Convergence of IFRS and Ind AS – A Descriptive and Exploratory Insight

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Abstract: *IFRS are designed to bring consistency to accounting language, practices and statements, and to help businesses and investors make educated financial analyses and decisions. The Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS). National Advisory Committee on Accounting Standards (NACAS) recommends these standards to the Ministry of Corporate Affairs (MCA). Indian viewpoints do not receive adequate attention at International Accounting Standard Board (IASB). Those are not debated adequately at the IASB before rejection. The present paper will discuss the reasons behind convergence of IFRs, rather than adoption. It also shows the Carve Outs of Ind AS from IFRS by providing valid reasons.*

Keywords: IFRS, Ind AS, NACAS, MCA, IASB, Convergence, Carve Outs

I. Introduction

International Financial Reporting Standards (IFRS) set common rules so that financial statements can be consistent, transparent, and comparable around the world. IFRS are issued by the International Accounting Standards Board (IASB). They specify how companies must maintain and report their accounts, defining types of transactions, and other events with financial impact. IFRS were established to create a common accounting language so that businesses and their financial statements can be consistent and reliable from company to company and country to country. The IFRS Foundation sets the standards to "bring transparency, accountability and efficiency to financial markets around the world… fostering trust, growth and long-term financial stability in the global economy." Companies benefit from the IFRS because investors are more likely to put money into a company if the company's business practices are transparent. IFRS are sometimes confused with International Accounting Standards (IAS), which are the older standards that IFRS replaced. IAS was issued from 1973 to 2000, and the International Accounting Standards Board (IASB) replaced the International Accounting Standards Committee (IASC) in 2001.

Indian Accounting Standard (abbreviated as Ind-AS) is the Accounting standard adopted by companies in India and issued under the supervision and control of Accounting Standards Board (ASB), which was constituted as a body in the year 1977. ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, other professional bodies' viz. ICAI, representatives from ASSOCHAM, CII, FICCI, etc. MCA has to spell out the accounting standards applicable for companies in India. As on date MCA has notified 39 Ind AS. This shall be applied to the companies of financial year 2015-16 voluntarily and from 2016-17 on a mandatory basis.

II. Brief Review of Literatures

Awasthi (2020) stated that, at this present scenario of the world economy, implementation of Ind AS is a demand and need of the day in order to compete globally. Implementation of IFRS is global investors friendly; companies can expand their operation globally by following single set of standards. Therefore, convergence with IFRS can be strongly recommended, but at the same time it is not easy to converge with IFRS as there are many regulatory and other issues involved in convergence with IFRS. They facilitate the cross-border flow of money, global listing and global comparability of the financial statements. This, in turn, facilitates global investment and benefit to capital market stakeholders. It enhances the investor's ability to compare the investments on a global basis. This, in turn, reduces the risk of mis-judgments. It also eliminates the costly requirements of reinstatement of financial statements

Singh et al. (2019) reflected notable IFRS benefits to improve quality of financial reporting; elimination of multiple reporting standards and ensuring easy to making decision; easy listing across the border and reduce cost of capital. Further, their paper reported that the IFRS are not free from the challenges, as inclusive of complicated nature; insufficient qualified personnel; fair value intent of standards which undergo from availability of liquid data; and lack of coordination between financial reporting regulators. Finally the paper concludes that the benefits for IFRS convergence are real but not automatic in other hand challenges in the way of adoption and convergence can't be ignored thus the recommendation to all the stakeholders that they must participate actively for a successful move.

Srivastava (2020) stated that more than 50% respondent think that convergence with IFRS would bring down the cost of equity and will help in prevention of frauds. It will further reduce the risk in capital market because IFRS is high quality financial reporting standards. Thus the overall cost of equity will be reduced because of reduced risk. IFRS will increase transparency and will bring better corporate governance. It will also lead to early detection of corporate frauds. So far as employment is concerned, both positive and negative effect of IFRS has no significant relationship with employment as IFRS does not recommend any Standards for Employment. Though the full convergence with IFRS in India requires more and more training and workshops for accounting professionals and IT resources needs to be advanced and adapted as IFRS but at the same time such high quality standard will make financial statements of Indian corporate sector globally compatible and comparable. Thus it is concluded that IFRS should be welcomed with open arms as it will lead to a better environment for an entity and stakeholders on global platform.

Muniraju (2016) indicated that the adoption of IFRS more beneficial to attract the world capital market and also indicate that the adoption of rules regarding truthful worth accounting, lease accounting and tax accounting, as well as rules regarding the accounting of economic instruments, explain the changes within the key accounting ratios. Adoption of fair value accounting rules and stricter requirements of certain accounting issues are the reasons for the changes observed in accounting figures and financial ratios. Their results also tells about the respondents are not fully aware of IFRS, which creates a barrier in adoption of IFRS in India. IFRS should be made a compulsory part in the academic curriculum. IFRS should be accepted as a blessing and not as an unknown, as it can prove very beneficial for India. More than 130 countries have already in line with IFRS. IFRS is more transparency and impacts accounting. Accountability of minute events also makes more impact on a company's finance under IFRS. IFRS also has stringent income recognition rules. Several Indian companies having businesses abroad are preparing their financial statements using IFRS. This helps to seek to have one comparable reporting standard around the world.

Dhankar et al. (2018) examined the perception of Public Sector Banks in India towards the implementation of IFRS. The paper provides insights into the IFRS adoption process based on a questionnaire sent to Public Sector Banks in India in 2015. The 291 responses received indicate: (1) Loan Impairment will affect the bank's financial performances; (2) transparency of the results of the Banks will be increased; (3) global operations of the Banks will be impacted in positive direction; (4) the accessibility of the global capital market will increase; (5) corporate governance of the banks will increase; (6) the quality of financial information provided to the regulators and shareholders will improve; (7) the comparability aspect of financial statements will increase; (8) market capitalization of banks will improve; (9) the training needs of the staff will increase; (10) the opportunities for the accounting professionals will expand; (11) the flow of FDI in the banking sector will increase.

Kaur et al. (2019) stated that newly framed Indian AS are the converged form of IFRS and ICAI and MCA has accepted most of the provisions of IFRS as it is. They shown the differences that, except few items almost all the provisions are same as IFRS. So it is a good thing about Indian AS that we have not any major changes in India GAAP. There are significant differences between IFRS and Indian-GAAP. In fact, Indian Accounting Standards have not kept pace with changes in IFRS. This is because Indian Standards remain sensitive to local conditions, including the legal and economic environment.

III. Objectives of the Study

1. To understand the reasons behind convergence of IFRS, rather than adoption in India
2. To find out the "Carve Outs" of Ind AS from IFRS & to show the reasons behind it

IV. Research Methodology

This particular research work is the combinations of descriptive and exploratory nature where the challenges, remedies and benefits will be explore to follow the IFRS procedures. The research work also provides an insight on the future prospects by following the convergence process. The used data and information are based on secondary sources which are collected through various websites and journals, as well as published books.

V. Findings and Discussions

With the government decision to defer the implementation of Ind-AS, the new set of Indian Accounting Standards, which are fully converged with IFRS, the enthusiasm for transition to IFRS has receded. However, it still remains an important topic for debates. In every conference two issues are invariably discussed. The first issue is why India has decided in favour of convergence with IFRS, rather than adopting IFRS. The second issue is whether India should defer implementation of Ind-AS further. Speakers and delegates argue that if USA can decide to adopt IFRS from 2014, India can also defer the implementation of Ind AS to 2014. The debate continues.

The objective of financial statements is to provide information that is useful to investors, potential investors and other creditors. This objective is met by adopting the accounting policy that results in presentation of economic consequences of transactions and other events on the financial position and performance of the entity and disclosure of useful information. Accounting standards control accounting policy. They stipulate the most appropriate accounting principles and methods and the disclosure requirements. Accounting standards are meant for implementation by entities operating in a particular territory. Therefore, standard setters take into consideration the environment (including the cultural environment and customs of the territory)in which entities operate and competencies of the preparers and auditors of financial statements and that of analysts and investors.

A global standard like IFRS cannot take into account environment and capabilities available in each country. Therefore, national standard setters modify IFRS, if required. However, deviations are kept at the minimum because if subsidiaries of multinational companies, which are operating in different territories, follow different accounting policy, preparation of consolidated financial statement becomes difficult. Sometimes, even governance at the holding company level becomes difficult because the internal MIS used by the board of directors and top management draws information from financial accounting records. Therefore, convergence, with essential deviations from IFRS, is a better option than adoption.

It is natural that Indian Accounting Standards reflect Indian position, what are significantly different from the position taken by IASB. It can be considered as a very strong reason for adopting the policy of carving out of and carving in IFRS in formulating Indian Accounting Standards. ICAI and NACAS should be congratulated that they could keep the difference between Ind-AS and IFRS at the minimum without being overwhelmed by strong criticism by accounting professionals of some accounting principles stipulated in IFRS.

The differences/Carve outs in Ind AS from IFRS is shown below in Detailed Manner

The Ind AS have been prepared by NACAS along with MCA and ICAI the draft Ind AS after due deliberations on the comments and suggestions as given by industries representatives. The finally recommended Ind AS have the following carve outs with respect to IFRS. These carve outs have been made to fill up the gap/differences in application of Accounting Principles Practices and economic conditions prevailing in India**.**

1. Ind AS 21-The Effects of Changes in Foreign Exchange Rates

It requires recognition of exchange differences arising on translation of monetary items from foreign currency to functional currency directly in profit or loss.

Carve Out

Ind AS 21 permits an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity. In this situation, Ind AS 21 requires the accumulated exchange differences to be amortised to profit or loss in an appropriate manner.

2. Ind AS 28- Investment in Associates

It shows the difference between the reporting period of an associate and that of the investor should not be more than three months, in any case.

Carve Out

The phrase 'unless it is impracticable' has been added in the relevant requirement i.e., of Ind AS 28. IAS 28 requires that for the purpose of applying equity method of accounting in the preparation of investor's financial statements, uniform accounting policies should be used. In other words, if the associate's accounting policies are different from those of the investor, the investor should change the financial statements of the associate by using same accounting policies.

Carve Out

The phrase, 'unless impracticable to do so' has been added in the relevant requirements.

3. Ind AS 39- Financial Instruments: Recognition and Measurement

IAS 39 requires all changes in fair values in case of financial liabilities designated at fair value through Profit and Loss at initial recognition shall be recognised in profit or loss. IFRS 9 which will replace IAS 39 requires these to be recognised in 'other comprehensive income'.

Carve Out

A provison has been added in Ind AS 39, that is in determining the fair value of the financial liabilities which upon initial recognition are designated at fair value through profit or loss, any change in fair value consequent to changes in the entity's own credit risk shall be ignored.

4. Ind AS 103, Business Combinations

IFRS 3 requires bargain purchase gain arising on business combination to be recognised in profit or loss.

Carve Out

Ind AS 103 requires the same to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve.

5. Ind AS 101, First-time Adoption of Indian Accounting Standards

a) Presentation of comparatives in the First-time Adoption of Indian Accounting Standards (Ind AS) 101 (Corresponding to IFRS 1)

IFRS 1 defines transitional date as beginning of the earliest period for which an entity presents full comparative information under IFRS. It is this date which is the starting point for IFRS and it is on this date the cumulative impact of transition is recorded based on assessment of conditions at that date by applying the standards retrospectively except to the extent specifically provided in this standard as optional exemptions and mandatory exceptions. Accordingly, the comparatives, i.e., the previous year figures are also presented in the first financial statements prepared under IFRS on the basis of IFRS.

Carve Out

Ind AS 101, requires an entity to provide comparatives as per the existing notified Accounting Standards. It is provided that, in addition to aforesaid comparatives, an entity may also provide comparatives as per Ind AS on a memorandum basis.

b) Presentation of Reconciliation

IFRS 1 requires reconciliations for opening equity, total comprehensive income, cash flow statement and closing equity for the comparative period to explain the transition to IFRS from previous GAAP.

Carve Out

Ind AS 101 provides an option to provide a comparative financial statement on memorandum basis. Where the entities do not exercise this option and, therefore, do not provide comparatives, they need not provide reconciliation for total comprehensive income, cash flow statement and closing equity in the first year of transition but are expected to disclose significant differences pertaining to total comprehensive income. Entities that provide comparatives would have to provide reconciliations which are similar to IFRS.

c) Cost of Non-current Assets Held for Sale and Discontinued Operations on the date of Transition on First-time Adoption of Indian Accounting Standards (Ind AS)

Carve Out

Ind AS 101 provides transitional relief that while applying Ind AS 105 - Non-current Assets Held for Sale and Discontinued Operations, an entity may use the transitional date circumstances to measure such assets or operations at the lower of carrying value and fair value less cost to sell.

d) Foreign Currency Gains/Losses on Translation of Long Term Monetary Items

Carve out

Ind AS 101 provides that on the date of transition, if there are long-term monetary assets or long-term monetary liabilities mentioned in Ind AS 21, an entity may exercise the option mentioned regarding spreading over the unrealised Gains/Losses over the life of Assets/Liabilities either retrospectively or prospectively. If this option is exercised prospectively, the accumulated exchange differences in respect of those items are deemed to be zero on the date of transition.

e) Financial Instruments Existing on Transition Date

Carve out

Ind AS 101 provides that the financial instruments carried at amortised cost should be measured in accordance with Ind AS 39 from the date of recognition of financial instruments unless it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements of Ind AS 39. If it is impracticable to do so then the fair value of the financial asset at the date of transition to Ind-ASs shall be the new amortised cost of that financial asset at the date of transition to Ind ASs. Ind AS 101 provides another exemption that financial instruments measured at fair value shall be measured at fair value as on the date of transition to Ind AS.

f) Definition of Previous GAAP Under Ind AS 101 First time Adoption of Indian Accounting Standards

IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS.

Carve out

Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting Ind ASs for its reporting requirements in India. For instance, for companies preparing their financial statements in accordance with the existing Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 shall consider those financial statements as previous GAAP financial statements.

g) Cost of Property, Plant and Equipment (PPE), Intangible Assets, Investment Property, on the Date of Transition of First-time Adoption of Indian Accounting Standards

Ind AS 101 provides an entity an option to use carrying values of all assets as on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

VI. Conclusion

The Indian economy has achieved robust growth over the past two decades. Indian business is quick in adopting technological advancements in developed countries. Indian companies are adopting business models which are complex in nature and through joint ventures and collaborations with global leaders, it is learning fast the modern management systems and techniques. Regulators in India are taking existing regulations in developed countries as the starting point in developing regulatory mechanisms. The intellectual capabilities of accountants, auditors, economists and other professionals in India match with capabilities of professionals in developed countries. Indian business environment and stock market conditions are not much different from those available in advanced countries. Therefore, logically India should adopt IFRS, particularly because it aspires to become the dominant economic force in the world at the end of this decade.

Ind AS is based on how they facilitate the cross-border flow of money, global listing and global comparability of the financial statements. This, in turn, facilitates global investment and benefit to capital market stakeholders. It enhances the investor's ability to compare the investments on a global basis. This, in turn, reduces the risk of misjudgments. It also eliminates the costly requirements of reinstatement of financial statements

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