Indian accounting standards converged with IFRS (Ind AS)- An Overview

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The world is getting smaller and smaller, globalization has made it possible to accept the world as one market. For better understanding of the business reporting and consistency in accounting policies, there was an urgent need to align to one global accounting language. Application of a single set of accounting requirements would increase the comparability of different entities. This is the reason for more than 120 countries to follow global accounting standards i.e. International Financial Reporting Standards (IFRS).

In this article I will give an overview of Indian Accounting Standards converged with IFRS (Ind AS).

The organisation communicates its Financial Position using financial statements and reports. For any communication to be effective and efficient, the language must be the same. It will be difficult to communicate if the language is different i.e. comparing, analysing, etc. of Financial statements of different organisation will be difficult. The problem of uniform reporting of Financial Statement had overcome by introduction of common set of Standards known as Accounting Standards.

If the financial accounting process is not properly regulated, there is possibility of financial statements being misleading, tendentious and providing a distorted picture of the business, rather than the true state of affairs. In order to ensure transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardize the accounting principles and policies.

Accounting standards are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statements.
Every country has its own set of Local Accounting Standards for recognition, measurement, presentation & disclosure of financial statement.

In India, Local standards are known as Accounting Standards (AS) issued by Accounting Standard Board (ASB) in consultation with Institute of Chartered Accountants of India (ICAI).

Now, the apple to apple comparison was possible at national level due to introduction of Accounting Standards. Today, we are living in Global Era, now we are supposed to create apple to apple situation at Global level. The answer to this is International Financial Reporting Standards (IFRSs).

**International Financial Reporting Standards (IFRSs)**

IFRSs refers to the entire body of IASB pronouncements, including standards and interpretations approved by the International Accounting Standard Board (IASB) & IASs and SIC interpretations approved by the predecessor International Accounting Standards Committee (IASC)

Broadly, IFRS consist of,

1. 13 International Financial Reporting Standard (IFRS)
2. 28 International Accounting Standard (IAS)
3. 15 International Financial Reporting Interpretation committee (IFRIC) Interpretations
4. 9 Standard Interpretation Committee (SIC) Interpretation

Simply be put, IFRS are AS of the World.

The Accounting Standards (AS) issued by ICAI are prepared on the basis of the Indian environment, while International Financial Reporting Standards (IFRS) are prepared by considering the global environment as a whole. The Indian environment and Global environment are different which leads to a huge gap between AS issued by ICAI & IFRS issued by IASB. So as to bridge the gap between AS & IFRS, ICAI issued Indian Accounting Standard converged with IFRS (formally known as Ind AS)

**Indian Accounting Standards Converged with IFRS (Ind AS)**

Ind AS are set of accounting standards notified by Ministry of Corporate Affairs (MCA), converged with International Financial Reporting Standards (IFRS), these accounting standards are formulated by Accounting Standard Board (ASB) of Institute of Chartered Accountants of India (ICAI).

Convergence means alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially.
Indian Accounting Standards are almost similar to IFRS but with few carve outs so as to make them suitable for Indian Environment.

Till now, MCA has notified 35 Ind AS. However the date of implementation is yet to be notified.

**Need for Ind AS**

The need for Ind AS can be understood in two different parts,

a. Why there must be a Change or Transition?

b. If change then, what type of change, Adoption or Convergence?

**Need for Change**

The only thing which will be received from such transition is common set of accounting standards. The benefits of having the common standards for financial reporting are the reasons which attract this transition.

**These are as follows,**

a. Better Comparability- By following a common set of standards, will help the stakeholders to compare the organisations globally, i.e. to create an apple to apple comparison.

b. Better Transparency- The users of accounts will be benefited by this as, same accounting standards will help to them understand the fundamentals of the organisation which will generate better transparency.

c. Many companies having subsidiary or Holding company in different countries are required to follow dual set of accounting standards, local standards on one hand & global standards on the other hand. The transition will be helpful in saving time & cost on the finance department. For example, Swiss pharmaceutical giant ROCHE group, which operates in more than 100 countries, likely to save more than $100 million through Convergence.

d. Attract Foreign Investment- Since the investors can compare with other organisations globally, it will help them to take investment decision, at the same time it will help the organisation to present their financial position in more efficient way to the world, in a language that all can understand.

e. Due to transition many companies will be attracted towards India, for investing, for setting up subsidiary, etc., which will result in increase in employment opportunities.

f. Globalization-Globalization can be understand at three levels

i. World Trade- Smooth trade can be achieved.
ii. Listing, Securities Markets etc. - Listing of Securities on international Stock Exchanges will be eased. Cross border flow of investment will lead to economic growth.

iii. Stakeholders- Stakeholder can easily take the decision in regards to the organisation.

g. Cost Saving

- Saving of time and money in planning and executing of accounting and auditing.

- Costs involved in the access to the capital market are expected to reduce.

- Labour Cost-In developing countries, the labour cost is cheap, but capital availability is difficult. By convergence the cost of capital will reduce & its availability will also be eased.

Adoption or Convergence

From the above discussion one may wonder why to introduce Ind AS instead of following IFRS as it is. Some countries had accepted the IFRS as it is instead of convergence, Question is why not India?

One of the main reason is any changes in the IFRS would have impact on books of Indian Companies; it would be hard for companies to adopt or cope up with the IFRS as and when amended.

At the same time, India is multi regulator nation. In India there are many regulators like, Companies Act, Income Tax Act, Securities Exchange Board of India (SEBI), Insurance Regulatory & Development Authority (IRDA), and Reserve Bank of India (RBI) etc.

To welcome the change in IFRS the respective Rules and Regulation must be amended accordingly, which can be time consuming. If the changes in IFRS are not in consensus with the Rules and Regulation, then there will be chaos in the corporate reporting. So Introduction of Ind AS is a way to buy some time to analyse the situation or the change with a view to take necessary action by MCA as it thinks fit.

Hence, substantially similar to the IFRSs, the Ind AS have some carve outs to ensure that these standards are suitable for application in the Indian environment

In a nut shell, Ind AS can be referred as “International Dish with Indian Flavour” or “Desi version of IFRS”

Challenges:

a. Rules & Regulations- Since there are many Rules & Regulations in India, for implementation of Ind AS the appropriate amendment must be done in the Rules & Regulations.

b. Technological Aspect- Right now, book keeping and accounting is done through software like, Tally, Miracle, Busy, SAP, etc.; these accounting softwares are based on Indian GAAP & AS. There will be a huge cost to invest in such upgraded software.
c. Personnel- There is lack of efficient personnel. However, it can be avoided by Training & Awareness programs.

Applicability:

The Council of the ICAI, at its meeting, held on March 20-22, 2014, has finalised the roadmap. As per this roadmap, the first set of accounting standards i.e. converged accounting standards (Ind AS) shall be applied to the following specified class of companies for preparing their first Indian Accounting Standards (Ind AS) consolidated financial statements for the accounting period beginning on or after April 1, 2016, with comparatives for the year ending 31st March 2016 or thereafter.

The specified class of companies include,

a. Whose equity and/or debt securities are listed or are in the process of listing company stock exchange in India or Outside India or

b. Companies other than those covered in (a) above, having net worth of Rs. 500 crore or more

c. Holding, Subsidiary, Joint Venture or associate companies covered under (a) or (b) above

However, the standalone financial statements will continue to be prepared as per the existing notified Accounting Standards which would be upgraded over a period of time.

In Budget 2014 speech, The Honourable Finance Minister, Arun Jaitley, has welcomed the IFRS by proposing that Indian companies will have to adopt the new Indian Accounting Standards (Ind AS) voluntarily from fiscal year 2015-16 and on mandatory basis from 2016-17. The Honourable Finance Minister said, “There is an urgent need to converge the current Indian Accounting Standards with the International Financial Reporting Standards (IFRS)”

Conclusion:

As the convergence work is still going on, the practical application of IFRS converged standards are yet to come up. As such, problems in the post application periods cannot be denied and moreover, the types of such problems cannot be forecasted for certain, at this point of time. Hence, preparation of IFRS-converged standards is a challenge before the preparers both in India and outside.

If I could leave you with one thought, it will be that, I am one of those dreamers who would like to see, by the year 2020, India becoming an important financial hub like Hong Kong, New York or London. To make that happen, there are several important steps to be undertaken, one of them is having account standards that are exactly same as International Standard. Ind AS is no more an option; it is the need of the hour.

However, by seeing the steps undertaken by ICAI & MCA, it can be said that achhe dinof financial reporting annewale hai.

For further, readers may also check my YouTube Video from any of the above of the links,
1. [http://adf.ly/8691237/indasab](http://adf.ly/8691237/indasab) (Click on the link, wait for 5 seconds, click on “Skip Ads”, you will be directed to my YouTube Video.)

2. [http://youtu.be/P6-C_EiYc-M](http://youtu.be/P6-C_EiYc-M)

3. [http://tinyurl.com/qds5mfp](http://tinyurl.com/qds5mfp)

Reference-

www.ifrs.org
www.mca.gov.in
www.icai.org
www.ifac.org
www.gasb.org
www.fasb.org

Recommended Read

- Benami Transactions Act complete overview including amendments
- Excellence standards of New CA syllabus
Yes, ifrs should be there if we want to work globally.

NAKUL

Nice clarification

VINOD PATEL

Good one.

GBALAKRISHNAN

in a parliament session every issue need to be discussed and consensus is arrived at is a must, but what we see today if one party has complete majority it would just road roll that is not the purpose of democracy. democracy means reaching on consensus or wait till the consensus is achieved, that we way we addressed ‘democracy is a cult of incompetence’, any decision cannot be achieved o vernight but in a most slow process by analysing all pros and cons. that is missing miserably. that miss would definitely lead to destr uction of polity!

GBALAKRISHNAN

That way collective thinking surfaced. Collective means different kind of divergent kind of thinkers in the same and similar ideas nee d to be pondered over and resolve provided they could resolve an issue in any area of understanding. But everywhere we see the mouth of finance minister on the great budget day at every parliament and financial policies.. a sure way of destruction, as the very meaning of democracy is misunderstood massively!

GBALAKRISHNAN

Every finance minister might come out with a weird ideas that would be the disaster to the very economy, after all no one idea can b e feasible,but if you do, it is like people believing if one sparrow is seen in the skies, you can never presume summer has come .

GBALAKRISHNAN

Frugality in any economy only helps the economy meaningfully grow. there is no point over taxing people under so called Taxation by the governments, that way Art 265 surfaced so that that there shall be procedure established by law.. what we have to understand that Law must be sourced from Natural Law justice based logic not what every government comes with weird ideas of economic dev elopment.
Problem is we over exploit the natural resources which is in a limited supply, when so how can over accelerate the demand of those very products, that way optimization theory of Agricultural standards, so to every standardization need to arise. But governments ec onomists believe over exploitation of any natural resource, that is not called sensible Optimization!

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