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Emergence of International Financial Reporting Standard in India's Accounting Scenario

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Abstract:

In India, the globalization of economic activity has resulted in an increased demand for high-quality, internationally comparable financial information. With the world becoming a global village, companies and investors who operate business in several countries need to understand each nation's accounting principle. There is a growing international consensus on the International Financial Reporting Standards as acceptable standards for assessment of the financial health of a company across the globe. The lack of financial statement comparability influenced business decisions in many ways. In this backdrop, this article examines rationale behind adopting IFRS in Indian Accounting scenario, the difference between IFRS and Indian GAAP and the convergence procedure to be adopted to harmonize Indian Accounting Standard with IFRS and major divergence existed between IFRS and IGAAP. The development of IFRS in India ideally will lead to the worldwide use of a single set of high-quality accounting standards for both domestic and cross-border financial reporting. The conflicting legal and regulatory requirements related to financial statements, the technical preparedness of industry and accounting professionals and the economic environment prevailing in the country will pose challenges to this convergence. Nevertheless, it can optimistically be concluded that a common global reporting language will ensure that investors funds will be moved easily within the global market and IFRS implementation in India will enhance investors' confidence about investing in Indian economy and ultimately IFRS implementation will provide opportunity for comparatibility of financial statements prepared all over the world for cross-border investment.

Keywords: IFRS, GAAP, India, convergence, Accounting.

1. Introduction:

The globalization of economic activity has resulted in an increased demand for high-quality, internationally comparable financial information. The increase in cross-border investment transactions creates an increased demand for a set of high-quality international accounting standards that could be used as a basis for financial reporting worldwide. Accurate and consistent information is essential if the allocation of financial capital is to truly reflect comparative advantage, encourage appropriately diversified investments, and minimize costs of capital.

With the world becoming a global village, companies and investors who operate business in several countries need to understand each nation's accounting principle. There is a growing international consensus on the International Financial Reporting Standards as acceptable standards for assessment of the financial health of a company across the globe. Although basic accounting principles such as the accrual basis and the going-concern assumption are widely accepted, the application of these principles in different economic and cultural environments has led to significant differences as to how accountants report similar transactions. Local differences exist in, for example, the treatment of goodwill, the definition of a group, treatment of borrowing costs, measurement of impairment, and the treatment of deferred taxes.

For entities that are globally active, these differences in financial reporting requirements create extra complications in terms of preparing, consolidating, auditing, and interpreting financial statements. This is because financial statements have to be reconciled before consolidated financial statements can be the analysis of potential acquirers in a foreign country increases the costs of the mergers and acquisitions department because they have to familiarize themselves with a foreign accounting system, and investors have to be informed about differences in financial reporting. In general, the differences in accounting treatments create non-optimal information for users of financial statements, which in turn leads to less than optimal allocation of resources.

The need for a harmonized, high-quality set of accounting rules is not new. Several initiatives have been taken to arrive at a globally accepted set of financial reporting standards. An important player in this is the European Union. Since the 1970s it has made serious efforts to harmonize the national accounting rules within Europe, resulting in several directives and regulations. Other organizations concerned with international aspects of accounting, active since the 1970s, are: the International Federation of Accountants (IFAC), the Accountants' International Study Group, the International Organization of Securities Commissions (IOSCO), the Federation des Experts Comptables Européens (FEE), the Inter-American Accounting Association (IAAA), and the Organization for Economic Co-operation and Development (OECD).

It has been said that accounting is the "language of business," and though not all users need to create the language, all users should be able to "read" the language. For decades, however, it has been difficult to read and understand company performance when financial information originated from different global locations. Many of these companies effectively prepared financial statements under different accounting rules and regulations. As a result, the different rules created different values or measures for the same economic event.

The lack of financial statement comparability influenced business decisions in many ways. Often, the lack of comparability and ability to understand performance would change 1) a company's decision to acquire an overseas operation, 2) an analyst's recommendation or rating when reviewing the creditworthiness of a foreign entity, 3) an investor's decisions concerning global investment opportunities, or 4) a domestic organization's decision to use an overseas supplier. Thus, the lack of financial statement comparability would result in lost opportunities for a business. Today a business professional that works in a global economy must be able to efficiently and effectively evaluate the profitability, liquidity, and financial position of its business partners and competitors to thrive and grow.

Major economies have established timeliness for convergence with, or adoption of IFRS. All listed European Union companies have been required to use IFRS since 2005.The Australian Accounting Standard Board (AASB) has issued Australian equivalent to IFRS; Turkey Accounting Standards Board translated to IFRS into Turkish in 2006, while Canada has mandated Canadian publicly accountable profit-oriented enterprises to use IFRS for financial periods beginning on or after 1st January 2011.

In India, the Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statement for the periods beginning on or after 1st April 2011. The rules for the first-time adoption of IFRS are set out in IFRS 1 –First time-adoption of International Financial Reporting Standards. IFRS 1 states that a company should use the same accounting policies in its opening balance sheet and throughout all periods presented in its IFRS financial statements. The standard requires these policies to comply with IFRS effective at the reporting date of the first published financial statements under IFRS. IFRS 1 permits certain mandatory exemptions and also allows exemptions from the application of certain IFRS in order to assist companies with the transaction process. According to an Oracle White Paper (2008) the International Accounting Standards Board (IASB) has since 1970 worked to develop a single set of International Standards, the IFRS. The world's capital market ebb and flow continuously, and participants in that market place must have access to financial information that factually reflects their economic performance, is consistent among companies around the globe, and is governed by a trusted and respected authority of corporate compliance.

This article examines backdrop behind adopting IFRS in Indian Accounting scenario, the difference between IFRS and Indian GAAP and the convergence procedure to be adopted to harmonize Indian Accounting Standard with IFRS and major divergence existed between IFRS and IGAAP.

2. What is IFRS?

A set of financial reporting standards issued by the International Accounting Standards Board is recognized under the brand name International Financial Reporting Standards (IFRSs). IFRS is a trade mark of the International Accounting Standards Committee Foundation. The main objective of International Financial reporting Standard (IFRS) is to harmonize accounting between countries which will make it easier to conduct business internationally and can subsequently raise funds in global capital market. According to Benzacar (2008) IFRS is the official reporting standard which have been adopted by more than 100+ countries around the world. The goal of IFRS is to have all countries follow the same accounting standards, thereby simplifying the process of all concerned. Zakari (2010) defined International Financial Reporting Standards as a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements.

International Financial Reporting Standards (IFRSs) comprise of:

- International Financial Reporting Standards (IFRS)—standards issued after 2001
- International Accounting Standards (IAS)—standards issued before 2001
- Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)—issued after 2001
- Standing Interpretations Committee (SIC)—issued before 2001
- Framework for the Preparation and Presentation of Financial Statements (1989)

Presently there are nine IFRS, forty one IASs, eighteen IFRIC interpretations and twelve SIC interpretations (Given in Appendix below).

3. Why IFRS should be adopted in India?

It is generally expected that IFRS adoption worldwide will be beneficial to investors and other users of financial statements, by reducing the costs of comparing alternative investments and increasing the quality of information. Companies are also expected to benefit, as investors will be more willing to provide financing.

(i)IFRS enhances comparability among different sectors, countries and companies, which will lead to more transparent financial reporting benefiting investors, customers and other stakeholder in India and overseas. Convergence with IFRS will eliminate multiple reporting and related costs, as the same set of financial statements can be used both for reporting at the entity level and at the consolidated level.

(ii). The use of IFRS is likely to enhance the reliability and image of financial reporting by Indian industry across the world, since it will be based on a global set of accounting standards. As a result, Indian entities are likely to experience a wider availability of capital through increased cross border listing and investment opportunities.

(iii). Uniform Accounting Standard enables investors to understand better investment opportunities as against different set of national accounting standard.

(iv). Improved communication and interaction with investors and analysts which may provide companies with a competitive advantage and also wider access to capital at a lower cost. Indian entities may be able to initiate new relationships with investors, customers and suppliers internationally, since IFRS provides a globally accepted reporting platform.

(v) The process of conversion of IFRS generally results in harmonization of internal and external reporting which can assist entities in reducing costs and ensuring consistency in financial reporting within the organization as well as to external stakeholders.

(vi). Corporates would come to know its true worth /Fair valuation of many balance sheet items.

(vii). Convergence to IFRS will increase the opportunities for Indian professionals abroad also.

(viii).Convergence with IFRS enables Indian companies to access Global Capital Markets and eliminate cross border listing and encourage more foreign capital flow to the country.

(ix). The number of countries across the world where IFRS is a recognized reporting framework continues to grow. This brings opportunities to generate process and cost efficiencies in financial reporting. It will also potentially open up opportunities to standardize, simplify and centralize financial reporting processes and functions.

(x).The other key benefit would be a common accounting system and framework which is perceived as stable, transparent and fair to the local and foreign investors.

(xi). The subsidiaries of companies operating in jurisdictions where IFRS is the accepted standard need to follow the same accounting standards as their corporate parents.

(xii). The joint ventures with a venture partner operating in countries requiring IFRS also need to follow the same accounting standards as their venture partner.

(xiii). The multinationals seeking to enter new markets and expand operations to a foreign country may need to report using IFRS in order to obtain an operating license or raise capital.

(xiv). It is widely expected that the use of a single global standard will enhance the efficiency of capital allocation on a global basis and help reduce the cost of capital.

(xv). IFRS will eliminate barriers to cross border listings and would be beneficial for the investors who generally ascribed risk premium if the underline financial information is not prepared in accordance with international standards.

4. IFRS & Indian Accounting Standards: Major points of Distinction:

The difference between Indian GAAP and IFRS are highlighted as below:

First time adoption:

IFRS 1 specifically deals with how to apply IFRS for the first time. Full retrospective application of IFRSs effective at the reporting date for an entity's first IFRS financial statements with certain optional exemptions and mandatory exceptions. An entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flow IFRS 1 specifically deals with how to apply IFRS for the first time. An entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flow Indian Accounting Standards does not give specific guidance on first time adoption of the standards by an entity.

Presentation and Disclosure :

In IFRS the following need to be presented:

Statement of financial position (Balance sheet)

Statement of comprehensive income (Income statement)

Statement of changes in equity

Cash flow statement,

Notes comprising a summary of significant accounting policies and other explanatory information.

An entity shall not present items of income or expenses as extraordinary items either on the face of the statement of comprehensive income or the separate income statements in the notes.

In Indian GAAP the following need to be presented and disclosed:

Balance sheet

Profit and Loss Account,

Cash flow statement

Accounting policies and Notes to financial statements.

An entity shall disclose statement of profit and loss any income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly as extraordinary items.

Even though Indian GAAP is inspired from IFRS, there are significant differences between them especially in areas of business combinations, group accounts, fixed asset accounting, presentation of financial statement, accounting for foreign exchange and financial instruments, to name a few; Indian GAAP is still a long way behind IFRS.

There exist differences between IFRS and Indian GAAP on the basis of the following:

(i)Conceptual content of accounting

(ii)Accounting financial differences

(iii)Framework statements

[Insert Table-1 here]

5. Meaning of 'Convergence' with IFRS in India:

International Financial Reporting Standards (IFRS) are principles-based Standards, Interpretations and the Framework (1989) adopted by the International Accounting Standards Board (IASB).A financial statement should reflect true and fair view of the business affairs of the organization. As these statements are used by various constituents of the society / regulators, they need to reflect true view of the financial position of the organization.

A financial reporting system supported by strong governance, high quality standards, and firm regulatory framework is the key to economic development. Indeed, sound financial reporting standards underline the trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. The Institute of Chartered Accountants of India (ICAI) as the accounting standards-formulating body in the country has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. Indian Accounting Standards have withstood the test of time. As the world continues to globalize, discussion on convergence of national accounting standards with International Financial Reporting Standards (IFRS) has increased significantly.

In general terms, 'convergence' means to achieve harmony with IFRS; in precise term, convergence can be considered "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRS". In this context, attention is drawn to paragraph 14 of International Accounting Standard (IAS) 1, Presentation of Financial Statements, which states that financial statements shall not be described as complying with IFRS unless they comply with all the requirements of IFRS. Thus, 'convergence with IFRSs' means adoption of IFRS.

Convergence with IFRS has gained momentum in recent years all over the World. 110+ countries including European Union, Australia, China, New Zealand, and Russia currently require or permit the use of IFRS. Apart from India, countries like Japan, Sri Lanka, Canada and Korea have also committed to adopt IFRS from 2011. United States of America has announced its intention to adopt IFRS from 2014 and it also permits foreign private filers in the U.S. Stock Exchanges to file IFRS complied Financial Statement, without requiring the presentation of reconciliation statement.

In this setting of globalization, India cannot shield itself from the developments taking place worldwide. In India, so far as the ICAI is concerned, its aim has always been to comply with the IFRS to the extent possible with the objective to formulate sound financial reporting standards. The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRS and tries to integrate them, to the extent possible, in view of the laws, customs, practices and business environment prevailing in India. The Preface to the Statements of Accounting Standards, issued by the ICAI, categorically recognizes the same. Now, as the world globalizes, it has become imperative for India also to make a formal strategy for convergence with IFRS with the objective to harmonize with globally accepted accounting standards.

6. Path-way for convergence of Indian accounting standards with IFRS:

6.1. Chronological order in convergence process:

*October,2007 -ICAI released concept paper on convergence with IFRS.

*May,2008- MCA reiterates commitment to transition by 2011.

*February,2009- ICAI releases update on convergence process .

*July,2009-MCA sets up core group to develop roadmap .

*November,2009-SEBI approves move to permit voluntary early adoption of IFRS.

*January,2010-MCA's roadmap on transition released.

*March/April,2010- BFSI Roadmap issued by MCA

-Amendment to Listing agreement permits IFRS reporting.

On 22 January 2010, the Ministry of Corporate Affairs issued an announcement, which confirms the manner in which IFRS convergence will be achieved in India. The key takeaways from the announcement are:

Convergence with IFRS in a phased manner starting 1 April 2011.

Criteria for companies covered in each phase defined (For e.g. entities with net worth in excess of Rs. 1,000 crore will be covered in Phase I)

Two separate sets of Accounting Standards under Section 211(3C) of the Companies Act, 1956 – IFRS converged standards and existing accounting standards.

Companies not covered will follow existing accounting standards; but may voluntarily converge Separate notification for Banks and Insurance companies .

The whole process of IFRS implementation starts with getting the complete insight about company's current accounting and reporting system as well as the review of all the relevant contacts and agreements with an objective to identify what are the changes that will be required while shifting from IGAAP to IFRS. Then based on the analysis, drafting the accounting policies will be followed under IFRS. The objective of this exercise is to make the company aware of probable changes, their impacts and approach that are required to handle those changes.

Therefore, as per the roadmap announced by the Ministry of Corporate Affairs, there will be two separate sets of Accounting Standards u/s 211(3C) of the Companies Act, 1956. First set would comprise of the Indian Accounting Standards which are converged with the IFRS which shall be applicable to the specified classes of companies. The second set would comprise of the existing Indian Accounting Standards and would be applicable to other companies, including Small and Medium Companies (SMCs).

The first set of Accounting Standards (i.e. converged accounting standards) will be applied to specified classes of companies, in phases, beginning with the financial year 1.4.2011 to 2014 as per following schedule:-

The Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statements for the periods beginning on or after 1 April 2011. This will be done by revising existing accounting standards to make them compatible with IFRS.

Reserve Bank of India has stated that financial statements of banks need to be IFRS-compliant for periods beginning on or after 1 April 2011.

The ICAI has also stated that IFRS will be applied to companies having net worth above Rs.1000 crore from April 2011. Phase wise applicability details for different companies in India are as follows:

Phase I: Companies covered in this phase will prepare an opening balance sheet in accordance with IFRS converged standards as of 1 April 2011 and will follow the IFRS converged standards from this date. The following companies will be covered in Phase 1:

Companies included in the Nifty 50; Companies included in the Sensex 30; Companies which have shares or other securities listed on stock exchanges outside India; and Companies (whether listed or not) which have a net worth in excess of Rs 1,000 crores.

[Insert Table-2 here]

Outline of Phase-I: Opening balance sheet as at 1 April 2011*
i. Companies which are part of NSE Index – Nifty 50
ii. Companies which are part of BSE Sensex – BSE 30

iii. Companies whose shares or other securities are listed on a stock exchange outside India.

iv. Companies, whether listed or not, having net worth of more than INR1,000 crores.

Phase II: Companies covered in this phase will prepare an opening balance sheet in accordance with IFRS converged standards as of 1 April, 2013 and will follow the IFRS converged standards from this date. All companies (whether listed or not) with a net worth in excess of Rs. 500 crores but less than Rs. 1000 crores will be covered in Phase3.

Outline of Phase -II: Opening balance sheet as at 1 April 2013*
Companies not covered in phase 1 and having net worth exceeding INR 500 crores.

[Insert Table-3 here]

Phase III Companies covered in this phase will prepare an opening balance sheet in accordance with IFRS converged standards as of 1 April, 2014 and will follow the IFRS converged standards from this date. All listed companies with a net worth less than of Rs. 500 crores will be covered in Phase III.

Outline of Phase III: Opening balance sheet as at 1 April 2014*.
Listed companies not covered in the 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.

On January 22, 2010 the Ministry of Corporate Affairs issued the road map for transition to IFRS. It is clear that India has deferred transition to IFRS by a year. 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 crores will prepare and present financial statements using Indian Accounting Standards converged with IFRS. According to the press note issued by the government, those companies will convert their first balance sheet as at April 1, 2011, applying accounting standards convergent with IFRS if the accounting year ends on March 31. This implies that the transition date will be April 1, 2011. According to the earlier plan, the transition date was fixed at April 1, 2010.

[Insert Table-4 here]

The press note does not clarify whether the full set of financial statements for the year 2011-12 will be prepared by applying accounting standards convergent with IFRS. The deferment of the transition may make companies happy, but it will undermine India’s position. Presumably, lack of preparedness of Indian companies has led to the decision to defer the adoption of IFRS for a year. This is unfortunate that India, which boasts for its IT and accounting skills, could not prepare itself for the transition to IFRS over last four years. But that might be the ground reality. Transition in phases Companies, whether listed or not, having net worth of more than Rs 500 crores will convert their opening balance sheet as at April 1, 2013. Listed companies having net worth of Rs 500 crores or less will convert their opening balance sheet as at April 1, 2014. Un-listed companies having net worth of Rs 500 crores or less will continue to apply existing accounting standards, which might be modified from time to time. 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. However, this will happen only if a significant number of large companies engage Indian accounting firms to provide them support in their transition to IFRS. If, most large companies, which will comply with Indian accounting standards convergent with IFRS in the first phase, choose one of the international firms, Indian accounting firms and smaller companies will not benefit from the learning in the first phase of the transition to IFRS. It is likely that international firms will protect their learning to retain their competitive advantage. Therefore, it is for the benefit of the country that each company makes judicious choice of the accounting firm as its partner without limiting its choice to international accounting firms. Public sector companies should take the lead and the Institute of Chartered Accountants of India (ICAI) should develop a clear strategy to diffuse the learning. The government has decided to measure the size of companies in terms of net worth. This is not the ideal unit to measure the size of a company. Net worth in the balance sheet is determined by accounting principles and methods. Therefore, it does not include the value of intangible assets. Moreover, as most assets and liabilities are measured at historical cost, the net worth does not reflect the current value of those assets and liabilities. Market capitalization is a better measure of the size of a company. But it is difficult to estimate market capitalization or fundamental value of unlisted companies. This might be the reason that the government has decided to use 'net worth' to measure size of companies. Some companies, which are large in terms of fundamental value or which intend to attract foreign capital, might prefer to use Indian accounting standards convergent with IFRS earlier than required under the road map presented by the government.

The ICAI has proposed two options for convergence:-

1- All at once

2- Stage wise Approach.

For first time adoption, two key terms needs to be understood:-

Reporting date-It is the end of latest period covered by financial statements.

Transition date- It is beginning of earliest period for which an entity presents first full IFRS compliant financial statements.

First year of reporting: Accounting period commencing on or after 1 April 2011 (Normally 1 April 2011 – 31 March 2012)

Date of adoption: The first day of the first reporting financial year (1 April 2011)

Date of reporting: The last day of the first reporting financial year (31 March 2012)

Comparative year: Immediately preceding previous year (1 April 2010 – 31 March 2011)

Date of transition: The beginning of the earliest period for which an entity presents full comparative information (1 April 2010).

Therefore, for an Indian Company, the first reporting date will be 31-03-2012 and transition date will be 01-04-2010. Hence, first set of financials shall be for 01-04-2011 to 31-03-2012 with IFRS comparables also to be provided for 01-04-2010 to 31-03-2011.

First time adoption of IFRS on the date of reporting envisages-

1. Restatement of opening balances as at 1 April 2010
2. Presentation of comparative financial statements for the year 2010-11
3. Preparation and presentation of financial statements for the first year of reporting 2011-12
4. Explicit and unreserved statement of compliance with IFRS

All the above statements (as stated in 1 to 3 above) have to be drawn as per the IFRS in force on the date of reporting.

7. Convergence with IFRS – Stage-wise Approach:

As a convergence of the statutory application of the new accounting standards, the financial results of the companies, as reflected in their statutory financial statements, may undergo a change. Normally, such changes arising out of changes in law are treated as neutral for tax purposes. There are significant tax issues, in addition to accounting and other business issues, needing to be resolved especially, in view of the phased approach for transition. CBDT and ICAI have constituted a joint study group to identify and address taxation issues arising out of convergence with IFRS in India.

In view of the phased approach of moving towards IFRS converged accounting standards in India, suitable taxation provisions that allow appropriate treatment for two sets of accounting standards that would increasingly be applied during the transition process are needed to be explored. As per IFRS requirements, there are many items in the profit & loss account which are treated differently and would need tax clarifications in the Indian context. On transition to IFRS,

In line with the global trend, the Institute of Chartered Accountants of India (ICAI) has proposed a roadmap for convergence with IFRS for certain defined entities (listed entities, banks and insurance entities and certain other large-sized entities) with effect from accounting periods commencing on or after April 1, 2011. Large-sized entities are defined as entities with turnover in excess of Rs.l00 crores or borrowings in excess of Rs.25 crores. Accordingly, as part of its convergence strategy, the ICAI has classified IFRS into the following broad categories :

Category I :

IFRS which can be adopted immediately or in the immediate future in view of no or minor differences (for example, construction contracts, borrowing costs, inventories).

Category II :

IFRS which may require some time to reach a level of technical preparedness by the industry and professionals, keeping in view the existing economic environment and other factors (for example, share-based payments).

Category III:

IFRS which have conceptual differences with the corresponding Indian Accounting Standards and where further dialogue and discussions with the IASB may be required (consolidation, associates, joint ventures, provisions and contingent liabilities).

Category IV :

IFRS, the adoption of which would require changes in laws/regulations because compliance with such IFRS is not possible until the regulations/laws are amended (for example, accounting policies and errors, property and equipment, first-time adoption of IFRS).

[Insert Table-5 here]

[Insert Table-6 here]

9. Key Divergences:

The key divergences between Indian GAAP and IFRS have arisen due to:

•Conceptual differences.

•Legal and regulatory requirements.

•Present economic conditions.

•Level of preparedness.

The divergences are both in terms of accounting treatment as well as disclosures in the financial statements. Some of the divergences between Indian GAAP and IFRS are summarized as under:

•Special Purpose Entities (SPE) falling under the definition of ‘control’ as per IAS 27 on “Consolidated and Separate Financial Statements” shall be consolidated.

• ‘Potential Voting Rights’ that are currently exercisable or convertible shall be considered to assess the existence of ‘control’.

• All business combinations shall be accounted as per purchase method at fair values.

•Contingent liabilities, taken over in a business combination, shall be included in Net Assets, measured at fair value, if contingencies have since been resolved, a reliable estimate can be made and payment is probable.

•Negative goodwill arising on business combinations / consolidation shall be accounted as income instead of capital reserve.

•Goodwill shall not be amortized. It shall only be tested for impairment.

•PP&E and Intangible assets shall be measured either at cost or at revalued amount. Periodical valuation of entire classes of assets is required when revaluation option is chosen.

• Intangible assets can be revalued only when there is an active market for the same.

•Depreciation on revalued portion cannot be recouped out of revaluation reserve.

•Depreciation to be calculated based on useful life, which along with residual value and depreciation method shall be reviewed annually.

•Intangible assets may have an indefinite life e.g. Trademarks, Goodwill, Franchise Investment property, i.e. land or building held to earn rentals or for capital appreciation, shall be measured either at cost or fair value.

•If fair value model is adopted, changes in fair value, measured annually, shall be recognized in the income statement.

•No distinction shall be made between integral and non-integral foreign operations. All foreign operations to be consolidated using non-integral approach.

•Share Based Payments shall be measured at fair value.

•Deferred tax shall be created on temporary difference instead of timing differences.

•Liability portion of compound financial instruments, such as convertible debentures, shall be separately accounted for.

• Financial assets and liabilities shall be classified and measured accordingly as per the requirements of IAS 39: Financial Instruments: Recognition and Measurement.

• All derivative financial assets and liabilities including embedded derivatives shall be accounted for as on the balance sheet items.

•Derivatives classified as ‘hedge’ shall have to comply with various requirements of IAS 39 viz. documentation, hedge effectiveness testing and ineffectiveness measurement.

• Derecognition of financial assets, as in the case of securitization, shall be based on risks and rewards, transfer of ‘control’ being a secondary test.

• Provisions shall be created only to the extent they relate to a specified risk that can be measured reliably and for incurred losses. No provisions are permitted for future or expected losses i.e. general provisions.

• Interest income / expense on financial assets and liabilities, such as loans, shall be recorded on an effective interest rate basis after considering associated income and expenses e.g. agency commission, loan processing fees, etc.

• Prior period errors shall be adjusted in the opening balances of assets, liabilities and equity of the earliest period presented i.e. the figures relating to prior years are restated.

10. Conclusion:

The development of IFRS ideally will lead to the worldwide use of a single set of high-quality accounting standards for both domestic and cross-border financial reporting. The demand for those standards is driven by the desire for high quality, internationally comparable financial information that capital providers will find useful for decision-making in global public capital markets. Obtaining a strong global consensus on a single set of accounting standards will be difficult due to technical challenges, different countries having diverse traditions and approaches, various degrees of professional development, and broad political concerns. Differences in accounting methods create information costs for the preparers, auditors, and users of financial statements. Convergence in India would be facilitated by the fact that historically Indian accounting standards have been based on principles as against rules. However, given the nature of accounting and peculiarities of the Indian economic environment, the process of convergence has its own set of challenges. The conflicting legal and regulatory requirements related to financial statements, the technical preparedness of industry and accounting professionals and the economic environment prevailing in the country will pose challenges to this convergence. Nevertheless, it can optimistically be concluded that a common global reporting language will ensure that investors funds will be moved easily within the global market and IFRS implementation in India will enhance investors' confidence about investing in Indian economy and ultimately IFRS implementation will provide opportunity for comparatibility of financial statements prepared all over the world for cross-border investment.

Appendix:

The following IFRS statements are currently issued:

- IFRS 1 First time Adoption of International Financial Reporting Standards
- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 4 Insurance Contracts
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments
- IFRS 9 Financial Instruments
- IAS 1: Presentation of Financial Statements.
- IAS 2: Inventories
- IAS 3: Consolidated Financial Statements Originally issued 1976, effective 1 Jan 1977. Superseded in 1989 by IAS 27 and IAS 28
- IAS 4: Depreciation Accounting Withdrawn in 1999, replaced by IAS 16, 22, and 38, all of which were issued or revised in 1998
- IAS 5: Information to Be Disclosed in Financial Statements Originally issued October 1976, effective 1 January 1997. Superseded by IAS 1 in 1997
- IAS 6: Accounting Responses to Changing Prices Superseded by IAS 15, which was withdrawn December 2003
- IAS 7: Cash Flow Statements
- IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 9: Accounting for Research and Development Activities – Superseded by IAS 38 effective 1.7.99.
- IAS 10: Events After the Balance Sheet Date
- IAS 11: Construction Contracts
- IAS 12: Income Taxes
- IAS 13: Presentation of Current Assets and Current Liabilities – Superseded by IAS 1.
- IAS 14: Segment Reporting (superseded by IFRS 8 on 1 January 2008)
- IAS 15: Information Reflecting the Effects of Changing Prices – Withdrawn December 2003
- IAS 16: Property, Plant and Equipment
- IAS 17: Leases

- IAS 18: Revenue
- IAS 19: Employee Benefits
- IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
- IAS 21: The Effects of Changes in Foreign Exchange Rates
- IAS 22:Business Combinations – Superseded by IFRS 3 effective 31 March 2004
- IAS 23: Borrowing Costs
- IAS 24: Related Party Disclosures
- IAS 25: Accounting for Investments – Superseded by IAS 39 and IAS 40 effective 2001
- IAS 26: Accounting and Reporting by Retirement Benefit Plans
- IAS 27: Consolidated Financial Statements
- IAS 28: Investments in Associates
- IAS 29: Financial Reporting in Hyperinflationary Economies
- IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions – Superseded by IFRS 7 effective 2007
- IAS 31: Interests in Joint Ventures
- IAS 32: Financial Instruments: Presentation (Financial instruments disclosures are in IFRS 7 Financial Instruments: Disclosures, and no longer in IAS 32)
- IAS 33: Earnings Per Share
- IAS 34: Interim Financial Reporting
- IAS 35: Discontinuing Operations – Superseded by IFRS 5 effective 2005
- IAS 36: Impairment of Assets
- IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- IAS 38: Intangible Assets
- IAS 39: Financial Instruments: Recognition and Measurement
- IAS 40: Investment Property
- IAS 41: Agriculture
- Preface to International Financial Reporting Interpretations (Updated to January 2006
- IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities (Updated to January 2006)
- IFRIC 7 Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (Issued February 2006)
- IFRIC 8 Scope of IFRS 2 (Issued February 2006)—has been eliminated with Amendments issued to IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives (Issued April 2006)
- IFRIC 10 Interim Financial Reporting and Impairment (Issued November 2006)
- IFRIC 11 IFRS 2-Group and Treasury Share Transactions (Issued November 2006)—has been eliminated with Amendments issued to IFRS 2
- IFRIC 12 Service Concession Arrangements (Issued November 2006)
- IFRIC 13 Customer Loyalty Programmes (Issued in June 2007)
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (issued in July 2007)

- IFRIC 15 Agreements for the Construction of Real Estate (issued in July 2008)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (issued in July 2008)
- IFRIC 17 Distributions of Non-cash Assets (issued in November 2008)
- IFRIC 18 Transfers of Assets from Customers (issued in January 2009)
- SIC 7 Introduction of the Euro (Updated to January 2006)
- SIC 10 Government Assistance-No Specific Relation to Operating Activities (Updated to January 2006)
- SIC 12 Consolidation-Special Purpose Entities (Updated to January 2006)
- SIC 13 Jointly Controlled Entities-Non-Monetary Contributions by Venturers (Updated to January 2006)
- SIC 15 Operating Leases-Incentives (Updated to January 2006)
- SIC 21 Income Taxes-Recovery of Revalued Non-Depreciable Assets (Updated to January 2006)
- SIC 25 Income Taxes-Changes in the Tax Status of an Entity or its Shareholders (Updated to January 2006)
- SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease (Updated to January 2006)
- SIC 29 Disclosure-Service Concession Arrangements (Updated to January 2006)
- SIC 31 Revenue-Barter Transactions Involving Advertising Services (Updated to January 2006)
- SIC 32 Intangible Assets-Web Site Costs (Updated to January 2006)
- SIC 33 Consolidation and equity method - Potential voting rights and allocation of ownership interest.

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Table1: IFRS & Indian Accounting Standards: A Comparative Analysis

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 Statement	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 B/S 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	Considered as change in Accounting policy, retrospective Computation and excess or deficit

	and IAS 8)	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 Property Plant Equipment 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)

Source: Tripati&Gupta (2011)

Table-2: Convergence to IFRS

Road map: Phased Approach showing Classes of Companies

Classes of Companies	Listed only in India	Listed overseas(any securities)	Unlisted
Companies in Nifty or Sensex	Phase I	Phase I	NA
Net worth> 1000 crores	Phase I	Phase I	Phase I
Net worth> 500 crores but upto 1000crores	Phase II	Phase I	Phase II
Net worth upto 500crores	Phase III	Phase I	Exempt
*Companies in phase II and III can early adopt from years beginning 1st April,2011 onwards. **Companies not covered in phase III(including small and medium companies) can adopt voluntarily converged standards.			

Table-3: Road map: Phased Approach showing mandatory timelines

Phases	Mandatory requirement		Option for early adoption	
	Opening Balance Sheet date	First year end(without IFRS comparatives)	Opening Balance Sheet date	First year end(with IFRS comparatives)
Phase I	1 st April,2011	31st March,2012	1 st April,2010	31st March,2012
Phase II	1 st April,2013	31st March,2014	1 st April,2011	31st March,2012
Phase III	1 st April,2014	31st March,2015	1 st April,2011	31st March,2012
*31st March,2011 information to be given in an additional column. **Phase II and Phase III companies can early adopt from year starting April,1, 2011.				

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Table:4 :Statement showing Roadmap for convergence

Roadmap for BFSI (Banking and Financial Service Institutions): A Phased Approach

Companies	Criteria for phased implementation	Opening Balance Sheet	First Financial Statement
Insurance Companies	All Insurance Companies	April,1,2012	March,31,2013
Banking Companies	All Scheduled Commercial Banks	April,1,2013	March,31,2014
	Urban Cooperative Banks having net worth>Rs.300 crores		
	Urban Cooperative Banks with net worth >Rs.200 crores but not exceeding Rs.300 crores	April,1,2014	March,31,2015
Non Banking Financial Companies	NSE-Nifty-50 or BSE-Sensex 30 Index Listed &unlisted with net worth>Rs 1000 crores	April,1,2013	March,31,2014
	All listed NBFCs Unlisted NBFCs with net worth greater than Rs 500 crores(other than above)	April,1,2014	March,31,2015
Urban Co-operative Banks with net worth less than Rs 200 Crores, Unlisted NBFCs with net worth less than Rs 500 Crores and Regional Rural Banks are exempt, though they may voluntarily opt to do so			

Table: 5: Convergence with IFRS – Stage-wise Approach

Stage I		**Stage II**			**Stage III**	**Stage IV**
I		II	III		IV	V
IA	IB		IIIA	IIIB	IAS 1	IAS 29
IAS 11	IAS 2	IAS 18	IAS 17	IAS 12	IAS 8	
IAS 23	IAS 7	IAS 21	IAS 19	IAS 24	IAS 10	
	IAS 20	IAS 26	IAS 27	IAS 41	IAS 16	
	IAS 33	IAS 41	IAS 28	IFRS 3	IAS 32	
	IAS 36	IFR S2	IAS 31	IFRS 6	IAS 34	
	IAS 38	IFRS 5	IAS 37	IFRS 8	IAS 39	
					IFRS 1	
					IFRS 4	
					IFRS 7	

Table:6: Summary of state wise approach

Stage I:	Convergence with IFRS falling in Category I immediately.
Stage II:	Convergence with IFRS classified in Category II and Category III after a certain period of time, say, 2 years after various stakeholders have achieved the level of technical preparedness and after conceptual differences are resolved with the IASB.
Stage III:	Convergence with IFRS classified in Category IV only after necessary Amendments are made in the relevant laws and regulations.
Stage IV:	Convergence with IFRS classified in Category V by way of adoption on full convergence.