data Collection**

**Primary:** Structured questionnaire

**Secondary:** Journal, News report, Internet

## DATA ANALYSIS AND INTERPRETATION

SR	Response of the Question		
1	Awareness of IFRS in SMEs		
	Yes	16	53.33 %
	No	14	46.67%
2	Benefits of IFRS to SMEs		
	Raise the low cost fund from global market	10	31.25%
	To know the position in global market	8	25%
	Increase investor satisfaction	12	37.5%
	Others(specify)	2	6.25%
3	Things affected if IFRS implemented in SMEs		
	Cost	12	19.35%
	Personnel	11	17.74%
	Technical	10	16.13%
	Financial planning	13	20.97%
	Tax planning	13	20.97%
	Others	3	4.84%
4	External hurdles for the adoption of IFRS in India		
	Legal and regulatory framework	12	32.43%
	Accounting profession & industry	10	27.03%
	Country economy	11	29.73%
	Other (specify)	4	10.81%
5	Reasons for not implementing IFRS		
	Financial Cost	12	21.05%
	Lack of professionals	10	17.54%
	Time cost for maintain accounts	9	15.89%
	Useless for local SMEs	13	22.81%
	Standards are still under study	11	19.30%
	Other (Specify)	2	3.51%
6	Time span required for IFRS implementation in SMEs in India		
	0-1 year	0	0%
	1-3 year	2	12.5%
	3-5 year	8	50%
	5 or more year	6	37.5%
7	Attitude towards the IFRS for SMEs if it is compulsion		
	Positive	6	20%
	Negative	17	56.67%
	Neutral	7	23.33%
8	Industry		
	Service	9	30%
	Manufacturing	12	40%
	Agricultural	9	30%

## DATA ANALYSIS AND INTERPRETATION (Contd....)

SR	Response of the Question		
9	Working in which market		
	Only Global market	2	6.67%
	Only Local Market	23	76.67%
	Both market	5	16.67%

### Test application

#### Chi square independency test:

<b>H0</b>	Attitude of the SMEs is independent from the nature of working of SMEs
<b>H1</b>	Attitude of the SMEs is dependent from the nature of working of SMEs

Nature/Attitude	Positive	Negative	Neutral	Total
<b>Global Market</b>	2[0.4]	0[1.13]	0[0.47]	2
<b>Local Market</b>	0[4.6]	17[13.03]	6[5.37]	23
<b>Both Market</b>	4[1]	0[2.83]	1[1.17]	5
<b>Total</b>	6	17	7	30

**Calculated Value: 25.73**

**Table value**  $\chi^2_{.05,4} = 9.4877$

So Calculated value > Table value 25.73 > 9.4877 so null hypothesis is rejected and suggest that there is direct relationship between the nature of business and their attitude towards the IFRS implementation in SMEs.

### FINDINGS

- Awareness of IFRS among SMEs are comparatively less so they are not ready for the adoption of IFRS
- Most of companies are working local market so there is no need for the IFRS for the representation of their financial data in that form and aware SMEs who want to go globally in future are thinking about this aspect but who just want their business in local market they are not thinking about it in detail
- As in India professional people who have knowledge about the IFRS are less available so charges for that professional fees are higher and increase the cost of SMEs.
- If IFRS will be compulsory then SMEs face difficulties in various aspect like financial planning, tax planning etc. and in India most hurdle of implementing IFRS even in giant corporation legal and regulatory frame work affect a lot
- Still IFRS for SMEs are under process so it will take too much time for the implementing it fully in India as well as in another country.

## SUGGESTION

- Firstly IFRS should complete the standards for the SMEs perfectly.
- People are less aware about the IFRS in SMEs so first increase the awareness among them.
- IFRS should be implemented in SMEs in India in various stages with perfect guideline in form of “Help center” as training provided by them is not enough.

## LIMITATION

- Still IFRS is not compulsory for SMEs in India and in future it might not be applied and still there are not perfect form of final standard there will be variation due to change in it.

## CONCLUSION

SMEs are important part for Indian economy and if IFRS will be compulsion in future then it will affect lot to the SMEs in various aspect but Indian economy and legal frame work play vital role in this aspect and take more time as it is under process and also which company working as locally then there is no need of IFRS and also increase the cost of the SMEs. Even blue-chip company faces the difficulties in starting so there is no doubt for SMEs in difficulty facing and India take too much time for local standard adoption so its very complicate to adopt the international standard in SMEs in short run.

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