# A STUDY ON IMPLEMENTATION OF IFRS IN INDIA

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**ABSTRACT**

Globalization has laid down a way for all the countries to adopt a uniform set of accounting standards. More than 130 countries have converged or recognized the policy of convergence with the IFRS. It is an emerging issue in the field of accounting in the Indian Context. This research will help us to know the impact to the subject of International Financial Reporting Standards. In recent years, lots of changes are happening in the field of Financial Reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. An upcoming economy on world economic map, India too, decided to converge to IFRS from 2016-17 mandatorily but still there are many challenges which are faced by India in the Implementation on IFRS.

Key words :MCA, IFRS, Ind AS, IASC

## 1. INTRODUCTION

There are many accounting standards in the world, with each country using a version of their own generally accepted accounting principles, also known as GAAP. These allow firms to report their financial statements in accordance to the GAAP that applies to them. The complication lies within whether the firm does business in multiple countries. How can investors then deal with multiple standards, which ones are accurate, and how can corporations be compared based upon their financials? The answer to these questions lies within the adoption of the International Financial Reporting Standards, or IFRS, which is being developed and supported by the International Accounting Standards Board (IASB). With more and more countries adopting the IFRS as their accounting standard, over 120 as of April 2011, investors and analysts should be well advised on how this transition affects company's reporting, and what it means moving forward. To do this, this article will look at the background of IFRS, the benefits, its goals, the fundamental differences between IFRS and U.S. GAAP, and go into a few of the major changes that occur within the various financial statements when converting to IFRS from U.S. GAAP.

International Financial Reporting Standards is rapidly becoming the benchmark for the accounting world. Convergence with IFRS has gained momentum in recent years and accounting bodies across the globe are aligning their existing accounting standards and issuing new accounting standards to conform to IFRS. These standards are issued by the International accounting Standard board, which is the standard setting body of the IFRS Foundation, an independent, private sector, not-for-profit organization. The IASB was formed in 2001 as the successor organization to the International Accounting Standards Committee, which had been setting International Accounting Standards since 1973. Both Bodies have been London-based since their inception, but they have a global mission. The IASB is committed to developing, in the public interest, a single set of high quality global accounting standards that provide high quality, transparent and comparable information in general-purpose financial statement. Yet with IFRS conversion imminent for many global companies, many should actually be asking themselves the question: "Can we afford not to transform?" Regulatory change has a habit of exposing the weaknesses of a finance function by putting a heavy burden on its infrastructure, resources and processes. Many organizations get through-somehow - but without a coordinated approach, many find that the longer-term consequences are costly, as they are forced to invest even further in sub - optimal operations. International Financial Reporting Standards (IFRS) is a set of international accounting standards that states how certain transactions and events should be reported in financial statements. It is based upon principles rather than hard set rules, which is in contrast to U.S. GAAP, a rules-based accounting standard. As a result of this fundamental difference, IFRS allows management to use greater discretion and flexibility when preparing a company's financials.

In recent years, there has been a trend towards a common globalized accounting standard with IFRS used in many parts of the world, including the European Union, Hong Kong, Australia, Russia and Singapore, among other nations. In January 2011, Canada officially adopted the IFRS standard, with more countries switching from their own accounting requirements to the IFRS standard. As of December 2012, the United States still operates under U.S. GAAP, so it remains to be seen if they will switch as well.

Conversion is much more than a technical accounting issue. 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.

## 2. LITERATURE REVIEW

1. Katerina Struharova, Karel steker, Milana Otrusinova (2011), **"Shift to IFRS – what** (Kateřina Struhařová, Shift to IFRS – what would this mean for Czech, Issue 2, Volume 5, 2011)**would this mean for Czech companies"** Usage of IFRS financial statements in the Czech Republic is very rare. This is due to the fact that only listed entities are required to prepare its consolidated financial statements in line with IFRS. If other entities want to prepare their financial statement under IFRS they have to prepare them in addition to financial statements under CZ GAAP which are mandatory for statutory purposes. Also the opportunities that IFRS can bring to Czech companies are not seen by them. In this paper we discuss what the shift to IFRS mean for Czech companies and what is the impact of possible adoption or convergence plans on Czech companies.

2. Dr. Naseem Ahmad and Professor Nawab Ali Khan (2010), **"Global convergence of financial reporting"** this article define that all major economies have established time lines to converge with or adopt IFRSs in the near future. The international convergence efforts of the organization are also supported by the Group of 20 Leaders (G20) who, at their September 2009 meeting in Pittsburgh, US, called on international accounting bodies to redouble their efforts to achieve this objective within the context of their independent standard-setting process. In particular, they asked the IASB and the US FASB to complete their convergence project by June 2011. Adopting a single global accounting language will ensure relevance, completeness, understandability, reliability, timeliness, neutrality, verifiability, consistency, comparability and transparency of financial statements and these bring about a qualitative change in the accounting information reports which will strengthen the confidence and empower investors and other users of accounting information around the world. It will also help acquirers to assess the actual worth of the target companies in cross border deals and thereby furthering the economic growth and search and help researcher in deter business expansion globally. For a decade the companies in India have been using both – US GAAPs and more recently International Financial Reporting Standards (IFRS) to raise funds from US and European Markets. The Institute of Chartered Accountants of India has announced that it will align existing accounting standards with IFRS w.e.f. April 1, 2011 to join the group of 100 countries reporting under IFRS.

3. Amanda Paul and Eddy Burks (2009**), "Preparing for international financial reporting standards"** The accounting profession is on the precipice of one of the biggest changes to face it since the 1930s. In the very near future, there is a strong possibility that United States generally accepted accounting principles (GAAP), as it is known today, will cease to exist. In its place will be a global standard encompassed by the International Financial Reporting Standards (IFRS). This paper will provide a history of IFRS and discuss the timeline of convergence, along with advantages and disadvantages. This paper will also address the future impact on accounting education.

4. Scott Hartman (2009), **"Ready for IFRS?"** This article based on the Adoption of IFRS (International Financial Reporting Standards) in the US undoubtedly would mark a significant change for many US companies. It would require a shift to a more principles-based approach,

place far greater reliance on management (and auditor) judgment, and spur major changes in company processes and systems. But this change should not be feared. A move to IFRS also presents a tremendous opportunity. Moving to an entirely new accounting structure ultimately might enable companies to streamline reporting processes and reduce compliance costs. While there are differences between US GAAP and IFRS, the general principles, conceptual framework and accounting results between them are often the same, or similar, for most commonly-encountered transactions. With IFRS likely to arrive in the near -- rather than distant -- future, affected utilities should consider the implications of IFRS and start planning now. The resources needed and the impact on the organization will be far-reaching. But with proper strategic planning, benefits can be substantial.

5. Glenn A Cheney(2008), **"If IFRS Offer the Answer, They Sure Raise a Lot of Questions"** the finding of this research is that that For America's financial executives who have not kept up with the latest accounting news, a call this summer for comments from the US Securities & Exchange Commission (SEC) should garner your attention. The issue is a big one: Should the SEC change its rule of having foreign issuers reconcile their financial reporting to US generally accepted accounting principles (GAAP), or should you accept financial reports that comply with International Financial Reporting Standards (IFRS)? The deceptively simple question has spawned a host of related questions and scenarios. FASB Chairman Robert Herz says the consequences of allowing foreign companies to file financial statements under IFRS in the US could be good and bad. On the good side, more foreign companies will register on US exchanges, giving investors more options. It will also increase interest in IFRS among Americans. On the bad side, despite considerable convergence between the two accounting systems, they do not yet add up to the same bottom lines.

6. Joanna Yeoh, Kimberley Crook (2008), **"The spread of IFRS: where to from here?"** This study investigate that not so long ago, a single-set of global accounting standards was considered to be a long-term goal, with many obstacles in its path. Now over 100 jurisdictions use international financial reporting standards (IFRS) developed by the International Accounting Standards Board. As the number of jurisdictions adopting IFRS increases, the feasibility and appropriateness of a single set of global accounting standards is now widely accepted in the world's capital markets. The debate for many jurisdictions has now changed to which entities should apply IFRS instead of whether a jurisdiction should adopt them. While a single set of global accounting standards is fast becoming a reality in the world's capital markets, there are outstanding questions about applying IFRS to other types of entities, including small and medium-sized entities, public sector entities and not-for-profit entities.

**However the present study focuses on following issues:**

1. Changing Dimension of Corporate Reporting in India under IFRS Regime

2. IFRS contributes to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation

**3. Objectives and Scope of the study**

- IFRS brings transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions
- IFRS strengthens accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our standards provide information that is needed to hold management to account. As source of globally comparable information, IFRS is also of vital importance to regulators around the world
- Maintain a clear and realistic scope

## 4. Research Methodology

**4.1 Exploratory research:** It is a form of research conducted for a problem that has not been clearly defined. Exploratory research helps to determine the best research design, data collection method and selection of subjects.

Our paper aims to provide an updated description of the process of IFRS adoption in the E.U. and worldwide, pointing out its effects on the information presented in financial statements, on the markets efficiency and on the accounting harmonization. The research methodology used to develop the article contains only qualitative methods. The documentation (literature review) and comparative analysis are completed in our approach with inductive and deductive reasoning. We have analyzed approximately 40 academic articles, published between 2000 and 2012, indexed in international databases, such as Science Direct, Emerald and ProQuest. Also, we have tried a classification of these papers according to the country analyzed in each of them, making a comparative analysis between the IFRS adoption effects in Code and Common Law countries.

**Primary Data:**

CA. Manoj Fadnis, President, ICAI

IND As – Implementation and Challenges Ahead from CA MOHAN.R.LAVI

Corporate Laws and Corporate Reporting Practice with reference to IFRS from Shri VIJAY KAPUR, Director, BOS, ICAI

Implementation of IFRS and experience in other countries from CA AJITH THAMBI, Associate Director, KPMG

**Secondary data:** As the data relating to IFRS secondary data was collected. The sources of data are websites, journals and dailies.

## 5. DATA ANALYSIS AND INTERPRETATION

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.

**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:

1. 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.
2. 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.
3. 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.

**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 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.

## 6. FINDINGS

IFRS Convergence will have a fundamental impact on the numbers and how they are reported. The scale of change can cause anxiety, especially when the numbers impact the wider business. Companies need to start thinking about convergence in more detail now, because it's coming quicker than some think. At a minimum, they need to build awareness within the organization. A broad steering committee across all functions can also help push out information. A Communication plan is also essential to create a platform for the change management process. The challenge for regulators is to ensure that the converged IFRS itself does not become another chapter by itself. The objective of conversion is to ensure the global compatibility and having more carve outs mean that the objective is never met. All Regulators i.e External – Ministry of Corporate affairs, Ministry of Finance (Tax), SEBI, The Institute of Charted Accountants of India Reserve Bank of India, The Insurance Regulatory and Development Authority, International Accounting Standard Board have to closely work together to maintain the consistency in roadmap to implement IFRS. Indian Companies would most likely maintain separate set of books for tax purposes. Whilst income taxes could be determined and paid using tax accounting standards, questions relating to determination of MAT, and application of withholding tax provisions would require further clarity. As India has already made a clear road map for convergence, the regulators should always look back earlier experiences and formulate a robust plan for convergence.

## 7. SUGGESTION

The IASB has a separate IFRS for SME's, which reduce some of the Disclosure requirements of IFRS for SME's. In India, there are a large number of SME's. The Road map does not specify any timeline for SME's to move over to IFRS. There can be no doubt in the fact that the true impact of IFRS in India would be understood when the IFRS is implemented for SME's. The Standards should not be too complex and implementation should come to a reasonable cost this could prove to be the biggest challenge. IFRS Standards are themselves a work-in-progress the IASB is working on amending quite a few Standards. The Challenge for India would be to keep pace with the IASB and amend Ind AS Standards regularly in order that there are no differences between the two Standards.

## 8. CONCLUSION

While the start of an IFRS conversion program is highly visible, organizations are often less certain when they have reached the end point, since conversion does not end with the publishing of the first set of IFRS financial statements. Many companies can then face the task of moving activities out of a project environment and integrating them into ongoing operational process. To achieve this, a well run program will go through a highly structured 'Sustain' phase, to help embed the impacts of IFRS across all dynamics; systems, process and especially people. In parallel, further IT development can be inevitable, but a well coordinated transformation program will minimize the volume of deferred functionality, data fixes and manual workarounds to address after the first reporting date. But it doesn't stop there, Successful transformation programs recognize the value of "benefits realization" monitoring, particularly to correctly track and attribute benefits between IFRS and the other initiatives. The current economic crisis is likely to generate a whole range of new regulatory demands and finance, once again, will have to step up to the mark. Further changes will continue to challenge the best of us. On completing conversion, one may enjoy a momentary breather, but it won't be long before finance change is back on the agenda.

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