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Converging with IFRS-IND AS, Differences and Challenges

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Abstract:
After a series of amendments and notifications, finally Ministry of Corporate Affairs (MCA) declared the adaptation of Indian Accounting Standards (IND-AS).The main purpose of adopting IND AS is to make Indian accounting practices global. But India did not adopt IFRS (International Financial Reporting System), instead of that India prepared its own Accounting Standards known as IND-AS which converges with IFRS. It means it is much similar to IFRS but with some modification in order to fulfill the requirements of Indian Laws. The basic purpose of this paper is to understand new IND-AS, difference with IFRS and what types of challenges India would face in adapting to IND-AS.

Keywords: *IND-AS, IFRS, Indian Accounting Standards, Accounting Standards*

1. Introduction

IFRS stands for International Financial Reporting Standards. IFRS is globally accepted accounting framework. In order to co-ordinate with International Standards MCA (Ministry of Corporate Affairs) had announced that IFRS would be mandatory w.e.f. 1st April 2012. But this plan failed and Indian companies continue to prepare accounts according to Indian GAAP. After that in July 2014, the Honorable Finance Minister announced the formation of new accounting standards IND-AS. After a series of Notifications and Amendments, MCA has come out with the Companies (Indian Accounting Standards) Rules 2015, which mandates certain classes of corporate bodies to prepare Financial Statements as per IND-AS. IND-AS is the replacement of Indian GAAP. Indian GAAP does not confine with International Standards.

2. Research Methodology

This study is basically qualitative in nature and no quantitative tool has been used to analyse the data. This study has been conducted on basis of literature survey and secondary information.

3. Objectives of the Study

Objectives of the study are as follow

- To study the basic of Indian Accounting Standards
- To study the differences between IFRS and IND-AS
- To study the problems and challenges in implementation of IND-AS
- To focus on the measures required to overcome the challenges
- To study the benefits of adopting IFRS converged IND-AS

3.1. Need for IND-AS

At present, India is the fastest growing economy in the world. It is the era of Globalization and Liberalization. A number of Multi National Countries are establishing their business in various countries. These companies are assessing to the global capital market to fulfill their capital needs through listing in the Stock Exchanges of the other countries. But different accounting frameworks are used in different countries. It creates inconsistency and confusion among the users of financial statements. This confusion leads to in-efficiency in the capital market around the world. The best solution of this problem is adopting a single high quality accounting standards by different countries. With uniformity in accounting practices, a company can easily access to global market. IFRS fulfills this basic need. IFRS are the accounting rules issued by International Accounting Standards Board (IASB). More than 120 countries either adopted or converged with IFRS. India opted to converge with IFRS, which means India is going to follow its own accounting standards which are very much similar to IFRS

3.2. Applicability of IND-AS

3.2.1. Voluntary Adaptability

From April 1, 2015 IND-AS can be adopted voluntarily by any business entity which is irreversible, which means if a business adopt IND-AS cannot adopt Indian GAAP later on. IND-AS adopted once would be required to follow forever.

3.2.2. Mandatory Adaptability

Any business entity having Net Worth of INR 500 crore or more on 31st March 2016 is mandatory to follow IND AS w.e.f. 1st April 2016. However business entities having Net Worth of less than INR 500 crore can follow IND AS voluntarily which is irreversible.

Any business entity having Net Worth of INR 250 crore or more as on 31st March 2017 is mandatory to follow IND AS w.e.f. 1st April 2017. Business Entity having a Net Worth of less than INR 250 crore is not mandatory to follow it. They can adopt it voluntary which is irreversible.

3.3. Comparison of IND AS with IFRS

IND AS has been prepared to converge with IFRS. So most of the IND AS are similar to IFRS but it is not 100% similar to IFRS. There are a few differences because of a few law requirements or practices differences such as:-

3.3.1. IND AS-1 Presentation of Financial Statements

A company following IND AS has to follow the Single Statement Approach for presenting financial statement under which all items of Income and Expenditure are required to present in a single statement of Comprehensive Income, where as a company following IFRS has the option either to follow Single Statement Approach or Two Statements Approach. If the company opts to follow Two Statements Approach, it has to prepare Two Statements- one displaying components of profit and loss and second displaying components of other Comprehensive Income.

Another difference is that under IFRS, company has to present a separate statement containing Statement of changes in Equity, but under IND AS a company needs to present it in separate Statement, it is shown as part of Balance Sheet. But till now format of Balance Sheet has been issued by Ministry of Corporate Affairs, which is according to IND AS, however a format is available at ICAI site which confined the IND AS.

Under IFRS (IAS-1) expenses recognized in profit and loss are classified on the basis of nature or functional basis, which company thinks can give best explanation, but under IND AS expenses can be classified on the basis of function, it can be classified on the basis of nature only.

3.3.2. IND AS-7 Cash Flow Statement

A company following IFRS has the option that Interest and Dividend received and paid can be treated in Operating Activity or Investing/Financing Activities. But IND AS here converges with Indian GAAP. IND AS does not give the option to the company. For a Financial Institution like Banks, Mutual Funds Interest paid and received comes under Operating Activities. Dividend received is part of Operating Activity but Dividend paid is a part of Financing Activities. For other business Interest and Dividend paid will be treated in Financing Activities and Interest and Dividend received will be treated in Investing Activities.

3.3.3. IND AS-11 Construction Contracts/IND AS-18 Revenues

Under IFRS a company cannot recognize Income for Incomplete Construction Contracts. Income is recognized only when whole project is completed and handed over to the contractee, however on fulfilling certain conditions, income can be recognized on percentage of completion basis. Under IND AS existing Indian GAAP is followed. Income from incomplete construction contracts is calculated on the basis of percentage of completion stage.

3.3.4. IND AS-20 Accounting for Government Grants and Disclosure of Government Assistance

A company following IFRS has the option to value the Non-Monetary Government Grant (received in any form other than cash) either at the fair value or at the nominal value. But under IND AS such grant will be valued as fair value only. It cannot be valued at nominal value.

Additionally in IFRS Grant received for a specific asset may be presented as Deferred Income or can be deducted from the specific asset value. But under IND AS such grant is required to present as Deferred Income in Balance Sheet.

3.3.5. IND AS-21 Accounting for Foreign Exchange Differences (Para 46A)

As per IAS 21, all gains or losses on restatement or settlement of monetary assets and liabilities in foreign currency (except Hedging Instruments) are to be treated in Profit & Loss Account

Under IND AS 21, company has the option either to treat directly in Equity and accumulate as separate component or it can be transferred to Profit & Loss Account. It means companies following Para 46A of existing AS 11 can continue with their accounting policies for the long term foreign currency monetary assets/liabilities as on the transition date. But this exemption will not be available for new long term assets/liabilities.

3.3.6. IND AS-33 Earning Per Share (EPS)

Under IFRS, if a company is preparing both Consolidated Financial Statement and Separate Financial Statement, it may give information regarding Earning Per Share (EPS) in Consolidated Financial Statement only. It may or may not give EPS related information in separate Financial Statement. But a company following IND AS, requires to disclose EPS related information in both Consolidated Financial Statement as well as in Separate Financial Statement as per IND AS-33

IND AS-33 provides that where an item of Income & Expense which should be transferred to Profit & Loss Account, as per IND AS, is debited or credited to Securities Premium/ Other Reserve Account because some legal requirements, here two types of EPS will be calculated Basic EPS and Diluted EPS (after adjusting from Profit & Loss Account) so that both EPS as per IND AS and legal requirements are available. This provision has been put because of requirement of Indian Law according to which Expense on Issue Shares are to be adjusted against Securities premium Account

3.3.7. Acquisitions

Under IFRS, the bargain purchase gain or negative goodwill arising on acquisition is recognized in profit or loss. Under IND AS, the bargain purchase gain or loss can be recognized either in other comprehensive income or capital reserve but in profit or loss. Similar to business combination, bargain purchase gain on the acquisition of associate is also not recognized in profit or loss.

Under IND AS, common control transactions are to be accounted only based on the book value of assets and liabilities. IFRS also allow fair value option.

3.3.8. Derivatives

IND AS, classifies convertible bond in foreign currency as equity instrument, if the holder has the right to acquire fix number of equity instrument for a fix amount of cash and price is fixed in any currency. But in IFRS, this option is not available. Under IFRS, this conversion option is treated as derivative liability. It is one of the most significant difference IND AS and IFRS.

3.4. Challenges in Implementing IND-AS

Ministry of Corporate Affairs (MCA) has announced the mandatory implementation of IND AS, so now it is un-avoidable for companies. Most of the companies are not ready for such enforcement. So MCA has given minimum one year time period to companies for making necessary arrangements for IND AS. For a few companies it is required from 1st April 2016 and for others from 1st April 2017. There are certain challenges in implementation of IND AS, such as:-

i. The biggest challenge is that at present Indian Companies are following Indian GAAP, whereas IND AS is converged with IFRS, means it is very much to IFRS. There is a significant difference in Indian GAAP and IND AS practices. It would put a great pressure on accountant and auditors to adjust their ongoing accounting practices into IND AS. It would be big challenge for such business entities.
ii. The second big challenge is because of lack of clarities. In many areas still IND AS is not clear. Like still no fix format is provided by Ministry of Corporate affairs for preparing Financial Statements which are according to IND AS. No doubt ICAI has prepared a format for that, but still no clear notification by MCA has been given for adopting this format. With the passage of time when more clarification would be provided by MCA and ICAI, it would become easy to implement.
iii. Another big challenge would be availability of Expert staff for preparing accounts as per IND AS. Since this concept is very new, only a few persons are capable of preparing Accounts according to the new system. Companies would face the shortage of capable and trained staff and companies would depend upon external advisor and auditors. Since MCA has given sufficient time for adopting IND AS, it seems this problem would be solved with passage of time. MCA and ICAI should arrange training programs and conferences to provide necessary information, guidance and training for companies.
iv. One more problem that can be faced is the calculation of Income for Income Tax purpose. Reconciliation between Income from Business & professions as Direct Tax Law and as per IND AS would be a big challenge for companies, auditors and assessing officers.
v. A company has to prepare accounts as per IND AS, Companies Act 2013, Income Tax Act. It would be difficult for a stakeholder to know which is the real income of the company. Changes in the practices going to create confusion among the stakeholder while taking decision.
vi. Introduction of fair value measurement in accounts would bring instability and prejudice in financial statement. Calculation of fair value will require the services of experts which would un-necessarily increase the cost of the company. It would also defeat the concept of historical cost.

4. Conclusion

With the introduction of IND AS, accounting would be going to pass through a lot of changes. Because of new concept, companies would face problems, their cost will rise and definitely they would oppose it. But at present time it is necessary to be global and attract foreign investors. IND AS is a good step to remove confusion among foreign investors arising because of different accounting practices. Problems in implementing are not such that it would defeat the purpose of global accounting. With the passage of time these problems would be solved and companies would happily accept these practices. IND AS is the need of global India. Implementation of IND-AS will hopefully open doors for more opportunities for India in global market and will benefit Indian Economy in the long run.

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