

IFRS from Indian Perspective

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Abstract

In the post Enron era, the accounting regulatory bodies across the globe have called for a single set of high quality, understandable and enforceable accounting standards. According to them, the international financial reporting standards (IFRS) have all the features to take this call. The article attempts to assess various aspects of shifting corporate reporting towards IFRS. This is a conceptual paper whereby we have tried to establish some relationship of IFRS with Indian accounting standards.

Keywords – International financial reporting standards (IFRS), International Accounting Standards (IASs), Commerce, Management.

Introduction

Globalization has laid down a way for all the nations to adopt a single set of Accounting Standards. More than 100 countries have converged or recognized the policy of convergence with the International Financial Reporting Standards (IFRS). India has decided to adopt the IFRS. Therefore, knowledge of IFRS has become an indispensable professional need of the persons in accounting and auditing fields. At the present time accounting professionals are realizing that day-by-day reporting requirements, expectations of clients, regulatory needs are changing very quickly. This has forced them to go beyond the old practices. There is an forthcoming need for upgrading their knowledge and buckle up to be part of this changed scenario. Some issues related to these accounting standards are discussed in this article.

About IFRS

IFRS stands for “International Financial Reporting Standards” and includes International Accounting Standards (IASs) until they are replaced by any IFRS and interpretations originated by the IFRIC or its predecessor, the former Standing Interpretations Committee (SIC). IFRSs are developed and approved by IASB (International Accounting Standard Board). These are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit-oriented entities. Profit-oriented entities includes those engaged in commercial, industrial, financial and similar activities, whether organized in corporate or in other forms also includes mutual insurance companies, other mutual co-operative entities, etc. Upon its inception the IASB adopted the body of International Accounting Standards (IASs) issued by its predecessor and as such IFRS includes IAS until they are replaced by any IFRSs. One of the basic features of IFRS is that it is a principle-based standard rather than rule based.

A separate set of IFRS for Small and Medium-sized Enterprises has been issued by the IASB in July 2009. The IFRS for SME represents a simplified set of standards with disclosure requirements reduced, methods for recognition and measurement simplified and topics not relevant to SME's eliminated.

Need for IFRS

In today's world means of communication have reduced the distance between people; similarly, the changing economic environment is making it lucrative for business entities to spread their wings beyond the geographical boundaries of their nations. The need for expansion, expanded consumer market, better profit margins, tax advantages and regulatory support have made many business groups based in India to explore the international markets and set up their business outside India. Similarly, business entities are not confined to the boundaries of their own nations. Availability of human capital at low cost, good knowledge base and support from government has opened up many opportunities to foreign nationals in India. Faster communication have also enabled business units to provide single window services at multi-location reach with cost and time effective aspects.

IFRS are increasingly being recognized as Global Reporting Standards for financial statements. National GAAP' is becoming rare. As global capital markets become increasingly integrated, many countries are moving to IFRS. More than 100 countries such as European Union, Australia, New Zealand and Russia currently permit the use of IFRS in their countries. The SEC has allowed the use of IFRS without reconciliation to US GAAP in the financial reports filed by foreign private issuers, thereby, giving foreign private issuers a choice between IFRS and US GAAP. SEC is proposing that the US issuers begin reporting under IFRS from 2014 (actually from 2012, if requirements for three year comparable are considered), with full conversion to occur by 2016 depending on size of the entity. This is a milestone proposal that will bring almost the entire world on one single, uniform accounting platform i.e. IFRS.

Benefits of adopting IFRS

The following points can be identified for the same;

- It would benefit the economy by increasing growth of international business.
- It would encourage international investing and thereby lead to more foreign capital inflows into the country.
- Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions.
- Better understanding of financial statements would benefit investors who wish to invest outside their own country.
- The industry would be able to raise capital from foreign 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.
- It would reduce different accounting requirements prevailing in various countries there by enabling enterprises to reduce cost of compliances.
- It would provide professional opportunities to serve international clients.
- It would increase their mobility to work in different parts of the world either in industry or practice.

IFRS in India

At its 269 meeting the Council of ICAI has decided that public interest entities such as listed companies, banks, insurance companies and large-sized organizations to converge with IFRS for accounting period commencing on or after 1 April, 2011. For Small and Medium size Entities i.e. other than public interest entities, ICAI had proposed that a separate standard may be formulated based on the IFRS for Small and Medium-sized Enterprises issued by the IASB after modifications, if necessary. Even MCA had expressed the view that India should converge to IFRS with effect of 1 April, 2011. With an objective to ensure smooth transition to IFRS from 1 April, 2011, ICAI is taking up the matter of convergence with IFRS with National Advisory Committee on Accounting Standards (NACAS) established by the Ministry of Corporate Affairs, Government of India and other regulators including Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI). Recent news article highlights that Core Group for IFRS convergence formed by MCA has recommended convergence to IFRS as under:

- **Phase I** (opening balance sheet as at 1 April, 2011)*:-

1. Companies which are part of BSE - Sensex 30 and NSE - Nifty 50; 2. Companies whose shares or other securities are listed outside India; 3. Companies whether listed or not, having net worth of more than Rs. 1,000 crores.

- **Phase II** (opening balance sheet as at 1 April, 2013)*:- Companies not covered in Phase 1 and having net worth exceeding Rs. 500 crores

- **Phase III** (opening balance sheet as at 1 April, 2014)*:- Listed companies not covered in earlier phases.

*If the financial year of a company commences at a date other than 1 April, then it shall prepare its opening balance sheet at the commencement of immediately following financial year.

- Separate Road Map would be prepared for banking and insurance companies.

The issue of convergence with IFRS has gained significant momentum in India recently.

Until now, 41 IAS and 7 IFRS have been issued out of which 11 International standards (namely IAS 3,4,5,6,9,13,15,22,25,30 and 35) have already been withdrawn by the IASB. There are 29 Indian Accounting Standard and one Guidance note and seven Accounting Standards are prepared to match these IFRS.

Barriers for implementation of IFRS

Increase in cost initially due to dual reporting requirement which entity might have to meet till full convergence is achieved. Unlike several other countries, the accounting framework in India is deeply affected by laws and regulations. Changes may be required to various regulatory requirements under The Companies Act, 1956,

Income Tax Act, 1961, SEBI, RBI, etc. so that IFRS financial statements are accepted generally. If IFRS has to be uniformly understood and consistently applied, all stakeholders, employees, auditors, regulators, tax authorities, etc would need to be trained.

Entity would need to incur additional cost for modifying their IT systems and procedures to enable it to collect data necessary for meeting the new disclosures and reporting requirements. Differences between Indian GAAP and IFRS may impact business decision / financial performance of an entity. Limited pool of trained resource and persons having expert knowledge on IFRSs.

IFRS Vs INDIAN GAAP: SOME KEY DIFFERENCES

Subject	IFRS	Indian GAAP
First time adoption	Full retrospective application of IFRS to PL and BS. Reconciliation of PL and BS in respect of last year reported numbers under previous GAAP.	No needs to prepare reconciliation on first time adoption
Components of Financial Statements	Comprises of Balance sheet, Profit and Loss A/c. Cash flow statement, changes in equity and accounting policy and notes to Accounts	Comprises of Balance sheet, Profit and Loss A/c. Cash flow statement (if applicable), and Notes to Accounts
Balance Sheet	No particular format, a current/ non current presentation of assets and liabilities is used.	As per Format Prescribed in Schedule VI for Companies, adherence to Banking Regulation for Banks etc.
Income Statement	No particular format prescribed (IAS-1)	As per Format Prescribed in Schedule VI (AS-1)
Cash Flow Statements	Mandatory for all entities (IAS-7)	Level 3 entities are exempted (AS-3)
Depreciation	Over the useful life of the asset. (IAS-16)	Over the useful life of the asset, or Schedule XIV rates whichever is higher. (AS-10)
Dividends	Liability to be recognized in the period when dividend is declared. (IAS-10)	Recognized as an appropriation against the profit, and recorded as liability at BS date even if declared subsequent to reporting period but before the approval of Financial statements (AS-4)
Cost of major repairs and overhaul expenditure on fixed assets	Recognized in carrying amount of the assets (IAS-16)	Expensed off. Only expenses which increases the FEB are to be capitalized. (AS-10)
Revaluation	Revaluation (if done) to be updated periodically so that carrying amount does not differ from fair value at the end period. Revaluation to be done for entire class of assets (IAS-16)	No specific requirement for revaluation. Revaluation can be done on systematic basis like for one location leaving aside the assets of other location. (AS-10)
Change in the method of depreciation	Considered as a change in accounting estimate. To Be applied prospectively. (IAS-16 and IAS 8)	Considered as change in accounting policy, retrospective computation and excess or deficit is adjusted in same period. Required to be disclosed (AS-6)

Earnings Per Share	Disclosure to be made in only consolidated financials of the parent Co. (IAS-33)	Disclosure of EPS in both consolidated and separate financials. (AS-20)
Component Accounting	Required each major part of No such requirement (AS-10) PPE with a cost that is significant in relation to total cost, should be depreciated separately (IAS-16)	No such requirement (AS-10)
Intangible Assets	Intangible assets can have indefinite useful life and hence such assets are tested for impairment and not amortized.	There is no concept of indefinite useful life. Assets have definite life. (usually 10 years)
Reporting Currency	Requires the measurement of profit using the functional currency. Entities may, however, present financial statements in a different currency. (IAS-21)	Schedule VI to the Companies Act, 1956 specifies Indian Rupees as the reporting currency. (AS-11)
Key Management Personnel (KMP)	Includes Executive as well as non executive directors (IAS-24)	Excludes non executive directors. (AS-18)
Compensation to KMP	Disclosure to be made for total compensation such as short term employee benefits and post employment benefits	AS-18 does not require the break up of compensation cost.
Fringe Benefits Tax	Included as part of related expense (fringe benefit) which gives rise to incurrence of the tax.	Disclosed as a separate item after profit before tax on the face of the income statement.
Uniform Accounting Policies	Prepared using uniform accounting policies across all entities in a group. (IAS-27)	Policies may differ due to impracticability. (AS-21)
Disclosure of extra ordinary items	Prohibits such disclosure (IAS-1). No such term in IFRS	Disclosure to be made in notes (AS-5)
Cash Flow statements	Using direct or indirect methods	Only indirect method Statements
Borrowing Costs	Expense or capitalized	To be capitalized
Depreciation Methods	SLM, WDV, Units of Production method	SLM, WDV

Conclusion

IFRS have become an indispensable need of accounting profession and are gaining recognition due to the globalization and e-communication means. These are more vital due to the fact of call for the expanding business entities to congregate the requisite of globalize capital market that made it mandatory to accept the Accounting standards that are recognized Internationally, known as IFRS. This will surely help the entire world in having uniformity in accounting. Indian economy will be benefited by IFRS under this LPG era.

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