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International Financial Reporting Standards: An Indian Perspective: A Road Map

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Abstract: *With increasing globalization and integration of capital markets, the world is fast adopting a single language of financial reporting, i.e., International Financial Reporting Standards (IFRS). More than 100 countries have adopted IFRS and many others have given their consent to adopt IFRS in the near future. India is in line to converge with IFRS. However, implementation is a quantum leap from mere intent. With the standards and roadmap being notified, the Government has kept its date with IFRS convergence. The ball is now firmly in India Inc's court.*

This paper aims to throw light on the necessity of common reporting standards and the steps taken in India for its adoption .Besides various challenges like Infrastructural Needs , Legal And Regulatory Requirements , Lack Of Adequate Professionals etc. the benefits are numerous .Investors ,industrialists ,accounting professionals etc ., all will get benefit from common standards .In this respect various measures have been adopted all around the world .In India ICAI , DCA, and Ind AS (IFRS) Implementation Committee are taking various steps to successfully implement the common standards . So as to take its full benefit A road map has also been prepared for smooth convergence of standards.

Keywords: *Accounting Standards, International Accounting Standards (IAS), Generally Accepted Accounting Principles (GAAP), ICAI.*

I. Introduction

Accounting Standards are the guidelines that direct the manner of proper application of a particular accounting principle in the preparation and presentation of the accounts of an entity. Lot many standards are available throughout the world. Each country is having its own set of accounting standards known as GAAP (the common set of accounting principles) of that country and set of international accounting standards [provided by the International Accounting Standards Committee (IASC)(Since 1973, the International Accounting Standards Council (IASC) has been formulating International Accounting Standards (IAS)) and depending upon economic ,social and legal requirements the local or international standards are being used.

Now as the world has become a global village , the corporate world is no longer restricted to their home countries and to have access to the global capital market they have to prepare financial statements as per the GAAP of different countries ,which ultimately leads to wastage of funds ,time ,efforts etc. .To overcome limitations of multiple financial statements there is a need to have common language of accounting i.e. common standards for the whole world . Therefore the International Accounting Standards Board(IASB) has created a set of standards to provide international guidance on the accounting and reporting standards with respect to collection and presentation of accounting information.

II. Beneficiaries Of Ifrs:

The researchers have pointed out several beneficiaries to the convergence of Indian Generally Accepted Accounting Principles (GAAP) with IFRS. Some of them are discussed here below.

1. The Investors: Convergence will makes accounting information relevant, timely and comparable across different legal and economic frameworks and ultimately it will Facilitate(understanding of financial statements, increase the confidence) the investors who are willing to invest in the countries apart from India.

2. The Industry: Convergence will enhance the confidence in the minds of the foreign investors, will decrease the burden of financial reporting, Will make the process of preparing the individual and group financial statements easier and simplest, and will reduce cost of preparing the financial statements using different sets of accounting standards.

3. Accounting Professionals: However, there would be initially many problems but convergence with IFRS would surely benefit the accounting professionals and it will be helpful them to sell their talent and expertise across the globe.

4. The corporate world: it will build the reputation and long lasting relationship of the Indian corporate world with the international financial entities. Moreover, the corporate entities back in India would be benefited because of higher level of consistency between external and internal reporting, better access to global financial markets, improving the risk rating and making the corporate world more and more competitive globally

5. Economy : because of convergence industry will grow , the corporate entities in the country would be benefitted because risk rating among the foreign investors would improve ,Moreover, the international comparability is also benefiting the industrial and capital markets in the country which lead to better economy across the country.

III. India's Perspective: Attempts Made For Convergence:

In india accounts are prepared as per section 211 ,schedule VI of the Companies Act 1956.and the standards provided by ICAI (institute of chartered accountants of India)acts as a guiding force for book keeping , and for corporate disclosures entities have to follow guidelines provided by SEBI(securities and exchange board of india). India has also got its own set of national Accounting Standards [as given by the Accounting Standard Board (ASB)] but now because of change of scenario i.e. globalization , Indian companies are facing problem of raising funds ,listing in stock exchanges,etc.and global investors find it difficult to compare the financial results of different companies and accordingly to make investment decisions , so India has to follow set of common standards that are altogether different in practice, now there is a need to have compromise between the prevailing standard norm and the new provisions . The standards given by the two authorities (IASB and ASB), although aim at better reporting practices, yet there are differences in the methodology and applicability of the standards. Hence convergence(i.e. alignment of the standards of different standard setters with a certain rate of compromise) of the standards is sought for. Conversion to IFRS(standards providedby IASB) offers entities a number of important potential benefits. Notwithstanding its benefits, the transition to IFRS will be challenging**.**

Problems and challenges

1. Infrastructural Needs: IFRS are 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.

2.Legal And Regulatory Requirements: 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. For example...The Companies Act provides the format for preparation of financial statement but this may be different from the requirement under IFRS and in case of Business Combination-under Indian GAAP, acquisitions are accounted at book values of identifiable assets and liabilities of the acquire, with the excess of consideration over the net book value recognized as goodwill.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.

3 . Lack Of Adequate Professionals: There is lack with practical experience of IFRS conversion; therefore Indian Companies have to rely upon external advisors and auditors which are costly.'

Besides all these problems Indian regulatory institutions have not loosen their heart and they are continuously taking steps for the convergence of Indian standards with international standards .The Ministry of Corporate Affairs has finally notified the much awaited Indian Accounting Standards (Ind AS), which are converged with International Financial Reporting Standards (IFRS). The notification of these IFRS converged standards fills up significant gaps that exist in the current accounting guidance, and India can now claim to have financial reporting standards that are contemporary and virtually at par with the leading global standards. This will in turn improve India's place in global rankings on corporate governance and transparency in financial reporting. With the new government at the Centre, there has been a flurry of activities which started off by the announcement in the Finance Minister's budget speech last year of an urgent need to converge with IFRS, which has now culminated with the notification of 39 Ind AS standards together with the implementation roadmap. With this notification, coupled with the progress made on finalising the Income Computation and Disclosure Standards (ICDS), the government has potentially addressed several hurdles which possibly led to deferment of Ind AS implementation in 2011.

1. Since 2000 ICAI has either revised existing standards or pronounced new standards.

2. The Department of Corporate Affairs has designed a new company law contained in the Company Bill 2009 which will be implemented soon.

3. ICAI has been putting its best efforts in the matters of extending training and cooperation with regard to convergence work.

4. Taxation laws have also been rationalized as GST (goods and service tax) and DTCB (direct tax code bill) which are also going to be introduced.)

5. Ind AS (IFRS) Implementation Committee (Chairman CA. Rajkumar S Adukia) has been set up with the objectives of:
a)Formulating Frequently Asked Questions on Indian Accounting Standards converged with IFRS in consultation with the Accounting Standards Board.
b)Dealing with industry-specific issues involved in implementation of Indian Accounting Standards converged with IFRS.
c) Interacting with Central Government and State Governments on issues related to implementation of Indian Accounting Standards converged with IFRS.
d) Interacting with national and international bodies on issues in implementation of Indian Accounting Standards converged with IFRS.
e) Taking adequate steps to enhance knowledge of the members and other stakeholders for proper implementation of Indian Accounting Standards converged with IFRS by conducting workshops, seminars, IFRS Certificate Course in India and abroad, and train the trainers programmes.
F)Developing Course Material for Certificate Course and e-learning.
g) Co-ordinating with Accounting Standards Board regarding issues in IFRS/ Indian Accounting Standards converged with IFRS.
h) Co-ordinating with Direct Taxes Committee, Indirect Taxes Committee and Corporate Laws and Corporate Governance Committee and other Committees of the Institute with regard to various issues in IFRS/ Indian Accounting Standards converged with IFRS.
i) Dealing with any other tasks related to implementation of Indian Accounting Standards converged with IFRS.
6.The Council Of ICAI has also finalized the roadmap for convergence in the meeting held on march 20-22, 2015 .The revised roadmap recommends ind AS(IFRS) to be implemented for the preparation of consolidated financial statements of listed and unlisted companies having net worth of Rs. 500 crores or more from the beginning of accounting year 2016 along with previous year comparatives i.e. 2015-16 but the stand alone financial statement will continue to be prepared as per existed notified accounting standards which will be upgraded over a period of time .
The following is the summary of the roadmap.

Voluntary adoption
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.

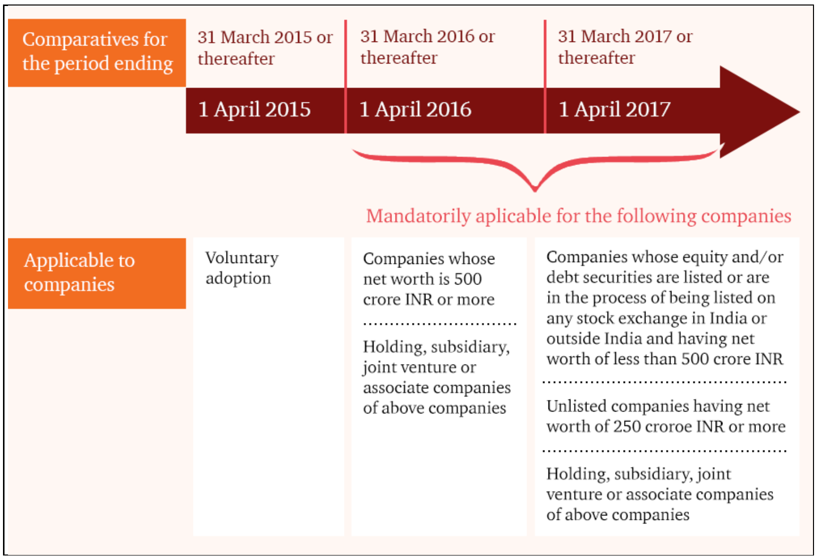
IV. Mandatory Applicability

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:
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.
Companies having net worth of 500 crore INR or more other than those covered above.
Holding, subsidiary, joint venture or associate companies of companies covered above.

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:
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.
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.
Holding, subsidiary, joint venture or associate companies of above companies.



Clarifications

The notification has clarified many previously open questions, some of which have been described below:

Net worth

#It has been clarified that net worth will be determined based on the standalone accounts of the company as on 31 March 2014 or the first audited period ending after that date.

#Net worth has been defined to have the same meaning as per section 2(57) of the Companies Act, 2013. It is the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

V. Standalone And Consolidated Financial Statements

It is now clear that Ind AS will apply to both consolidated and stand-alone financial statements of a company covered by the roadmap. This is helpful as companies will not have to maintain dual accounting systems.

Foreign operations It is a relief that an overseas subsidiary, associate or joint venture of an Indian company is not required to prepare its stand-alone 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.

Applicability to 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 (though not clarified), 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.

Early adoption of standards

The debate on two of the most significant standards, revenue recognition and financial instruments has now been settled with them being notified. Interestingly, India will be one of the first countries to mandatorily adopt these standards from 1 April 2015 while the rest of the world will follow from 2017. These two standards will have a significant effect on entities, impacting not only their financial results but also catalysing numerous organisational and business changes.

Others

There was hope that companies will be given an option to prepare their financial statements as per IFRS issued by the IASB (the true IFRS), which has been now ruled out.

The rules specify that in case of conflict between Ind AS and a law, the provisions of the law shall prevail and the financial statements shall be prepared in conformity with it.

With the notification of these standards, Indian financial reporting has undergone seismic shift by introducing the most contemporary standards. It is a paradigm shift that introduces several new and complex concepts, and will involve the application of significant judgement and estimates, accompanied by detailed quantitative and qualitative disclosures. On the whole, it would lead to a better reflection of the financial performance of an entity and more relevant information in the hands of users of financial statements. However, implementation is a quantum leap from mere intent. With the standards and roadmap being notified, the Government has kept its date with IFRS convergence. The ball is now firmly in India Inc's court. The corporate sector will need to do its part to make the implementation a success, starting with an acknowledgement of the fact that this is not just an accounting change, but something that impacts the whole organisation and the way they do business. With less than 40 days to go, it is time for the corporates to make a holistic assessment of this change, and gear up for the implementation within the fairly short timelines.

VI. Conclusion

Now,from the above 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. Bearing in mind the pace of the current global development on convergence, substantial convergence is targeted for 2016 across global capital markets. IFRS has become the financial reporting standard for a significant amount of countries around the world. However, out of all the countries, only a particular handful actually fully adopts IFRS as issued by the IASB. Most importantly, we all need to remember that convergence to a single set of globally accepted high quality standards is ultimately in the best interests of the public, contributing to efficient capital flows within countries and across borders. In the views of the majority of participants, international convergence is vital to economic growth. Thus, while the challenges are great, the rewards are potentially even greater. The ultimate goal of comparability is probably something that all the countries in the world strive to achieve. However, it should be important to note that quality should not be sacrificed in the process. It is something that needs to be considered carefully at every step to make sure that in the end, everybody will benefit from the adoption of a global set of accounting standards. With IFRS set to become the future Indian GAAP and IFRS being a moving target, Indian companies should actively monitor and participate in the IASB's standard setting process.

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