Indian Accounting Association

Subject: Financial Accounting

Accounting Standards: An Overview

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Learning Outcomes:

- *Helps to understand the overview of accounting standards around the world*
- *Helps to understand convergence process of accounting standards in India*

1. Accounting Standard

Accounting Standard is a written framed guidelines issued by a professional financial institution or government or other governing body which includes all aspects of the accounting i.e., recognition, measurement, evaluation, treatment, disclosure and presentation of accounting work through the financial statements. The main purpose of the accounting system is to prescribe various accounting policies and procedures with a view to eliminating the inconsistent financial statements and increasing reliability and comparability in the financial statements.

2. Need for Convergence towards Global Standards

The growth of international trade, physical and financial presence of the business operation in multiple nations, creates the urge for global consensus on accounting standards. Under this global business atmosphere, a common globally accepted language was required for calculation representation in the accounting arena.

The last few decades have witnessed a huge change in the global economic state. From expanding the business, operation to raising capital requires the crossing over the geographical barriers. Investors, analysts and other stakeholders of a business would like to compare financial position by comparing their financial statements based on similar accounting standards, and this has move forward towards a globally accepted set of accounting standards. It was felt that, the harmonization process of financial reporting practice definitely improve confidence amongst the international investors by making the financial report more reliable to make decision and identify the risk. Therefore, to bring the uniformity, rationalization, comparability, transparency and adaptability in financial statements, a single set of global standards was the most imperative possibilities.

The process of harmonization of accounting standards started in the 1960s. In the year 1973, with the commencement of the International Accounting Standards Committee (IASC) by a number of accounting bodies of 8 countries, drafting of international accounting standards to boost the confidence of the investor started.

3. International Accounting Standards Board

With the view of making the financial statements more reliable and transparent, IASC published International Accounting Standards. In the year 2001, the IASC restructured and reorganized into IASC Foundation and under it the International Accounting Standards Board (IASB).

In 2010, IASC Foundation was renamed as IFRS Foundation. As per IFRS Foundation, "The International Accounting Standards Board (IASB) is a standard-setting body of the IFRS Foundation. Appointed, overseen and funded by the Foundation, the IASB is responsible for preparing and issuing IFRS Standards. The Trustees of the IFRS Foundation (Trustees) are responsible for governance and oversight. The IFRS Foundation Monitoring Board provides a formal link between the Trustees and public authorities to enhance the Foundation's public accountability."

4. IFRS: Opportunities

(i) Eliminate barriers to cross-border investing
(ii) Improves accounting and disclosure quality and reduces earning management
(iii) Enhances comparability
(iv) Value relevance of accounting Information
(v) Improves analysts' earnings forecast
(vi) Improve efficiency, liquidity and the cost of equity capital
(vii) Brings transparency in the financial statements and helps investors to take better economic decisions.

5. IFRS: Challenges

In the past decade it has been witnessed different challenges to implement IFRS due to its complex nature, communication gap, translation and its uniform interpretation. Also, challenges faced by users and practitioners, with respect to education, staffing, cost, training and IT infrastructure.

(i) IFRS transition and implementation obstacles
(ii) Existing institutional and legislative framework

(iii)Fair value concerns

(iv)Variables of interest

(v) Internal management systems

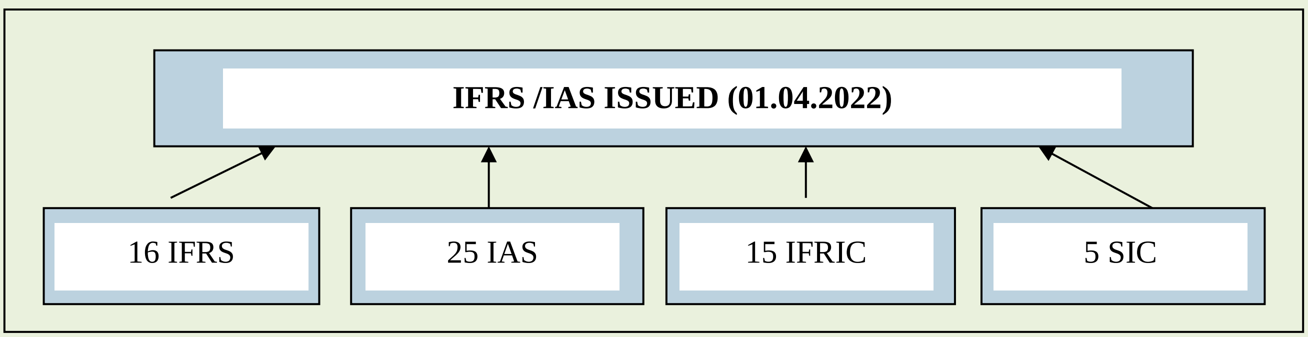
(vi)Differences in socio-economic conditions

(vii)Mandatory vs. Voluntary adoption

6. International Financial Reporting Standards as Global Standards

IFRS is a set of accounting standards formulated by the IASB which provides consistent financial reporting practices in different countries of the world. It provides all investors and interested parties in international investment through opportunities to set up businesses and joint ventures abroad with foreign companies. IFRS is the set of uniform accounting standards which is used by the companies, accountants, auditors, investors, regulators & tax authorities etc of different nations for preparing books of the accounts or Annual Financial Statements.

The term IFRS, IFRS family, comprises of International Accounting Standards (IAS) issued by International Accounting Standard Committee (IASC); International Financial Reporting Standards (IFRS) issued by IASB; and Interpretations issued by the standard Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.



International Financial Reporting Standards (IFRSs) are “principles-based” standards which means without giving the specific treatment IASB establish broad rules. After that most of the nations are started moving towards adopting the IFRS as their accounting practices. Very quickly the authorities have given the consent to follow IFRS for listing purposes and in addition, banks and insurance companies started using IFRS for their statutory required reports. So over the next few years, thousands of companies have adopted the international standards. Due to that about

7,000 enterprises, including their subsidiaries, equity investors and joint venture partners have been affected. The adoption of IFRS was not restricted to only public company listing requirements or statutory reporting but also extended to many lenders and regulatory and government bodies to fulfill local financial reporting obligations related to financing or licensing.

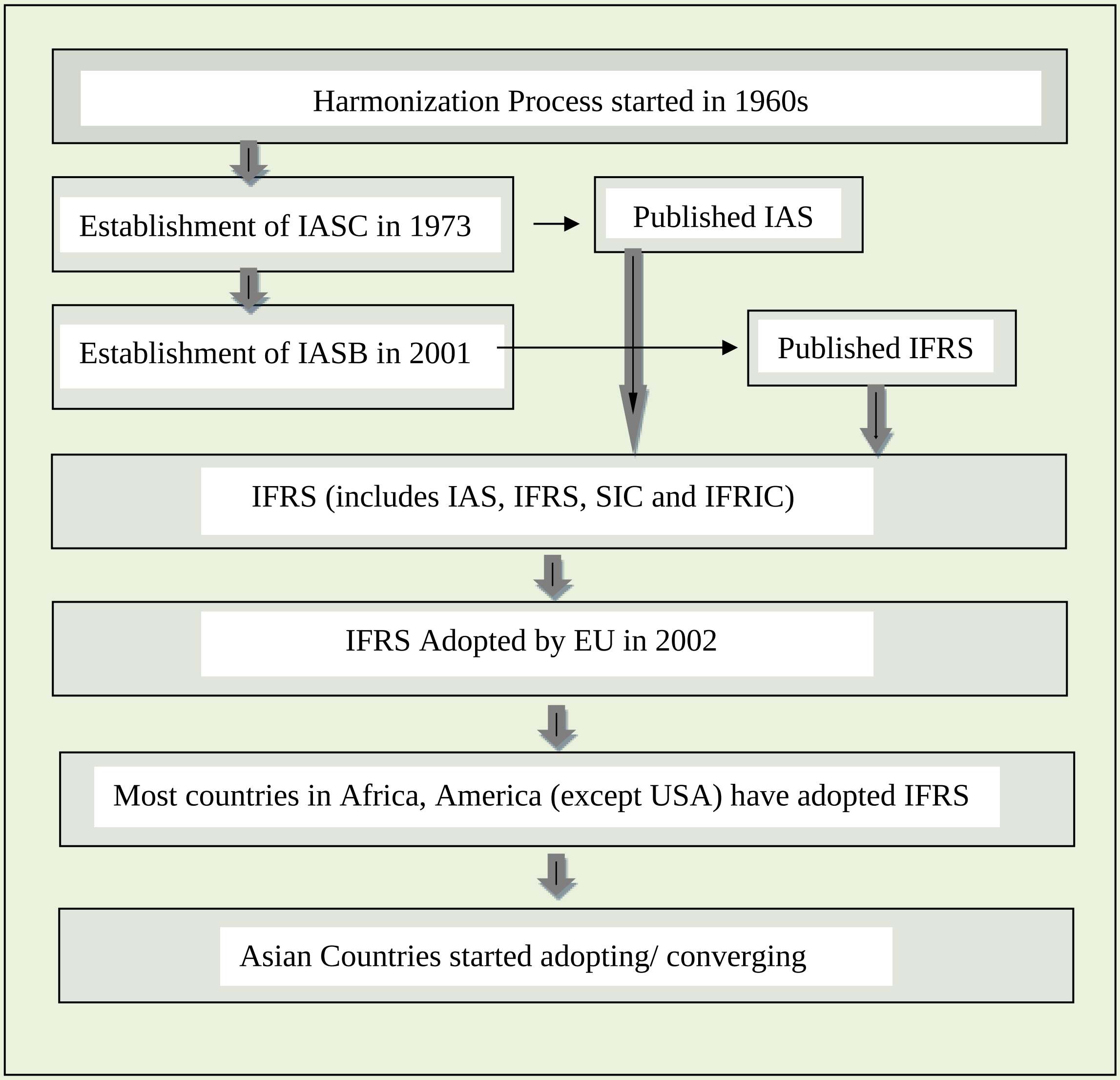
Initial boost of adopting the IFRS have been witnessed while the 25 nations member European Union's (EU) decision to adopt them in 2002. As a result, adoption became mandatory for EU registered companies, nearly one-third of the world economy, by 2005. It has given a great momentum towards adopting the single standard throughout the world. Further, IFRS have been adopted by Australia, New Zealand, Hong Kong, and South Africa which also increased the momentum for the worldwide adoption of IFRS. Many international bodies like the G20, World Bank, International Monetary Fund, Basel Committee, International Organisation of Securities Commissions and International Federation of Accountants supported this adoption. In 2006 China has converged with IFRS. Russia and Brazil have also adopted IFRS. Then Singapore, Korea and Malaysia have converged with IFRS since 2009, 2011 and 2012 respectively.

It shows adoption of IFRS and plans for convergence or harmonization differ widely by jurisdiction. As per IFRS Foundation report, as of September 2018, "out of 166 selected surveyed jurisdictions, 144 require IFRS Standards for all or most companies, 12 jurisdictions permit all or most companies to use IFRS Standards, 9 jurisdictions have their own national standards or are moving to IFRS Standards, and 1 jurisdiction requires IFRS Standards for financial institutions. 87% of profiled jurisdictions require IFRS Standards for most domestically accountable companies. 15 of 20 G20 economies require the use of IFRS Standards. 86 of 166 profiled jurisdictions require or permit the use of the IFRS for small and medium enterprises, SMEs. The GDP of jurisdictions that require the use of IFRS Standards is $35 trillion of the total world's $76 trillion. 27,000 domestically listed companies on 88 major stock exchanges in the world use IFRS Standards. Some of these jurisdictions like EU and Canada, have adopted IFRS as issued by IASB with or without limited modification of their local GAAP with IFRS, whereas, emerging countries like China and India have modified IFRS to meet their domestic conditions such as economic policy issues, financial regulation norms and taxation."

The remaining major capital markets without an IFRS mandate are (i) the USA, with no current plans to change; (ii) Japan, where voluntary adoption is permitted but not required

Generally Accepted Accounting Principles (GAAP) range with the aid of using country. Each of the countries has its own accounting standards according to its requirements. When talking about India, Indian GAAP means a set of accounting standards that financial reporting must follow while ahead of convergence with the International Financial Reporting standards.

Diagram showing the global harmonization process of accounting practices



7. Ind AS: IFRS in an Indian Context

Accounting Standards Board (ASB) was formed on 21st April 1977 by The Institute of Chartered Accountants of India (ICAI) with an objective to harmonize accounting policies and practices in use in India. After the post era of globalization, Indian economic policies in 1990, accounting standards become very important in making any cross-border transaction. Within the purview of prevailing laws, customs and business environment ASB formulate the Accounting Standards (AS). ASB also considered the International Financial Reporting Standards and International Accounting Standards issued by IASB and tried to integrate with the formulated accounting standard for Indian business environment. ASB acted as an independent body in formulation of accounting standards in India. The ASB plays a dynamic role in international standard-setting by taking part in various international accounting forums.

Important Milestones of AS and Ind AS

1977 – ICAI Constituted ASB

1979 – Preface to Statement of AS & AS1 issued
1987 – Mandatory status of AS 4 & AS 5 (for ICAI members)
1989- ICAI issued 'Framework for the Preparation and Presentation of Financial Statements"
1991 - Mandatory status of AS 1, AS 7, AS 8, AS 9, AS 10 & AS 11(for ICAI members)
1998 – Legal recognition to ASs under Companies Act, 1956
2000 – 2003 - 12 ASs were issued based on IASs – major step towards convergence with IASs

2006 - MCA notified ASs under Companies (Accounting Standards) Rules, 2006.

ASB decided to constitute a task force to develop a concept paper on convergence with IFRS

2007 – ICAI Council accepted recommendations of the Task Force for convergence with IFRS from 2011.

2011- MCA notified roadmap for implementation of 35 Ind ASs in phased manner. This roadmap was subsequently abandoned.

2013- The new Companies Act 2013 were enacted, where certain issues of IFRSs were incorporated.

2015 – MCA notified Companies (Indian Accounting Standards) Rules, 2015 which contained a roadmap for convergence with IFRS in phased manner & notified 39 Ind ASs. These standards became legally mandatory for certain companies from FY 2016-17 and for others from 2017-18. Companies which were left out from these compliance were-

i. Non-listed companies with net worth of less than ₹250 crores.

ii. NBFCs

iii. Banking Companies

iv. Insurance Companies

2016- Division II of Schedule III of the Companies Act 2013 was added, to facilitate preparation of Financial Statements under Ind AS by the general companies.

2016- The Companies (Indian Accounting Standards) Rules, 2015 were amended to include compliance by NBFCs from 2018-19 onwards in phases.

2018- Division III of Schedule III of the Companies Act 2013 was added, to facilitate preparation of Financial Statements under Ind AS by the NBFCs.

2020- ICAI issued "Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS).

2021- MCA notified Companies (Accounting Standards) Rules, 2021, replacing 2006 Rules.

It may be mentioned here that MCA is in continuous process of revising and issuing new Ind ASs and revising existing notified ASs in consultation with the National Advisory Council for Accounting Standards (NACAS) / National Financial Reporting Authority (NFRA).

The Institute of Chartered Accountants of India (ICAI) being the pioneer in accounting standards-setting in India, way back in 2006 initiated the process of moving towards the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) with a view to enhance acceptability and transparency of the financial information communicated by the Indian corporates through their financial statements. This move towards IFRS was subsequently accepted by the Government of India.

The NACAS, in consultation with the ICAI, decided to converge and not to adopt IFRS issued by the IASB. In order to follow global need and to achieve international benchmark and improving in financial reporting, India has issued new Indian Accounting Standards (Ind AS) converged with IFRS. Ind AS is a set of accounting standards notified by the Ministry of Corporate Affairs (MCA), which is converged with IFRS.

The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders. Difference between adoption and convergence is adoption means adopting IFRS or taking something as it is and convergence means implementing IFRS with some modifications or changes. There are some carve-in (addition), carve-out (deletion) or added options in Ind AS which is not there in IFRS. At the time of formulating Ind AS, efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. These changes have been made considering various factors, such as, various terminology related changes have been made to make it consistent with the terminology used in law. Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS.

In India, initially MCA has prescribed the roadmap for adoption of Ind AS from the financial year 2011-12. The date was deferred due to various issues like taxation, the accounting regulatory framework, banking, awareness, training and implementation cost of the Ind AS. In 2015 finally, MCA announced its roadmap for adoption of the Ind AS in a phased manner from the financial year 2016-2017. The roadmap for adoption of Ind AS has been followed the phased approach based on the net worth of a company and other factors such as listings on exchanges within and outside India.

Ind AS Implementation Roadmap is discussed below

A. For Companies other than Banks, NBFCs and Insurance Companies

Phase I

1st April 2015 or thereafter (with Comparatives):	Voluntary Basis for any company and its holding, subsidiary, JV or associate company
1st April 2016: Mandatory Basis (with Comparatives)	(a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth of INR 500 crore or more (b) Unlisted Companies having net worth of INR 500 crore or more (c) Parent, Subsidiary, Associate and JV of Above

Phase II

1st April 2017: Mandatory Basis (with Comparatives)	(a) All companies which are listed/or in process of listing inside or outside India on Stock Exchanges not covered in Phase I (other than companies listed on SME Exchanges) (b) Unlisted companies having net worth of INR 250 crore or more but less than INR 500 crore (c) Parent, Subsidiary, Associate and JV of Above Companies listed on SME exchange are not required to apply Ind AS

- Once Ind ASs are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements.
- Companies not covered by the above roadmap shall continue to apply Accounting Standards notified in Companies (Accounting Standards) Rules, 2006.

B. For Non-Banking Financial Companies (NBFCs)

Phase I

1st April 2018: (with Comparatives)	(a) NBFCs (whether listed or unlisted) having net worth of INR 500 crore or more (b) Holding, Subsidiary, JV and Associate companies of above NBFC other than those already covered under corporate roadmap shall also apply from said date

Phase II

1st April 2019: (with Comparatives)	(a) NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than 500 crore. (b) NBFCs that are unlisted having net worth of INR 250 crore or more but less INR 500 crore. (c) Holding, Subsidiary, JV and Associate companies of above other than those already covered under corporate roadmap shall also apply from said date.

- Applicable for both Consolidated and individual Financial Statements.
- NBFC having net worth below INR 250 crore shall not apply Ind AS.
- Adoption of Ind AS is allowed only when required as per the roadmap. Voluntary adoption of Ind AS is not allowed.

C. For Insurance Companies

In 2017, IRDAI had deferred the implementation of Ind AS for the Insurance Sector in India for a period of two years, whereby the effective date was deferred to FY 2020-21. Thereafter, again in January 2020, IRDAI has deferred Implementation of Ind AS in the Insurance Sector till further notice

D. For Scheduled Commercial banks (excluding Regional Rural Banks)
In 2018, RBI had deferred the implementation of Ind AS for the Scheduled Commercial Banks (excluding Regional Rural Banks) for a period of one year i.e. effective from 1st April 2019. Thereafter, again in March 2019, RBI had again deferred the implementation of Ind AS for the Scheduled Commercial Banks (excluding Regional Rural Banks) till further notice.

For the other companies not covered under the mandatory requirements to adopt Ind AS or not voluntarily used Ind AS for their accounting practices can still use the accounting standards under Companies (Accounting Standard) Rules, 2006. So, at present in India two sets of accounting standards viz. existing accounting standards (currently 32 Accounting Standards) under Companies (Accounting Standard) Rules, 2006 and Ind AS (currently 39 Ind AS) converged with IFRS are existed. National Advisory Committee on Accounting Standards (NACAS) recommends these standards to the MCA and then MCA made it applicable for Indian companies.

8. Overview of Major Differences between AS and Ind AS based accounting

8. 1. Property, Plant and Equipment (PPE) [AS 10 (Revised) and Ind AS 16]

- Component accounting becomes mandatory.
- Spare parts accounting – definitions and recognition criteria provided to consider it as PPE.
- Replacement of parts of PPE – evaluation process is mentioned.
- Depreciation method to be required to be reviewed at least at each financial year end.
- Prescribed the detailed guidance on Revaluation model.

8. 2. Intangible Assets [AS 26 and Ind AS 38]

As per IGAAP it can be measured only at cost but as per Ind AS it can be measured either at cost or revalued amounts.

8.3. Impairment of Assets [AS 28 and Ind AS 36]

Reversal of impairment of goodwill in a subsequent period is not permitted in Ind AS 36.

8.4. Financial Instrument: Presentation [Ind AS 32]

Financial assets and liabilities are initially recorded at cost, including transaction cost in. But as per Ind AS 32 all financial instruments are recognised initially at their fair value adjusted with directly attributable transaction costs.

8.5. Fair Value Instruments [Ind AS 113]

There are more Ind AS corresponding to which there is no AS.

Suggested Readings:

- Adukia, R.S. (2017). Handbook on Indian Accounting Standards (Ind AS) converged Global Accounting Standards. LexisNexis
- Concept Paper on Convergence with IFRS in India - The Institute of Chartered Accountants of India
- Concept paper on IFRS, US GAAP, IND AS, and Indian GAAP: similarities and differences – PricewaterhouseCoopers Private Limited
- Ghosh, T. P. (2016). *Illustrated Guide to Indian Accounting Standards*. New Delhi, Taxmann's
- IFRS Standards (2022), Part A - the text of IFRS Standards including IAS Standards, IFRIC Interpretations and SIC, Interpretations, together with the Conceptual Framework for Financial Reporting - IFRS Foundation, London. ISBN: 978-1-914113-38-3
- Indian Accounting Standards (Ind AS): An Overview (Revised 2021) - The Institute of Chartered Accountants of India
- Mukherjee, A. (2011). *Illustrated Guide to Indian Accounting Standards (Ind ASs) and IFRSs.* New Delhi. Taxmann's
- PricewaterhouseCoopers Private Limited (2016). PwC Ind AS impact analysis.

- Rawat, D.S. (2019). *Students' Guide to Financial Reporting with Applicable Ind ASs*. New Delhi, Taxmann's
- The Companies (Indian Accounting Standards) Rules

Website Consulted:

- www.ifrs.org
- www.mca.gov.in