

## “Ifrs and Real Esate Sector In India”

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### ABSTRACT

Globalization has changed the close economy into open economy. Now day's national economy is integrating in international market with other countries by spreading their trade and business outside their own country Foreign Direct Investments, Foreign Institutional Investors, Merger and Acquisition, Franchising and Business Outsourcing are some example of international transaction in global business. For the integrity of different county's business together in the world market it was necessary for the business to adopt a common set of accounting standard, since accounting is the language of a business. Therefore in 1973, international professionals from different countries established the International Accounting Standard Committee.

Main objective to this committee is to issue international Accounting Standards, at this present time Ministry of Corporate Affairs notified 35 Accounting Standards. In 2001 International Accounting Standard Committee are superseded as International Accounting Standard Board. Now the board issues the International Financial Reporting Standard formerly known as International Accounting Standards Accounting Standards were prepared for some benefits in global market which are compelling. The use of common set of accounting standards throughout the world provides an easy way of comparability and transparency of financial information. It also reduces the cost of statements. A constant use of accounting standards provide higher quality information which enables the investors to make a better decision, indirectly fund will allocate in more efficient manner in the market and the company can reduce its financial overall cost of capital.

More than 100 countries have converged or recognized the policy of convergence with the IFRS. IFRS are the globally accepted accounting standards and interpretations adopted by the IASB. An upcoming economy on world economic map, India, too, decided to converge to International Financial Reporting Standards (IFRS) In India, ICAI has decided to adopt the IFRS by April 2011.

**Keywords:** IFRS, Convergence, IASB, Regulatory Board and business Environment.

## **INTRODUCTION**

**ACCOUNTING STANDARDS** - An Accounting Standard is a guideline for Financial Accounting, such as how a firm prepares and presents its business income and expense, assets and liabilities Accounting standards are necessary so that financial statements are meaningful across a wide variety of businesses otherwise, the accounting rules of different companies would make comparative analysis almost impossible. In order to ensure the qualities like transparency, consistency, comparability, adequacy, relevance and reliability of financial reporting, it is essential to standardize the accounting principles and policies. However, principles based accounting standards allow accountants to apply professional judgment in assessing the substance of a transaction Accounting Standards provide framework for financial reporting so that the financial statements of different enterprises become comparable. However, it is viewed that a principle based standard often becomes rule based standards in an effort to increase comparability and consistency. but the framework which provides guidelines for standards has been characterized by accounting standard setting bodies as "incomplete, internally inconsistency and ambiguous" Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The main Objective of Accounting Standards is to establish standards or norms or guidelines which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted measurements. These standards harmonized the diverse accounting policies and practices. The main objective of promulgation of accounting standards is to achieve uniformity in financial reporting. In India accounting standard board of the ICAI promulgates accounting standards to be followed by business in preparation and presentation of financial statements and also auditors in discharging attest functions so far the ICAI has issued 32 Accounting standards in India,

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. An upcoming economy on world economic map, India, to decide to converge to International Financial Reporting Standards (IFRS). While regulators, standards setter and law makers sit together to rollout the road map for implementation of IFRS in India, a wide section of the industry is already

debating about the pact that they are going to have on transitioning to IFRS is a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions" International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements IFRS are standards. Framework for the preparation and presentation of financial statements. IFRS are issued by the International Accounting Standards Board (IASB) in the year 2001 are increasingly being recognized as the Global Financial Reporting Standards. Convergence with IFRS has gained momentum in recent years all over the World. India being an important emerging global economy, the Government of India has committed to convergence of Indian Accounting Standards with IFRS from April 1, 2011. But International Accounting Standards (IAS) issued before 2001. Thus accounting standard is an authoritative pronouncement of code of practice of the regulatory accountancy body to be observed and applied in the preparation and presentation of financial statements

In India, Convergence with IFRS is being done in the form of IND AS, which will be mandatorily applicable from 1<sup>st</sup> April 2016 as per the new companies act of 2013 The Ministry of Corporate Affairs (MCA) is designated as the nodal Ministry for converging Indian GAAP with IFRS/IND AS.

## **IFRS IN INDIA**

At present, Accounting Standards Board (ASB) formulates and issues accounting standards in India which are more or less in line with IFRS except for a few instances where departure is necessary to comply with the legal, regulatory and economic environment. Council of the Institute of Chartered Accountants of India (ICAI) opined in May 2006 that adopting IFRS was considered and supported by the ASB. IFRS task force was set up to provide a road map for convergence and it decided to converge with IFRS from the accounting period commencing on or after 1<sup>st</sup> April 2011. In India, Ministry of Corporate Affairs carried out the process of convergence of Indian Accounting Standards with IFRS after a wide range of Consultative IFRS is formulated by International Accounting Standard Board.

However, the responsibility of Convergence with IFRS vests with local government and accounting and regulatory bodies, such as the ICAI in India. Thus ICAI need to invest in infrastructure to ensure compliance with IFRS India has several constraints and practical challenges to adoption and compliance with IFRS. So there is a need to change some laws and regulations governing financial accounting and reporting in India. There are some legal requirements which determine the manner in which financial information are presented in financial statements. Under IFRS, accounting is done for all assets including hidden intangibles at fair value. As the assets are recognized at fair value, amortization of these assets will reduce future year profits under IFRS. Other problem is there is lack of adequate professionals with practical experience of IFRS conversion therefore Indian Companies have to rely upon external advisors and auditors which are costly.

Another issue is Indian GAAP should have been formulated on the basis of the principles of IFRS which may shows differences between Indian GAAP and IFRS At the end some principles need to be amended, implements or remove in the Indian GAAP The move to IFRS it not just a technical accounting exercise. It is an exercise in change management and offers opportunities for improvement. IFRS conversion offers companies an opportunity to improve their business in several ways. The Company can reshape its management reporting systems to better manage both its financial accounting and its financial statement generation and provide company leadership with essential information. Improve disclosure to analysts, investors, regulators and other stakeholders of your company's financial results and position and other performance indicators Improve the metrics used to evaluate both company and executive performance. Ensure all finance team members have the training, knowledge and Skills needed IND-AS Improved access to international capital markets Lower cost of capital Benchmarking with global peers Enhanced brand value Avoidance of multiple reporting Reflecting true value of acquisitions Transparency in reporting.

## **CHALLENGES IN ADOPTING IFRS**

Adoption of IFRS in India is difficult task and the country facing many challenges. Few of these have been listed below. The entire set of financial statements will be required to undergo a drastic change. There would be various benefits due to IFRS reporting such as case access to international capital markets, lower cost of capital, and increase in brand value of avoidance of multiple reporting reflecting true value and transparency in reporting.

## **Regulatory endorsement and acceptance,**

To the extent that economic development and financial ability should be considered during the endorsement process, it falls squarely within the existing requirement to consider the 'public good' now considering how to do this more rigorously. However, we agree that financial stability and prudential supervision should always be delivered primarily through regulatory regimes, not with those in Europe who argue that financial stability and prudential supervision should always be delivered preliminary through regulatory regimes, not through seeking to influence or change financial reporting. This would disadvantage investors without the power to move additional or different information from companies, in contrast, prudential regulators can always demand more or different information.

## **Shortage of skilled resources**

The impact of a new accounting system on Indian companies' results revealed that the respondents mentioned that recruitment of skilled resources and lack of properly trained staff were big problems for the companies. The study suggested that companies should make a plan to run their IFRS conversion project with assistance from an external consultant on specific issues.

## **Objective of the Study:**

The objective of the present research paper is

1. To understand the role of IFRS in the Global Market
2. To study the Impact of IFRS on the real estate sector in India.
3. The significance of IFRS in Indian business

## **Methodology:**

Sources of Data - In order to conduct the study, information has been gathered mostly from secondary sources, i.e. Government publications, and professional institutes and websites.

## **IFRS AND REAL ESTATE SECTOR**

Real estate and construction is a growth sector for India, it contributes the third highest share to the Indian economy and is also the third largest employer in India. Further, it accounts for the second highest inflows of Foreign Direct Investment (FDI) in India. Though the commercial asset classes have been witnessing healthy traction, the residential assets class has been plagued with a number of issues or challenges such as demand – supply mismatch across segments, project delays and liquidity issues. Additionally, the real estate

sector has limited access to long term funding taxation and fees structures are either complicated irrational, leading to higher project cost impacting the end user buyer We believe that the sector has the potential to at a considerably faster pace, but for that to happen, the prevalent challenges have to be overcome first. The government has made an attempt to address some of the challenges to a certain extent, through the proposals announced in the Union Budget 2017-18, with focus providing thrust to affordable housing and infrastructure Implications for real estate The profile of revenue and profit recognition will change for some real estate entities, particularly those engaged in development, construction and engineering, as well as activities that are subject to performance based fees as the new Standard is more detailed and more prescriptive than the existing guidance and introduces new complexities. In particular, real estate companies will need to consider whether revenue should be recognized over time or at a point in time the extent to which distinct goods or services are supplied, which should be accounted for separately; whether particular costs relating to obtaining a contract must be capitalized whether revenue must be adjusted for the effects of the time i value of money; how to account for contract modifications; the impact of new guidance where pricing mechanisms include variable amounts; and how the significant disclosure requirements will be addressed.

IFRS 15 The new challenges for Real Estate and Construction IFRS 15 provides a comprehensive and robust framework with clear principles for revenue recognition, especially revenue earned under contractual obligations, for real estate and construction companies. The introduction of the International Financial Reporting Standard (IFRS) 15/Australian Accounting Standards Board (AASB) 15, to be implemented from 1" January 2018, means that 31 December 2018/30 June 2019 financial reports will be impacted with comparatives required for 31 December 2017/30 June 2018. This poses an administrative challenge for real estate and construction companies as it will change the timing of revenue recognition for construction contracts. Real estate and construction companies should not underestimate the administrative requirements the new revenue recognition standard impose. Companies need to ensure their five year forecasts are accurate and should start to consider the impact on revenue recognition policies now

## **What is IFRS 15?**

IFRS 15 represents a joint initiative of the International Accounting Standards Board (IASB) and the US's Financial Accounting Standards Board (FASB) to introduce new

guidelines for managing revenue from customer contracts De existing international standards has seen limited guidelines for accountants on this point considerable diversity in implementation At the center of the changes introduced by IFRS 15 is a core principle which states that revenue that depicts the transfer of goods and services s form pea needs to be an amount that reflects what the entity expects to he entities in exchange for these products There are five steps that underpin this core principle

1. Identifying the contract
2. Recognizing separate performance obligations-a promise to provide goods or services two or more services can be combined if they represent one overall obligation
3. Determining the transaction price.
- 4 Allocating this price to a contractual performance obligation
4. Recognizing
5. Revenue when these obligations have been satisfied. This could be either at a specific point in time or over time, and signifies when the client reserves ownership of the projects.

## **How will IFRS 15 impact the real estate and construction sector?**

While these changes will have important implications for a range of industries, real estate and construction are areas where they will have the greatest impact. The areas expected to be of significance include Over time versus point in time revenue recognition The concept of the vendor needing to assess if they have an alternative use for the asset they are constructing is a significant change to current revenue recognition criteria. If there is no alternative use, and the vendor does not have an t enforceable right to be paid for work completed to date, the vendor will be required to recognize revenue at a point in time, Such as on completion of the contract rather than over time as the contract is completed Measuring progress towards completion This is based on either an output method (based on the value of goods and services transferred) or an input method (based on resources consumed). Importantly, inputs that do not directly relate to the vendors performance are excluded when measuring performance. Bundling and unbundling of contracts. It may be that a number of contracts need to be bundled together to form one contract, or a single contract needs to be unbundled into separate contracts Bundling and unhanding of contracts will be driven by the reparability of certain performance obligations under the contracts with variable

consideration and modifications to contracts Variable consideration is measured based on the specific circumstances outlined in the contract and is limited to the amount for which it is highly probable that there will not be a significant reversal in the cumulative amount of revenue recognized to date Modifications to contracts need to be assessed to determine whether the extent of the modification is such that a new contract has been issued. Revenue recognition needs to be adjusted to be in line with the modification, or the new contract Costs for obtaining a contract Only incremental costs of obtaining a contract are considered Costs that would not have been incurred if the contract had not been obtained can be capitalized and amortized over the revenue recognition pattern of the contract Implicit and explicit financing components. Where cash receipts do not correspond with timing of revenue recognition by longer than a year, an adjustment to revenue needs to be determined as either finance income (decrease revenue) for payment in arrears, or finance expense (increase in revenue) for payments in advance

## CONCLUSION

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries they are a consequence of shareholding and trade and are growing international. Particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards They are the rules to be followed by accountants to maintain books of accounts which are comparable, understandable, reliable and relevant as per the users internal or external

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