RESEARCH FRONT

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IMPLEMENTATION OF CONVERGED INDIAN ACCOUNTING STANDARDS (IND ASs)

Dr. Mahendra D. Dhondge Patil
Asst. Professor, S.M.R.K.B.K.A.K. Mahila Mahavidyalaya,
Prin. T.A.Kulkarni Vidyanagar, Nashik

INTRODUCTION

General purpose financial statements are prepared and presented at least annually and are directed towards the common information needs of a wide range of users. Some of these users may require, and have the power to obtain, information in addition to that contained in the financial statements. Many users, however, have to rely on the financial statements as their major source of financial information and such financial statements should, therefore, be prepared and presented with their needs in view.

Users of accounting can be classified into two categories:-

i. Internal Management.

ii. Outsiders.

It is expected that accounts should provide information to meet requirements of both of the above i.e. internal management & external users. Accounting is defined by American Accounting Association as 'the process of identifying, measuring & communicating information to permit judgement & decisions by the users of accounts.'

NEED OF STUDY

To standardize the diverse accounting policies & practices & with a view to eliminate to the extent possible the non comparability of financial statements & to add reliability of financial statements, Accounting Standards are prepared. The process is going on so that financial statements of any business located at any country can be easily read by anyone located at any part of the worldwide. Whole world should have one uniform language of accounting. In India, the need of Accounting Standards was recognized by The Institute Of Chartered Accountants of India & therefore, it constituted an Accounting Standards Board on 21st April 1977. The Board is continuously issuing accounting standards in various areas as applicable to business houses. At the same time, it also revise the existing Accounting Standards as per the need of changing scenario.

As a part of its G-20 commitments, India has to adopt IFRS (International Financial Reporting Standards). To become an IFRS-converged country as promised by it, India has to adopt the IFRS. But the ICAI, the premier body established by an act of Parliament has now issued Ind ASs (Indian Accounting Standards) which are converged and now at par with IFRS. The ICAI, MCA and Government are all set and ready to implement those converged Ind ASs at the earliest.

LITERATURE REVIEW

Indian Accouting Standards converged with IFRS are issued recently and there are very few literature available on the same. As the base is IFRS, one has to refer literature available on IFRS. As IFRS are first implemented in European Union, literature on IFRS and

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its implementation data is available therefrom. Rare studies have been carried out in other countries analyzing the data.

Many researchers have found that the adoption of IFRS had a positive impact on entities, financial reporting and wider economic settings. Daske et al. (2008) found that firms adopting IFRS in the year of mandatory adoption experience large increases in market liquidity but mixed results for the cost of capital. Stent et al. (2010) found that adoption of IFRS in New Zealand led to a significant increase in liabilities and a decrease in equity for private sector entities. Adjustments to income taxes, employee benefits and financial instruments were the main reasons for increases in liabilities and decreases in equity.

In the paper on convergence of Domestic Accounting Standards and IFRS, it was demonstrated that the influence of Multinational Enterprises and large international accounting firms can lead to transfer of economic resources in their favor, wherein the public interests are usually ignored. (Chand & White, 2007) In the study why there is heterogeneity in countries' decisions to adopt IFRS; in other words, why some countries adopt IFRS while others do not, Author focused his analysis on a sample of 102 non-EU countries, excluding the EU because of it closeness to the IASB. (Karthik Ramanna, 2009) Ensuring a high quality corporate financial reporting environment depends on effective Control & Enforcement Mechanism. Merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure. (Pawan Jain, 2011) ICAI, being a premier accounting body in the country, took upon itself the leadership role by establishing ASB, more than twenty five years back, to fall in line with the international and national expectations. Today, accounting standards issued by the Institute have come a long way (Dr. H. S. Patange, 2012) In the article GAAP & IFRS, it was concluded that it would be necessary to understand some of the qualitative as well as Procedural differences between the two. An analysis of differences Between Indian GAAP and IFRS. (Shamnani Gopichand B, 2012) There are so many aspects relating to IFRS convergence which still need to be clarified, such as IFRS first time adoption standard, compliance of comparative previous period figures with IFRS, changes required to the Companies Act to comply with IFRS, changes to the Income-Tax Act, the Reserve Bank of India's requirements for banks, etc. (Dr. Kishori J. Bhagat, 2012) The real estate industry continues to be a good example of the differences that can arise from the application and interpretation of apparently straightforward accounting standards. (Prof. Jyoti H. Pohane, 2012)

As evident from the literature review, few of the studies have also brought out the procedural aspects of implementation of IFRS. Some of the studies have given a contradictory view wherein the articles talk about the difficulties and complications faced in first time adaption of IFRS.

OBJECTIVES OF THE STUDY

1) To study the implementation procedure of Ind ASs.
2) To Study impact on reporting by Indian Companies in the process of Convergence to IFRS.

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3) To take review of the problems faced by Corporates while implementing New Indian Accounting Standards.

HYPOTHESIS

i. Accounting Standards play very important role in financial reporting of Large Companies.
ii. The Corporates have to make appropriate changes in their financial reporting & disclosures due to changes in Accounting Standards.

METHODOLOGY

For the purpose of the present study, mainly literature survey and secondary data has been used. The required secondary data was collected from the authorized Annual Reports and Official Website of ICAI and IFRS, various Journals and Research Papers, reports and newspaper articles have been surveyed in making this study.

In last 7-8 Years there are significant developments with respect to Accounting Standards & accordingly, it has also affected the preparation of financial statements by the companies. There are significant changes in reporting formats of financial statements of Companies as well in disclosure of policies. Format of Balance Sheet and Statement of Profit and Loss are introduced by Ministry of Corporate Affairs. Similarly, the Accounting Standards Board of The Institute of Chartered Accountants of India has also so for issued 35 Indian Accounting Standards (Ind AS) which are in line with IFRS. This step would enable India to become an IFRS-converged country as promised by it as a part of its G-20 commitments.

Therefore the researcher decided to study in detail the development of Indian Accounting Standards (Ind ASs) & its impact on preparation & reporting of financial statements of corporates.

SCOPE OF RESEARCH

Researcher will also try to find out how newly introduced Ind ASs are to be implemented by Indian Government and Corporates.

LIMITATIONS OF STUDY

The study of changes in reporting will be limited to ongoing convergence of Ind ASs and whatever information obtained for research, that will be considered according to the objectives of research. The Analysis and conclusions will be based on such information.

In India, ASB of ICAI has issued 32 standards till date and Indian Accounting Standards are issued to suit the Indian Business Environment, Statutes of the Land and the practices followed. Proper cognizance of all the Accounting Standards are to be taken before finalizing the Annual Results of any Business Organizations. Any non-compliance or deviation is also to be disclosed in the financial statements.

The Ministry of Corporate Affairs issued the road map for transition to IFRS. In the first phase, companies included in Nifty 50 or BSE Sensex, and companies whose securities are listed on stock exchanges outside India and all other companies having net worth of Rs 1,000 crore will prepare and present financial statements using Indian Accounting Standards converged with IFRS. The Finance Minister in his Budget speech in July, 2014 proposed the adoption of the new Indian Accounting Standards (Ind AS – the converged IFRS standards) by Indian companies voluntarily from FY 2015-16 and mandatory from FY 2016-17.

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Transition to IFRS in phases is a smart move. The transition cost for smaller companies will be much lower because large companies will bear the initial cost of learning and smaller companies will not be required to reinvent the wheel. The government has decided to measure the size of companies in terms of net worth. Conversion is much more than a technical accounting issue. IFRS 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 and take ‘a clean sheet of paper’ approach to financial policies and processes. The Convergence process, however, has proved to be a great challenge for India. India had to defer the implementation of converged accounting standards. In recent past, 35 Indian Accounting Standards have been converged with IFRS but the date of implementation of the same is yet to be notified by the Government pending requisite changes in corporate laws, Tax laws and other relevant regulations. These standards are called ‘Converged Indian Accounting Standards’ or ‘Ind AS’. There are certain deviations in ‘Ind AS’ from IFRS. However, few deviations are unavoidable due to the regulatory and legal framework as well as business practices which are peculiar to economic environment in India. In order to minimize the deviations, there is a need to discuss the deviations with IASB to see if IFRSs could incorporate the Indian concerns and thereby reduce the deviations.

The press release of Ministry says that ‘Reliable, consistent and uniform financial reporting is important part of good corporate governance practices worldwide in order to enhance the credibility of the businesses in the eyes of investors to take informed investment decisions. There was commitment in G-20 summit held in September 2009 that G-20 Countries (of which India is also a member country) would converge national Accounting Standards with IFRS. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in Ministry of Corporate Affairs through wide ranging consultative exercise with all the stakeholders. Forty One Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called IND AS) are being notified by the Ministry and placed on the website. The date of implementation of the IND AS will be notified by the Ministry at a later date.’

This approach would enable India also to be become an IFRS-converged country as promised by it as a part of its G-20 commitments.

CA. K Raghu, President ICAI has said that implementation of Ind AS from 1st April, 2016, with previous year Ind AS comparatives for 2015-16, would allow industry ample time to prepare themselves for the Ind AS, with certain subsequent revisions and amendments after 2011, which have been and are being carried out by the ICAI to keep pace with IFRS revisions/amendments. These would be submitted for consideration of the Government for notification as per the provisions of the Act. It is also felt that the aforesaid time is sufficient to implement Ind AS for all listed companies and unlisted companies having net worth in excess of Rupees 500 crore in one go, instead of implementing Ind AS in phases, as was laid down in the previous roadmap. Accordingly, Indian Corporates are gearing up for welcome and implementation of the Ind AS converged with IFRS.

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ADVANTAGES OF ADOPTING CONVERGED IND AS-

The adoption of IFRS for Financial Reporting purposes have benefitted to global economies. The past studies and researches have suggested several advantages of adopting IFRS. The implementation of IFRS leads better financial information for both shareholders and regulators, it enhances comparability, improves transparency of recorded results, enhances ability to secure global listing, managing the global operations and reduced cost of capital.

1. Better Access to cross-border Capital Markets
2. Qualitative Reporting
3. Elimination of multiple Reporting
4. Easier Global Markets Comparability

PROBLEMS AND CHALLENGES:

Every change is painstaking. In spite of several benefits, there will be some challenges that will be faced on the way of IFRS convergence by the Indian corporates.

1. Training
2. Legal Aspect
3. Taxation Provisions
4. Fair value Concept
5. Reporting system
6. Variations in GAAP and IFRS

ACTIONS REQUIRED TO FACE THE CHALLENGES

1. To provide instance guidance on accounting issues and problems, the ICAI should issue guidance notes on the matters where accounting professionals will have dilemma.
2. To undertake necessary changes required in various statutory provisions, task force should be formed to suggest amendments in existing provisions.
3. To facilitate education of members, ICAI should educate members by conducting seminars and courses. It has been started to some extent.
4. To solve queries of members, ICAI should form regionwise expert advisory committees.

CONCLUSION

For smooth implementation of IFRS converged Ind AS, ICAI and regulatory bodies are taking several measures. The need is to have a systematic procedure for first time implementation of the newly issued converged Ind AS. Corporate houses need to gear themselves for continuous updation.

The regulatory bodies should ensure changes in existing Companies Act, Taxation, Foreign Exchange Management Act, Banking Regulation Act and Insurance Act etc. these changes will be beneficial to line up Indian Accounting Practices with converged Standards. In July 2009, a committee has been formed by Ministry of Corporate Affairs Government of India, in order to identify various legal and regulatory changes which are required for convergence. With a view to make sure adoption of first time adoption of converged standards in India, skilled and trained professional accountants and auditors are required in large numbers. India is lacking the required number of IFRS trained accountants and auditors.

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The ICAI has taken initiatives to arrange the training programmes for its members and other parties. Yet India need to build a bridge in the gap between available trained professionals and required such professionals. To ensure that all the corporate houses are complying with adoption procedure, Indian regulators and Accounting Body (ICAI) should have Financial Reporting Compliance Monitoring Board.

The transition to IFRS may cause short term hindrances, but in the long run, the benefits of investments and consistency will definitely outweigh the costs and other challenges. IFRS statements will enable entities to recognise their relative standing looking beyond country and regional milestones. This will facilitate companies to set targets and milestones based on global business environment, rather than merely local ones.

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