INDIAN ACCOUNTING STANDARD – AN INDIAN VERSION OF IFRS

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Abstract: *The International Accounting Standard Committee (IASC) is committed to eliminate the problems of multiple reporting system which is very time consuming and costly by developing one set standards for reporting financial statements, i.e. IFRS. More than 100 countries including all European Union countries and Pakistan, Bangladesh, Sri Lanka have already adopted IFRS. Barring UK and USA, by 2011 all developed and developing economies including India will be converging to IFRS. In India, IFRS was supposed to be introduced from 1st April 2011, with Sensex and Nifty companies as per the proposal of ICAI which was announced in July 2007. However it has been found that huge legislative changes are to be implemented in Company Law and other act and rules. As a result, Ministry of Company Affairs (MCA) in their meeting dated 22nd January , 2010 has decided not to adopt IFRS in its original form, from 1st April, but to adopt it in a phased manner with the introduction of Indian AS (Indian version of IFRS).*

On vide notification dated 16 February 2015 a roadmap has been laid down by the Ministry of Corporate Affairs by issuing the Companies (Indian Accounting Standards) Rules, 2015 for companies other than insurance companies, banking companies and non-banking finance companies for implementation of Indian Accounting Standards which are converged with International Financial Reporting Standards (IFRS).

Keywords: *IFRS, Indian Accounting Standard, Financial year, ICAI, Convergence*

INTRODUCTION

In order to reduce the problem of multiple reporting system a new system that is International Financial Reporting System been introduced. The International Accounting Standard Committee (IASC) is committed to eliminate the problems of multiple reporting system which is very time consuming and costly by developing one set standards for reporting financial statements, i.e. IFRS. IFRSs issued by International Accounting Standard Board (IASB) are increasingly being recognized as global reporting standards. More than 100 countries including all European Union countries and Pakistan, Bangladesh, Sri Lanka have already adopted IFRS. Barring UK and USA, by 2011 all developed and developing economies including India will be converging to IFRS. Though US has deferred its plan to implement

IFRS, a major breakthrough has been achieved in US as the Securities & Exchange Commission (SEC) has allowed Non-US companies listed in US Stock exchanges to prepare their financial statements under IFRS and have given exemption to prepare financial statements under US GAAP.In India, IFRS was supposed to be introduced from 1st April 2011, with Sensex and Nifty companies as per the proposal of ICAI which was announced in July 2007. However it has been found that huge legislative changes are to be implemented in Company Law and other act and rules.,Income Tax Act and Rules. As a result, Ministry of Company Affairs (MCA) in their meeting dated 22nd January ,2010has decided not to adopt IFRS in its original form, from 1st April, but to adopt it in a phased manner with the introduction of Indian AS (Indian version of IFRS).

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MEANING OF IFRS

International Financial Reporting Standards (IFRS) are standards and interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

(a) International Financial Reporting Standard

(b) International Accounting Standards; and

(c) Interpretation developed by the International Financial Reporting Interpretation Committee (IFRIC) or the former Standing Interpretation Committee (SIC).

The International Financial Reporting Standards (IFRS) is a novel way of looking at accounting. 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. In simple words, it is a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. These are generally principle based standards rather than rule based standards, its application requires exercise of judgment by the preparer and auditor in incorporating principles of accounting on the basis of the economic substance of transactions.

OBJECTIVES OF THE STUDY

The major objectives of the study are as follows:

- To understand the meaning of IFRS
- To study the evolution of IFRS
- To know about IFRS complaint nations
- To discuss about the applicability of Indian Accounting Standards from 2016-17 onwards.

SOURCES OF DATA

The data for this paper has been collected from the secondary sources viz. magazines, journals, articles, published work etc.

EVOLUTION OF IFRS

International Financial Reporting Standards are standards adopted by the International Accounting Standards Board (IASB), an independent accounting standard- setting body, based in London, which started its operations in 2001 for developing global accounting standards. IFRS came into limelight when the European Union decided to adopt it for all its member countries in 2005. Since then, IFRS has spread swiftly all over the world. As of now, more than 12,000 companies in almost 100 nations have implemented IFRS. In 2005, countries of the European Union, Australia, New Zealand and Russia have adopted IFRS for listed enterprises. China migrated to IFRS in 2008. Brazil is expected to move in 2010, Canada, Japan and India by 2011, Mexico in 2012. US plans to move to the pattern by 2014. It is estimated that the number of countries requiring or accepting IFRS could grow to 150 in the next few years. In India, IFRS was supposed to be introduced from 1st April 2011, with Sensex and Nifty companies as per the proposal of 1CAI which was announced in July 2007**.** However it has been found that huge legislative changes are imperative. As a result, Ministry of Company Affairs (MCA) in their meeting dated 22nd January ,2010has decided not to adopt IFRS in its original form, from 1st April, but to adopt it in a phased manner with the introduction of Indian AS (Indian version o IFRRS).

IFRS COMPLIANT NATIONS

IFRS are used in many parts of the world, including the Europian Union, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, South Africa, Singapore and Turkey. As on January 2010, more than 113 countries around the world, including all of Europe, currently require or permit IFRS reporting.

On vide notification dated 16 February 2015 the Ministry of Corporate Affairs has issued the Companies (Indian Accounting Standards) Rules, 2015 which lay down a roadmap for companies other than insurance companies, banking companies and non-banking finance companies for implementation of Indian Accounting Standards which are converged with International Financial Reporting Standards (IFRS).

The introduction of these standards 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.

IFRS Compliance

As per IAS 1, an entity is said to have complied with IFRS if it has complied with

(1) All IAS and IFRS

(2) All IFRIC and SICs

(3) Apply all the pronouncements of National standard setter to the extent they are consistent with other IFRS, SICs, IFRICs & IASB frame work.

APPLICABILITY OF IND ACCOUNTING STANDARD A NEW FORM OF IFRS IN INDIA

Applicability for Financial year 2016-17 and onwards:

The Indian Accounting Standards are applicable to the following companies from financial year 2016-17 and onwards.

a. All companies having net worth of Rs. 500 crores or more
b. Holding, subsidiaries, joint ventures, or associates of companies covered in (a) above

The companies are also required to report the comparatives of previous year.

Applicability for Financial year 2017-18 and onwards:

The Indian Accounting Standards are applicable to the following companies from financial year 2017-18 and onwards.

a. All Listed companies (or companies in the process of being listed)
b. Unlisted companies having net worth of Rs. 250 crores or more
c. Holding, subsidiaries, joint ventures, or associates of companies covered in (a) and (b) above.

The companies are also required to report the comparatives of previous year.

Exceptions

Companies whose securities are listed or in the process of listing on the Small and Medium Enterprises (SME) exchanges will not be required to apply Indian AS and can continue to comply with the existing accountingstandards unless they choose otherwise.

The Ind Accounting Standards will be applicable to the companies in the following manner

Phase I

Year of adoption FY 2016 - 17 Comparative year FY 2015 – 16

Covered companies

(a) **Listed companies** All companies with net worth >= INR500 crores
(b) **Unlisted companies** All companies with net worth >= INR500 crores
(c) **Group companies** Applicable to holding, subsidiaries, joint ventures, or associates of companies covered in (a) and (b) above. This may also impact fellow subsidiary companies while preparing CFS of the holding company.

Phase II

Year of adoption FY 2017 – 18Comparative year FY 2016 - 17

Covered companies

(a) **Listed companies** All companies listed or in the process of being listed
(b) **Unlisted companies** Companies having a net worth >= INR250 crores
(c) **Group companies** Applicable to holding, subsidiaries, joint ventures, or associates of companies covered in (a) and (b) above. This may also impact fellow subsidiary companies while preparing CFS of the holding company.

Voluntary Adoption

Year of adoption FY 2015 – 16 or thereafter Comparative year FY 2014 - 15 or thereafter

Covered companies

Any company could voluntarily adopt Ind AS

Exceptions

Companies whose securities are listed or in the process of listing on the Small and Medium Enterprises (SME) exchanges will not be required to apply Ind AS and can continue to comply with the existing accounting standards unless they choose otherwise.

The net worth of companies which are not existing on 31 March 2014 or an existing company falling under any of thresholds for the first time after 31 March 2014 should be calculated based on the first audited financial statements ending after 31 March 2014.

Net worth is to be calculated as defined in the Companies Act, 2013 and does not include reserves created out of revaluation of assets, write back of depreciation and amalgamation.

Once a company applies Ind AS voluntarily, it will be required to follow the Ind AS for all the subsequent financial statements. Thus, no roll back is permitted.

The above companies would not be required to prepare another set of financial statements in accordance with the accounting standards prescribed in the Companies (Accounting Standards) Rules, 2006 prescribed under the Companies Act, 1956.

Words and expressions used in the Rules but not defined in the Rules would have the same meaning as assigned in the Companies Act, 2013.

The Ind AS would apply to stand-alone and consolidated financial statements (CFS).

Other significant matters

The Rules clarify that an Indian company :

- having an overseas subsidiary, associate, joint venture a nd other similar entities, or
- which is a subsidiary, associate, joint venture and other similar entities of a foreign company is required to prepare its financial statements, including CFS, where applicable, in accordance with the Rules. The net worth for implementation of Ind AS should be calculated based on the stand-alone financial statements of the company as on 31 March 2014 or the first audited financial statements for accounting period ending subsequently.

Benefits of adoption of IFRS in the form of Indian Accounting Standards

Change is the order of the modern era. Changing over to IFRS fetch variety of benefits to the economy in general and to the diverse stakeholders in particular:

1. The Investors. Convergence with IFRS makes accounting information more reliable, relevant, timely and comparable across different legal frameworks and requirements as it would then be prepared using a common set of accounting standards thus facilitating those who want to invest outside India. Convergence with IFRS also develops better understanding of financial statements globally and also develops increased confidence among the investors

2. The Industry. The other important set of beneficiary as the researchers perceive is the industry which in the event of convergence with IFRS will be benefited because of, one, increased confidence in the minds of the foreign investors, two, decreased burden of financial reporting, three, it would simplify the process of preparing the individual and group financial statements, four, it leads to lower cost of preparing the financial statements using different sets of accounting standards.
3. Accounting Professionals. Although there would be initial teething problems, convergence with IFRS would definitely benefit the accounting professionals as the later would then be able to sell their expertise in various parts of the world.
4. The corporate world. Convergence with IFRS would raise the reputation and relationship of the Indian corporate world with the international financial community. Moreover, the corporate houses back in India would be benefited because of ,one, achievement of higher level of consistency between the internal and external reporting, two, because of better access to international market, three, convergence with IFRS improves the risk rating and makes the corporate world more competitive globally as their comparability with the international competitors increases.
5. The Economy. All the discussions made above explains how convergence with IFRS would help industry grow and is advantageous to the corporate houses in the country as this would bring higher level of consistency between the internal and external reporting along with improving the risk rating among the international investors. Moreover the international comparability also improves benefiting the industrial and capital markets in the country.

CONCLUSION

Indian accounting standard is considered as the better way of implementation of IFRS in the Indian form. As is well known that IFRS was not implemented in its original form due to the requirement of huge legislative changes. Indian accounting standards are to be implemented in a phased manner, which will surely be beneficial to all the interested parties.

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