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PAPERS PRESENTED IN TECHNICAL SESSION - II

Importance of IFRS for the Industry

1)	IFRS and SMES	Shamim Sayed, Mumbai
2)	Current reporting standards and IFRS for Banks in India	Dr. J. R. Lanjekar, Pune
3)	IFRS for SEMS – Its compliance by SEMS In India	Sanjeev Shirodkar, Goa
4)	Componentization of Assets – A new approach to depreciation (IAS 16)	Paulomi Merchant, Mumbai
5)	Impact & challenges for Indian Banking sector	Dr. Y.K. Aowte, Ratnagiri
6)	IFRS and its impact on Indian corporate sector	B.K. Ghate, Ratnagiri.
7)	India and IFRS Challenges of New Accounting System.	Dr. Waghmare R.Y., Pune

IFRS FOR SMES - ITS COMPLIANCE BY SMES IN INDIA

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Introduction

Small companies pursue different strategies, and their goals are more likely to be survival and stability rather than growth and profit maximisation. Inspite of this, Small and Medium Enterprises (SMEs) play a vital role for the growth of Indian economy by contributing 45% of industrial output, 40% of exports, employing 60 million people and produce more than 8000 quality products for the domestic and International market. SMEs contribution towards GDP is expected to be around 22% by 2012. There are around 26.1 million SME units in India and 12 million persons are expected to join the workforce in the next 3 years. SMEs are the fountain head of several innovations in manufacturing and service sectors, the major link in the supply chain to corporate and the PSUs. By promoting SMEs, the rural India will be developed.

SMEs today are exposed to greater opportunities than ever for expansion and diversification across the sectors. With the services sector dominating the SME and MNCs outsourcing their various requirements to Indian service providers, the scope for SME finance has increased even further. Growth is tremendous for all businesses across the globe.

The use of international Financial reporting Standards as a universal financial reporting language is gaining momentum across the globe. Hence, it is logical to comply with IFRS at the earliest, which benefits the SMEs.

Objectives

The objectives of the study may be enumerated as follows:

a. To understand IFRS developed by International Accounting Standards Board (IASB).
b. To understand the Importance of "IFRS for SMES" for SMEs in India.
c. To understand the difficulties involved in convergence with "IFRS for SMEs" by SMEs in India.

Methodology

The methodology adopted for the purpose is as follows:

a. Primary data:

The views of few entrepreneurs (who do not have public accountability), GCCI and SME officials have been taken into consideration on the importance of implementing IFRS for SMEs, through personal interview.

b. Secondary data:

The secondary data has been obtained from Books, Magazines, internet etc. Conclusion has been drawn on the basis of information obtained.

What is IFRS?

IFRS stands for International Financial reporting Standard. IFRS is an accounting framework that establishes recognition, measurement, presentation and disclosure requirements relating to transactions and events that are reflected in the financial statements. IFRS was developed in the year 2001 by the International Accounting Standards Board (IASB) in the public interest to provide a single set of high quality, understandable and uniform accounting standards. IFRS are sometimes confused with International Accounting Standards (IAS). IAS are issued by IASC i.e. International Accounting Standard Committee and are designated as "International Accounting standards".

IASB publishes its Standards in a series of pronouncements called International Financial Reporting Standards (IFRS). Besides it has also adopted the body of Standards issued by IASC (1973-2001). However those pronouncements earlier issued by IASC would continue to be designated as "International Accounting Standards" despite its of adoption by IASB.

Currently more than 113 countries require or permit the use of IFRS. These include members of European Union (EU), Australia, New Zealand, Mauritius, Russia, Nepal etc. Canada has also announced its intention to adopt IFRS from 2011. The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for the users of financial statements. Therefore, increasing complexity of business transactions and globalisation of capital markets call for a single set of high quality accounting standards.

India's decision to converge to IFRS

Considering the enormous benefits in the near future the Council of ICAI has decided to converge with IFRS issued by IASB from the accounting period commencing on or after 1st April 2011.

IFRS FOR SMEs

The full implementation of IFRS for SMEs would impose an unnecessary burden and hardship on SMEs. Hence the International Accounting Standards

Board (IASB) has issued its International Financial Reporting Standard (IFRS) for SMEs on 9th July 2009.

IFRS for SMEs mean the "International Financial reporting standard for Small and Medium Sized Entities". It is a substantially simplified set of internationally recognized accounting principles for SMEs all over the world. This standard provides an alternative framework that can be applied by eligible entities in place of the full set of International Financial Reporting Standards (IFRS).

Contents of IFRS for SMEs

The contents are divided into 35 sections namely

1) Small and Medium–sized Entities
2) Concepts and Pervasive Principles
3) Financial Statement Presentation
4) Statement of Financial Position
5) Statement of Comprehensive Income and Income Statement
6) Statement of Changes in Equity and Statement of Comprehensive Income and Retained Earnings
7) Statement of cash Flows
8) Notes to the Financial Statements
9) Consolidated and Separate Financial Statements
10) Accounting policies, Estimates and Errors
11) Basic Financial Instruments
12) Additional Financial Instruments Issues
13) Inventories
14) Investment in Associates
15) Investment in Joint Ventures
16) Investment Property
17) Property, Plant and Equipment
18) Intangible assets other than Goodwill
19) Business Combinations and Goodwill
20) Leases
21) Provisions and Contingencies
22) Liabilities and Equity
23) Revenue
24) Government Grants
25) Borrowing Costs
26) Share-based payment
27) Impairment of Assets
28) Employee Benefits
29) Income Tax
30) Foreign Currency Translation
31) Hyperinflation

32)Events after the End of the Reporting Period
33)Related Party Disclosures
34)Specialised Activities
35)Transition to the IFRS for SMEs.

With illustrative Financial Statements and Presentation and Disclosure Checklist published in a separate booklet. This IFRS is viewed as an independent from full IFRS by the standard setters.

Definition of SMEs:

The IFRS is intended for use by SMEs. There is no universally agreed definition of an SME. No single definition can capture all the dimensions of a small- or medium-sized enterprise, nor can it be expected to reflect the differences between firms, sectors, or countries at different levels of development. Most definitions based on size use measures such as number of employees, balance sheet total or annual turnover. However, none of these measures apply well across national borders. As per the IFRSs for SMEs, "SMEs are entities that

- **do not have public accountability and**
- **Which also publish general purpose financial statements for external users.**

External users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies. While general purpose financial statements are those that present fair financial position, operating results, and cash flows for external capital providers and others.

An entity has public accountability if its debt or equity instruments are traded in a public market, or it holds assets in a fiduciary capacity for a broad group of outsiders for example banks, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Hence the regulatory bodies in India such as Ministry of Corporate Affairs, Reserve Bank of India, Securities & Exchange Board of India, Insurance Regulatory & Development Authority, etc will have to redefine the term SMEs to make it IFRS compatible.

Opportunities for SMEs

Implementing IFRS should not be seen as excuse but should be implemented considering the benefits it has to offer in the long run if not instantly. Some of the benefits of convergence by Indian SMEs with IFRS for SMEs are as follows:

a) Global acceptability:

Convergence to IFRS for SMEs by Indian SMEs would lead to greater degree of confidence and reliability and global acceptability of financial

information presented by the Indian SMEs through their financial statements.

b) Transparency :

Convergence to IFRS for SMEs by Indian SMEs would mean greater transparency and accountability in their dealings.

c) Reduced cost:

Due to enhanced transparency and accountability in their dealings availing cheaper funds and creating a brand image to the existing business seems quite possible.

d) Enhances uniformity in accounting principles:

Convergence to IFRS for SMEs by Indian SMEs will help enhance uniformity in accounting principles across the globe.

e) Enhanced comparability:

Convergence to IFRS for SMEs by Indian SMEs will have greater comparability due to adoption of uniform accounting principles.

f) New opportunities for the professional firms:

Convergence to IFRS for SMEs will create employment opportunities as the work of convergence has to be taken up by professionals firms.

Difficulties in Convergence to IFRS for SMEs

However there is an adverse impact on SMEs in India due to certain difficulties involved in convergence to IFRS for SMEs. These are:

a) shortage of professionals:

There is a shortage of professionals with practical IFRS conversion experience.

b) costly exercise:

Convergence to IFRS is a costly exercise that includes an overhaul of operational and IT processes.

c) Interpretation issues:

There would be interpretations issues if interpretations are developed by each jurisdiction separately.

d) SMEs Definition:

Most definitions of SMEs based on size make use of measures such as number of employees, balance sheet total or annual turnover. However, none of these measures apply well across national borders.

Conclusion

The most significant need for Convergence to IFRS for SMEs by Indian SMEs is to build adequate IFRS skills and an expansive knowledge base among Indian accounting professionals to deal with the same. Besides these the regulatory authorities should redefine the term SME to make it IFRS compatible. In case of any interpretation issues the matter should be sorted out with International Financial Reporting Interpretations Committee which would provide interpretative guidance. As SMEs cannot bear huge cost of convergence a core panel constituted by the Government on IFRS has decided to exempt SMEs from the first phase of IFRS convergence falling due in 2011. Convergence to IFRS for SMEs may be little painful process initially but would be beneficial in long run and is the need of the hour.

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