IND AS CONVERGED WITH IFRS

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ABSTRACT
The global harmonization of accounting standards came from lack of comparability of financial statements across the country. In recent years, International Financial Reporting Standards convergence has achieved momentum all over the world. As the capital markets become increasingly global in nature, more and more investors see the need for a common set of accounting standards. As India being one of the global players, transition to IFRS will enable Indian firms to have access to international capital markets. This paper explains the impact of applicability of IFRS, challenges that will come up and its adoption phases in India. It also discusses the problems faced by the regulators, Accountants, and Firms etc in the process of adoption of IFRS in India.

Keywords: Convergence; IFRS; Accounting Standard; Ind AS; Harmonization

INTRODUCTION
International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements. The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry specific reporting. Having an international standard is especially important for large companies that have subsidiaries in different countries. Adopting a single set of worldwide standards will simplify accounting procedures by allowing a company to use one reporting language throughout.

Adoption or Convergence
Adoption means that the SEC sets a specific timetable when publicly listed companies would be required to use IFRS as issued by the IASB. In other words adoption means process of adopting IFRS as issued by IASB with or without modifications.

Convergences means harmonization of national GAAP with IFRS through design and maintenance of accounting standards in a way that financial statements prepared with national accounting standards are in compliance with IFRS.

Accounting Standards
The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) was constituted on 21 April, 1977, to formulate Accounting Standards applicable to Indian enterprises. Initially, the Accounting Standards were recommendatory in nature and gradually the Accounting Standards were made mandatory. The legal recognition to the Accounting Standards was accorded for the companies in the Companies Act, 1956, by introduction of Section 211(3C) through the Companies (Amendment) Act, 1999, whereby it is required that the companies shall follow the Accounting Standards notified by the Central Government on a recommendation made by the National
Advisory Committee on Accounting Standards (NACAS) constituted under section 210A of the said Act. The council of the Institute of Chartered Accountants of India has, so far, issued thirty two Accounting Standards. However, AS 8 on Accounting for Research and Development has withdrawn consequent to the issuance of AS 26 on Intangible Assets. Thus effectively there are 31 Accounting Standards at present.

**OBJECTIVES**

Following are objectives of my paper.

1. To understand the applicability of IFRS.
2. To know the adoption phases of IFRS in India.
3. To study the challenges faced by firm and various stakeholders.

**Global Status of IFRs**

More than 120 countries throughout the world, including the 27 European Union member states, Australia, New Zealand and Russia currently require or permit the use of International Financial Reporting Standards (IFRS) developed by the IASB.

**Convergence with IFRs**

The globalization has made it possible to accept the world as one market. For better understanding of the business reporting and consistency in accounting policies, there was an urgent need to one globally accepted language. Application of single set of accounting policy would increases the comparability of different business entities. India being one of the key players, migration to IFRS will enable Indian entities to have access to Global capital markets without having to go through complicated conversion and filling process. It will lower the cost of raising funds, reduce accountant’s fees and enable faster to access all major capital markets.

**Converged Indian Accounting Standards (Ind As)**

International Financial Reporting Standards are now becoming universal reporting language. In tune with the global trend the Government of India decided to facilitate the convergence of the Indian Accounting Standards with IFRS by 1st April, 2011. In this direction all the existing Indian Accounting Standards are being revised and converged with corresponding to International Accounting Standards/International Financial Reporting Standards. These converged Accounting Standards shall be known as IND AS. As a result of this there shall be two separate sets of Accounting Standards under Section 211 (3C) of the companies Act, 1956. The first set would comprised the Indian Accounting Standards, which are converged with IFRS and shall be applicable to the specified class of companies in a phased manner.

Ind AS (the converged IFRS standards) in India may significantly affect a company’s day-to-day operations and may even impact the reported profitability of the business itself. Conversion brings a one-time opportunity to comprehensively reassess financial reporting. On 2 January 2015, the Press Information Bureau, Government of India, Ministry of Corporate Affairs (MCA) issued a note outlining the various phases in which Indian Accounting Standards converged with IFRS (Ind AS) is proposed to be implemented in India, for Companies other than Banking Companies, Insurance Companies and NBFCs.

The application of Ind AS is based on the listing status and net worth of a company. Ind AS will first apply to companies with a net worth equal to or exceeding 500 crore INR beginning 1 April 2016. Listed companies as well as others having a net worth equal to or exceeding 250 crore INR will follow 1 April 2017 onwards. From April 2015 companies impacted in the first phase will have to take a closer look at the details of the 39 new Ind AS currently notified. Ind AS will also apply to subsidiaries, joint ventures, associates as well as holding companies of the entities covered by the roadmap.
Roadmap

**Voluntary Applicability**- Companies can voluntarily adopt Ind AS for accounting periods beginning on or after 1 April 2015 with comparatives for period ending 31 March 2015 or thereafter. However, once they have chosen this path, they cannot switch back.

**Table 1. Mandatory applicability**

<table>
<thead>
<tr>
<th>Phase I: Ind AS will be mandatorily applicable to the following companies for periods beginning on or after 1 April 2016, with comparatives for the period ending 31 March 2016 or thereafter:</th>
<th>Phase II: Ind AS will be mandatorily applicable to the following companies for periods beginning on or after 1 April 2017, with comparatives for the period ending 31 March 2017 or thereafter:</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the accounting period beginning on or after 1st April, 2016</td>
<td>For the accounting period beginning on or after 1st April, 2017</td>
</tr>
<tr>
<td>➢ Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of 500 crore INR or more.</td>
<td>➢ Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees 500 Crore.</td>
</tr>
<tr>
<td>➢ Companies having net worth of 500 crore INR or more other than those covered above.</td>
<td>➢ Unlisted companies other than those covered in Phase I and Phase II whose net worth are more than 250 crore INR but less than 500 crore INR.</td>
</tr>
<tr>
<td>➢ Holding, subsidiary, joint venture or associate companies of companies covered above.</td>
<td>➢ Holding, subsidiary, joint venture or associate companies of above companies.</td>
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</table>

**Chart 1. Voluntary/Mandatorily application of IndAS**

Source: https://www.pwc.in/services/ifrs/ifrs-in-india-roadmaps

**Foreign Operations**

An overseas subsidiary, associate or joint venture of an Indian company is not required to prepare its standalone financial statements as per the Ind AS, and instead, may continue with its jurisdictional requirements. However, these entities will still have to report their Ind AS adjusted numbers for their Indian parent company to prepare consolidated Ind AS accounts.
Insurance, Banking and Non-Banking Financial Companies

Insurance, banking and non-banking financial companies shall not be required to apply Ind AS either voluntarily or mandatorily. However, it appears that if these entities are subsidiaries, joint venture or associates of a parent company covered by the roadmap, they will have to report Ind AS adjusted numbers for the parent company to prepare consolidated Ind AS accounts.

Benefits Of Convergence With IFRS

The Economy: As we know that the markets expand globally, the convergence benefits the economy by increasing growth of its international business. It facilitates maintenance of efficient capital markets and also helps to increase the capital formation and thereby economic growth. It encourages international investing and thereby leads to more foreign capital flows to the country.

Investors: Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions. Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. For better understanding of financial statements, global investors have to incur more cost in terms of the time and efforts to convert the financial statements so that they can confidently compare various opportunities. Investors’ confidence would be strong if accounting standards used are globally accepted. Convergence with IFRS contributes to investors’ understanding and confidence in high quality financial statements.

The Industry: The industry is able to raise capital from global markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. With the diversity in accounting standards from country to country, firms which operate in different countries face a multiple of accounting requirements prevailing in different countries. The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the individual and group financial statements and thereby reduces the costs of preparing the financial statements using different sets of accounting standards.

Accounting Professionals: The accounting professionals are able to sell their services as experts in different parts of the world. It offers them more opportunities in any part of the world if same accounting practices prevail throughout the world. Their mobility to work in different parts of the world increases as accounting professionals in industry as well as in practice.

Indian Corporate: If a company uses IFRS, the company could enjoy the benefit of raising capital from abroad. Comparison is made easier with a foreign competitor if a company presents its financial statement according to IFRS.

Transparency: IFRS will improve the comparability of financial information and financial performance with global peers and industry standards. This will result in more transparent financial reporting of a company’s activities which will benefit investors, customers and other key stakeholders in India and overseas.

Reduction in Cost: Another potential benefit would be the reduced costs associated with multinational corporations who must reconcile their accounting information for multiple accounting standards.

Benefits to Stock Exchange: Stock exchanges around the world could profit from harmonization of accounting standards, as more companies begin to adopt the international standards, they will become eligible for listing.

Harmonization with Global Financial Market: Some Indian companies are already listed on overseas stock exchanges and many more will list in the future. Internationally acceptable accounting standards will then become the language of communication for Indian companies. Better access to and reduction in the cost of capital raised from global capital markets since IFRS are now accepted as a
financial reporting framework for companies seeking to raise funds from most capital markets across the globe.

**Challenges in Convergence with IFRs**

**Challenge at micro level:** At a micro-level, an immediate challenge is the cost of convergence. Other challenges include deficiencies in corporate practices, systems and processes.

**Challenge at macro level:** At a macro-level, however, the structural challenges include lack of trained professionals, diversified sources of industry-specific accounting guidance, and cultural barrier to accepting foreign accounting principles.

**Amendments to the existing law:** A major issue for Indian regulators is the lack of IFRS knowledge and experience in the accounting and auditing profession here. There is a need to align the industry-specific accounting guidance issued by various regulators. For example, the Reserve Bank of India issues guidance for banking companies, the Insurance Regulatory and Development Authority issues guidance for insurance companies, the Central Electricity Regulatory Commission issues guidance for electricity companies, SEBI issues guidance for listed companies, and the Ministry of Corporate Affairs too issues certain guidance.

**Awareness about International Practices:** Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. There are a number of differences between the Indian GAAP and IFRS. This may cause the users of financial statements to look at them from a new perspective. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

**Training:** Professional accountants are looked upon to ensure successful implementation of IFRS. The biggest hurdle for the professionals in implementing IFRS is the lack of training facilities and academic courses on IFRS in India.

**Taxation:** IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS. It is extremely important that the taxation laws recognize IFRS compliant financial statements otherwise it would duplicate administrative work for the organizations.

**Fair value:** IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used. Moreover, adjustments to fair value result in gains or losses which are reflected in the income statements. Whether this can be included in computing distributable profit is also debated.

**Management Compensation Plan:** The terms and conditions relating to management compensation plans would also have to be changed. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP. The contracts would have to be re-negotiated which is also a big challenge.

**Reporting systems:** The disclosure and reporting requirements under IFRS are completely different from the Indian reporting requirements. Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc. Existence of proper internal control and minimizing the risk of business disruption should be taken care of while modifying or changing the information systems.
CONCLUSION
Convergence to IFRS is expected to improve the relevance, reliability and comparability of financial reports and thus benefit global investors. It is expected that the global financial reporting process will eventually be based on a single set of high-quality accounting standards as issued by the IASB. There is now presence of many multinational enterprises in the country with the rapid liberalization process adopted in India. Further, there is increase in investment in Global markets by Indian companies. This has generated an interest in Indian GAAP by all concerned. Due to this context, the roles of Indian accounting standards, which are becoming closer to IFRS, have assumed a great significance from the point of view of global financial reporting. In spite of many issues and challenges in the way of harmonization of accounting standards, India has finally announced its convergence with IFRS by 2015. So adoption of IFRS requires commitment from various stakeholders such as accountant professional, academicians, company accountants and audit firm, finance directors of company and national regulators to overcome these challenges and promote international convergence of accounting standards.

ABBREVIATION
IFRS – International Financial Reporting Standards
IAS – International Accounting Standards
IASB – International Accounting Standards Board
MCA – Ministry of Corporate Affairs
SEC – Securities Exchange Commission
GAAP – Generally Accepted Accounting Principles

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