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RESEARCH ARTICLE

IFRS IN INDIA

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ABSTRACT

With the increasing scale of trade, need was felt for quality based, informative and reliable accounting standards. Hence, the ASB formulates Accounting Standards for India giving due consideration to International Accounting Standards. But now, trade has to give global level crossing all jurisdictions and regions. The integration of global economy demands a set of accounting standards which are generally accepted all over the world for facilitating the countries doing trade in a more simplified way of accounting. International Financial Reporting Standards (IFRSs) are such set of accounting standards as have been prepared to cope up with the increasing demands of accounting at global level. More and more countries are moving to IFRSs due to their capability to facilitate economic growth in international or global market. India had decided to converge with IFRS in phased manner and the initiative was taken in April, 2011 by letting a roadmap for convergence with IFRS. Different roadmaps have been set for different entities like insurance companies, banking companies and other financial enterprises. Indian trade is growing at a tremendous rate and making its way ahead in global market. Hence, it is worth benefitting for Indian trade to converge with IFRSs. The first phase of convergence with IFRS is partly completed in India. The concept of IFRS is taken very sensitively by the Govt., regulatory authorities and concerned entities. As the IFRSs are widely known as global accounting standards, it becomes need of the hour to adopt them. This paper has been prepared using secondary data and information obtained from various websites, published sources like books, journals, articles etc. Why more and more countries are moving to IFRSs? Research has been done to get the answer in an adequate and reasonable way to understand the concept and to find its importance to attract countries adopting and converging with IFRSs. India adopted the way to converge with IFRSs so that Indian enterprises can apply global set accounting standards and prosper the economy by trading globally with more confident, reliable and high quality accounting standards. Before converging with IFRS, a challenge towards convergence with IFRS was lack of professionals. For this purpose, the ICAI launched a course (CA) that proves itself the solutions to the challenges. Today's position of India regarding convergence with IFRS is satisfactory, fast and smooth going. However, the results are yet to come showing the outcome of emerging concept being adopted by India.

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INTRODUCTION

With the increasing scale of trade, need was felt for quality based, informative and reliable accounting standards. In case of India, Institute of Chartered Accountants of India (ICAI) was further enriched with Accounting Standard Board (ASB) on 21st April 1977 to formulate accounting standards for Indian enterprises. ICAI is a member of International Federation of Accountants. Hence, the ASB formulates Accounting Standards for India giving due consideration to International Accounting Standards. But now, trade has to give global level crossing all jurisdictions and regions. The integration of global economy demands a set of accounting standards which are generally accepted to all over the world for facilitating the countries doing trade in a more simplified way of accounting. International Financial Reporting Standards (IFRSs) are such set of accounting standards that have been prepared to cope up with the increasing demands of accounting at global level. More and more countries are moving to IFRSs due to their capability to facilitate economic growth in international or global market. India has also planned to converge with the IFRSs in phased manner. Indian trade is growing at a tremendous rate and making its way ahead in global market. Hence, it is worth benefitting for Indian trade to converge with IFRSs.

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Review of Literature

It was in 2001 when the IFRS Foundation & International Accounting Standard Board announced first programme of technical projects and issued first standard i.e. IFRS-1 in 2003.

It's not long time of board's inception but success and appreciation it has got during this span of time is great. More than 100 countries are required or permitted to report using IFRS. Almost half of the Global Fortune 500 companies now report using IFRS. Salman Khursid, union minister for corporate affair quoted his views, "The next revolution after the software evolution will be in the world of accountancy with the convergence of IFRS where we would be contributing the best and largest number of young accountants." Joseph (2000) has worked in his research papers to find out the importance of International Accounting Standards. He found that tremendous change has come in business practices throughout the world due to technology up gradations and reorganization of countries. Hence, there should be uniformity in the accounting standards being all over the globe. IFRS bring about that uniformity with them. He also affirmed that consistency in accounting standards will be helpful in attracting global trades and investors to increase the rate of investment which will target to integrate the individual economy to international economy.

Hans Hoogervorst gives his opinion on IFRS as international financial markets have become increasingly interconnected. Financial events in any part of the world now influence every part of the world. Investors routinely seek investment opportunities on a global basis while companies seek to raise capital from developed and emerging economies. And the IFRS are seen as a unique positioned single set of high quality global accounting standards and a single way to describe financial performance in today's globalised financial world. Hence it is quite clear that IFRSs have proven their importance all over the globe as more and more countries are moving to IFRSs and literature also seems to make a consensus on accepting these international financial reporting standards all over the globe.

RESEARCH METHODOLOGY

This paper has been prepared using secondary data and information obtained from various websites, published sources like books, journals, articles etc. Why more and more countries are moving to IFRSs? Research has been done to get the answer in an adequate and reasonable way to understand the concept and to find its importance to attract countries adopting and converging with IFRSs. India adopted the way to converge with IFRSs so that Indian enterprises can apply global set accounting standards and prosper the economy by trading globally with more confident, reliable and high quality accounting standards.

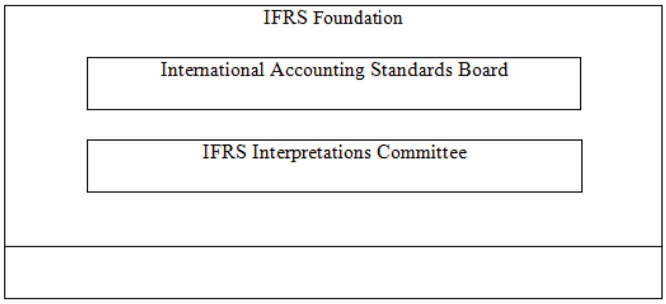
Objectives of the study

The objectives of the study are given as under:

- To study about International Financial Reporting Standards (IFRSs), their foundation and inception.
- To study the importance of IFRSs as a single set of global accounting standards.
- To study, analyse and interpret the need of IFRSs in Indian context and the manner decided to converge with IFRSs.

IFRSs: Fundamental Concept

IFRSs are the need of the hour because today's globalised world wants such set of accounting standards which will be accepted globally. But it's not like saying something and gets it ready in few moments. IFRSs have their own story which tells the years of hard work to prepare the worthy standards. IFRS Foundation was established in 2001 consisting of IASB and the IFRS Interpretations Committee.



IASB

IASB is the independent standards setting body of the foundation and is responsible for the task of development and publication of IFRSs. It has also been allotted the task of setting standards for Small and Medium Enterprises (SMEs) and approving the interpretations as developed by IFRS interpretation committee.

IFRS Interpretation Committee

This committee is the interpretation body of the IASB and the function allotted to it is to review global accounting issues that have arisen within the context of current IFRSs and to provide authoritative guidance on these issues. IFRSs were at first adopted by Europe in 2005 for the consolidated accounts of listed companies on regulated markets and IASB became Europe's standards setter. After Europe, United States added its name to the list and decided to converge with IFRSs. Then many emerging economies started moving to IFRSs. These emerging economies have well developed capital markets. Finally, after adoption of IFRS in major economies, global financial crises (2007) proved its need in accounting area. Now almost the half of the global fortune 500 companies report with IFRSs and approximately 2/3rd of G20 members are required to use IFRSs.

Why Should We Converge with IFRS?

Major economies all over the world have taken the IFRSs as global set of accounting standards and either have adopted or converge with IFRS. The first and foremost reason of the question why should we adopt or converge with IFRS is the integration among global economies which demands a highly reliable, relevant and uniquely positioned a simple global set of accounting standards. They want such set of accounting standards to facilitate comparability, relevance, reliability among accounting information. Taking into account the advantages, it is necessary to converge with IFRSs for smoothly dealing in global trade and capital market. Indian GAAP (Generally Accepted Accounting Principles) has major limitations when compared with IFRSs. These limitations can smoothly be removed by converging with IFRS and which makes the scope of IFRS broader. The next big success of IFRS has been brought by U.S Securities Exchange Commission which has allowed the use of IFRS without reconciliation to U.S. GAAP in the financial reports filed by foreign private issuers resulting in the integration of almost whole world under one single accounting platform. In just a decade, IFRS have gained great success throughout the world. No country can afford being out of the global economy in today's world of globalised and labialized trade. It is apparent that either adoption or convergence with IFRS is the need of today.

Benefits of Adopting IFRS

- Adoption of IFRS will increase access to global capital markets resulting in the growth of Indian economy.
- IFRS create more transparency in reporting on a global view as the most of emerging countries are following these standards.
- It can strongly increase foreign capital inflows into the country by providing the investors fair, reliable and comparable financial statements.
- It can reduce the cost of capital of entities by reducing different accounting requirements prevailing in various countries by providing a single set of global accounting standards.
- The adoption of IFRS facilitates creating confidence in foreign investors about the entities and economy which in turn results in enhancing their brand value and ability to raise capital form market at comparatively lower rates.

IFRS – Indian Context

ICAI in India has decided to converge with IFRS and adopt international accounting standards. The roadmap was issued by MCA (Ministry of Corporate Affairs) in 2010, regarding Indian entities convergence with IFRS. ICAI along with other regulatory bodies i.e. MCA, IRDA and SEBI etc. framed two sets of entities who's ASs are to be converged with IFRS.

- In the first set, some specified companies are added which are going to be fully converged with IFRS such as listed companies, banks, insurance companies and large-sized organizations.
- In the second set, companies or entities which are not to be fully converged with IFRS are added including small and medium size companies. This set includes entities other than public interest entities where first set includes only public interest entities. Here, the word public interest entity probably means:
- An entity whose equity or debt securities are listed on any stock exchange (listed companies) whether in India or outside India,
- A banking or insurance company, Mutual bank, any financial organization,
- An entity having a turnover (excluding other income) of more than ` 100 crore in immediately preceding year,
- An entity having public deposits/borrowings from banks and financial organizations in excess of rupees twenty five crore at any time during immediately preceding accounting year,
- A holding or subsidiary of an entity which is covered in (i) to (iv) above.

Phases of Convergence

India decided to be converged with IFRS in a phased manner. The phases of convergence are as follows:

Phase 1 April 1, 2011	Phase 2 April 1, 2013	Phase 3 April 1,2014
• Companies having their equity or debt securities listed on NSE – Nifty 50 • Companies listed on BSE Sensex 30 • Companies listed outside India • Companies having net worth > ` 1000 cr. (whether listed or not)	The companies whose net worth exceeds ` 500 cr. but below ` 1000 cr. (whether listed or not)	Listed companies whose net worth ` <_ 500 cr.

Separate Roadmap for Banking Companies, Insurance Companies and Non–banking Financial Companies (NBFC) is given as under:

April 1, 2012	Insurance Companies
April 1, 2013	Scheduled Commercial Banks; Urban Co-operative Banks having Net worth > ` 300 cr.; Companies listed on NSE-Nifty 50, Companies listed on BSE-Sensex 30 having Net Worth > ` 1000 cr. (whether listed or not)
	Urban Co-operative Banks having net worth < ` 300 cr.; All Non-Banking Financial Companies (NBFC) Listed or Non-listed having Net Worth > ` 1000 cr.

General Requirements for Adopting IFRS

In first time adoption of IFRS, it takes many requirements to prepare the IFRS financial statements. General Requirement for entities adopting IFRS on April 1, 2011are as follows:

- As initial step, they have to restate the opening balance sheet as on 1st April, 2010.
- The period of 2010-11 is the period of comparison in which the financial statements are compared with.
- The financial statements as per IFRSs are to be prepared in 2011-12 for the first time. The first time adoption of IFRS takes three years to prepare Balance Sheet and 2 years to prepare Profit and Loss Account for entities.

Contents of IFRS Financial Statement

- Balance Sheet (a statement showing financial position of an entity at the end of the period financial year.
- Income statement or Profit and Loss A/c (statement showing net profit or loss in a financial year).
- A statement showing changes in equity in financial year,
- Cash Flows Statement for financial year,
- Notes giving summary of accounting policies and other explanatory information about the entity.
- A statement of financial position as at the beginning of comparative period when an entity makes a retrospective restatement of items in its financial statements. Titles to the statement can be given according to entity concerned by itself

IFRS and Indian Generally Accepted Accounting Principles (I-GAAP)

- One of the basic features of IFRS is that these are principle based but the Indian accounting standards are rule based.

- IFRS demand to apply professional judgment consistent with the spirit of standards.
- IFRSs are designed in such way as does not encircle any standard rules, they give only vast principles of accounting which any country can fully adopt or coverage with their local culture.
- In IFRS, off-balance sheet transactions have been made as part of accounts but in Indian Accounting Standards, there are no such provisions.
- According to IFRS, extent of control of entities is decided upon percentage of holdings.
- IFRS does not support many financial treatments of ASs. e.g. fixed assets valuation on historical cost basis, amortization of goodwill or patents etc. Technically, there are many major divergences between IFRS and I-GAAP. So, the management has to prepare themselves to adopt new standards and give performing decisions to maintain the consistency in the growth of business.

Key Divergences between Indian GAAP and IFRS

Key Divergences between Indian GAAP and IFRS have arisen due to the following reasons:

- Conceptual Differences
- Legal & regulatory conflicts
- Differences caused due to removal of alternatives
- Level of Preparedness of financial statements

Conceptual Differences

- IAS-1 gives different measurement bases for different classes of assets and the presentation of all these items as in separate lines on the face of balance sheet Where as the revised AS requires separate presentation of such assets to be made in Schedules and Notes, not the separate presentation on the face of balance sheet.
- IAS-2 requires for exclusion of only selling cost and not of distribution cost from the cost of inventories whereas AS-2 excludes both selling & distribution cost from the cost of inventories giving rationale that the expenses should be recognized in the same period in which they occur.
- AS-19 specifically excludes lease agreements to use lands whereas IAS-17 does not contain this exclusion.
- According to AS-18, a non-executive director of a company should not be considered as a key management person by virtue of merely his being a director unless he has the authority and responsibility for planning, directing and controlling the activities of reporting enterprises. Whereas IAS-24 provides for including non-executive director in key management personnel.
- As per AS-18, the term ‘relative’ of an individual is clarified as,” the spouse, son, daughter, brother, sister, father and mother who may be expected to influence or to be influenced by him/her in dealings with the reporting enterprises.” Whereas IAS-36 provides for ‘close members of family of an individual’ who are “those family members who may be influenced or be influenced by that individual in his/her/their dealings with the institution and includes (a) individual’s domestic partner & children (b) children of individual’s domestic partner (c) dependants on individual’s domestic partner.
- AS-29 does not provide for disclosure of contingent liabilities in financial statements whereas IAS-37 provides for the same.
- According to AS-26, if control over the future economic benefits from intangible assets is received through legal rights granted for a finite period. Then the useful life of these assets should not be more than period of legal rights unless: (a) the legal rights are renewable and (b) renewal is virtually certain.

Differences Due to Legal and Regulatory Environment

- IAS-1 does not give any prescribed detailed formats for financial statement, but in India taking the laws governing the companies, banking enterprises and insurance companies, detailed formats provided for financial statements is revised AS-1.
- Revised AS-1 uses the expression ‘true & fare’ whereas IAS-1 uses the expression ‘present fairly’.
- There is difference in definitions of control. AS-21 defines the control as ownership of more than one-half of voting power of an enterprise or as control over the composition of governing body of enterprise to obtain the economic benefits. Whereas the definition provided by IAS-27 defines control as, “the power to govern the financial and operating policies of an enterprises to obtain benefits from its activities”.
- According to IAS-32, redeemable preference shares may be considered debt instrument instead of equity instrument based on their substance but in Indian legal framework, these are taken as part of equity.

Differences Caused Due to Removal of Alternatives

- IAS-1 provides for presentation of ‘Statements of Changes in Equity’ which is not provided by revised AS-1. The case is same with regard to additional disclosures regarding share capital.
- Unlike IAS-7, AS-3 does not provide any option regarding classification of interest paid. AS-3 treats it as financial cash-flow. The case is same regarding interest & dividend received and classification of dividend paid. All the cases are related to enterprises other than financial enterprises.
- IAS-19 provides for recognition of actuarial gains & losses whereas AS-15 does not provide any option with regard to recognition of actuarial gain & losses. It requires such gains & losses to be recognized immediately in the statement of Profit and Loss A/c.
- Unlike IAS-31, in case of jointly controlled entities AS-27 does not provide any option for accounting of interest in the consolidated financial statements of venturers.

Differences Due to Level of Preparedness

- Revised AS-2 requires lesser disclosure compared to IAS-2.
- According to IAS-33 (Revised), diluted amounts/Share for the discontinued operations is required to be disclosed where as AS-20 does not require it.

- IAS-39 provides for present value basis to be used to arrive at the amount of provision. However AS-29 requires that the amount of provision is to be discounted at historical cost basis instead of present value basis.

Preparation for Successful Adoption of IFRS

ICAI council, while appreciating the emerging diversities and complexities in the world of accounting and need for knowledge of IFRS in relation to convergence of AS with IFRS, launched a certificate course on International Financial Reporting Standards for its members having objectives of enhancing knowledge about IFRS. CA programme also had been designed as an initiative to prepare ample talents and human resources having knowledge of AS and IFRS (with IAS). A large number of professionals have come in the profession after completing the course and process is fast growing, results till today are handsome.

Conclusion

India had decided to converge with IFRS in phased manner and the initiative was taken in April, 2011 by letting a roadmap for convergence with IFRS. Different roadmap has been set for different entities like insurance companies, banking companies and other financial enterprises. The first phase of convergence with IFRS is partly completed in India. The concept of IFRS is taken very sensitively by the Govt., regulatory authorities and concerned entities. As the IFRSs are widely known as global accounting standards, it becomes need of the hour to adopt them. Before converging with IFRS, a challenge towards convergence with IFRS was lack of professionals. For this purpose, the ICAI launched a course (CA) that proves itself the solutions to the challenges. Today's position of India regarding convergence with IFRS is satisfactory, fast and smooth going. However, the results are yet to come showing the outcome of emerging concept being adopted by India.

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