

IFRS-Converged Indian Accounting Standards: Implementation Initiatives



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Financial reporting quality plays a very significant role in the economic growth of a country, as it assists in conducting its economic and financial affairs in prudent and transparent manner. For taking various economic decisions, there is a need for accurate, relevant and consistent information. Aforementioned objectives can be met through establishment

of sound financial reporting system in the country. The Institute of Chartered Accountants of India (ICAI) being the premier accounting body in the country has always played a very influential role in taking Indian financial reporting system to new heights and achieving international benchmarks by taking necessary initiatives from time to time. In this direction, it is observed that various nations across the globe are pursuing convergence of their national Accounting Standards with International Financial Reporting Standards (IFRSs) or their outright adoption. Accordingly, in order to enable Indian accountancy profession to discharge its responsibilities towards the world of business and the country in the most efficient manner, the ICAI also decided in 2007 to converge the national Accounting Standards with IFRS.

The Government of India also supported this initiative of the ICAI and decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRSs requirements and extensive discussion with various stakeholders.

The ICAI had formulated IFRS-converged Indian Accounting Standards (Ind ASs) corresponding to IFRS applicable as on April 1, 2011, and the same were placed on the website by the MCA after recommendation there of by the National Advisory Committee on Accounting Standards (NACAS). At that time, the MCA had decided to implement these Standards in phased manner from accounting periods commencing on or after 1st April 2011, but the same could not be implemented because of various issues, such as, non-compatible legal and regulatory requirements, tax related issues etc.

Later, the enactment of Companies Act, 2013, paved the way for IFRS-converged Ind AS environment as it

incorporated various provisions compatible with the requirements contained in IFRS-converged Indian Accounting Standards (Ind AS).

The Hon'ble Finance Minister of India, Shri Arun Jaitley ji, in his Budget Speech in July 2014 stated that—*“There is an urgent need to converge the current Indian accounting standards with the International Financial Reporting Standards (IFRS). I propose for adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis. Based on the international consensus, the regulators will separately notify the date of implementation of Ind AS for the Banks, Insurance companies etc. Standards for the computation of tax would be notified separately”.*

Pursuant to the above announcement, various steps have been taken by the ICAI to facilitate the implementation of IFRS-converged Indian Accounting Standards (Ind AS).

In this regard, it is worthwhile to note that the convergence is a continuous process. Accordingly, the ICAI has been constantly working towards convergence with IFRS. In order to remain converged with IFRS, Ind ASs were formulated/revised on the basis of the amendments and new IFRS issued by the IASB subsequent to hosting of Ind AS on MCA's website in 2011. These new/revised Ind AS finalised by the ICAI were submitted to National Advisory Committee on Accounting Standards (NACAS). After consideration and recommendation by NACAS, these Ind AS have been notified by the Ministry of Corporate Affairs (MCA) as **Companies (Indian Accounting Standards) Rules, 2015** vide Notification dated February 16, 2015.

In accordance with the decision to converge and not to adopt IFRSs, while formulating IFRS-converged Indian Accounting Standards (Ind AS), while efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS, in a few cases departures have been made where considered absolutely essential. These modifications 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, e.g., 'statement of profit and loss' in place of 'statement of comprehensive income' and 'balance sheet' in place of 'statement of financial position'. 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. For example, considering the Indian banking

system, Ind AS 1 has been amended to clarify that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. Considering that the use of fair value model for valuation of Investment Property may lead to recognition and distribution of unrealised gains, Ind AS 40, *Investment Property*, does not allow the use of fair value model. Similarly, Ind AS 103, *Business Combinations*, has been amended to recognise gains on bargain purchase to be recognised as capital reserve as per the existing Accounting Standard (AS) 14, *Accounting for Amalgamations*, instead of recognising the same in the statement of profit and loss.

Substantial benefits are expected by convergence with IFRS. Implementation of IFRS-converged Indian Accounting Standards would help in bringing excellence in financial reporting, as these standards are based on the premise that the financial statements should be transparent and should faithfully represent the actual financial position and performance of the entity. Therefore, these Standards give more importance to the concept of 'substance over form', i.e., economic reality of a transaction. For example, the substance of a financial instrument would have to be looked into, rather than its legal form to determine its classification in the balance sheet. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of equity but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities. For example, a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, would be a financial liability.

Ind AS require greater use of fair valuation approach. One of the advantages of use of fair valuation approach would be that the book earnings would be closer to financial earnings and would represent the actual valuation of entities.

These Standards require higher degree of judgment and estimates for preparation and presentation of financial statements.

Ind AS require robust disclosures. These Standards generally require the disclosures of all the relevant information and assumptions used in preparation of financial statements. This would help the investors in better understanding the risks and rewards involved. These Standards would enable comparability of financial information which will boost investor confidence, thereby enabling companies to raise capital

at lower costs. It will provide better access to global capital markets and reduction in the cost of capital leading to overall economic growth. Since these Standards are based on fair value approach, historical costs will be replaced by fair values in several balance sheet items, which will enable the entities to know its true worth. By providing transparent and comparable financial information, reporting as per these Standards will provide an impetus to cross-border acquisitions, will enable partnerships and alliances with foreign entities, and lower the cost of integration in post-acquisition periods. Accounting professionals having expertise in these Standards would also get global recognition.

Initiatives for implementation of IFRS-converged Ind AS

During the formulation of Ind AS, the ICAI approached various stakeholders particularly the industry to provide inputs on various requirements of the Ind AS. In this connection, various workshops were organised to obtain the views of industry pertaining to various important sectors of economy.

The ICAI felt that only formulation of Standards would not be enough and it was felt that members and other stakeholders should be educated and trained for smooth implementation of Ind AS. For this purpose, ICAI constituted a Committee, namely, Ind AS (IFRS) Implementation Committee in the year 2011, to deal with issues coming up in implementation of IFRS-converged Ind AS.

This Committee has been making relentless efforts in making this transition to Ind AS smooth through its various initiatives. Some of the significant initiatives of the Committee are discussed below.

Educational Materials on Ind AS

The Ind AS (IFRS) Implementation Committee of the ICAI is working to provide guidance to the members and other stakeholders by issuing Educational Material on Ind AS. An Educational Material contains summary of the respective Indian Accounting Standard and the Frequently Asked Questions (FAQ) covering the issues, which are expected to be encountered frequently while implementing the Standard. Significant differences between respective Ind AS and Accounting Standards (AS) are also included as Appendices to make the Educational Material comprehensive. So far, Educational Materials on following Ind AS were issued by the Committee:

- Ind AS 1, *Presentation of Financial Statements*
- Ind AS 2, *Inventories*
- Ind AS 7, *Statement of Cash Flows*
- Ind AS 18, *Revenue*
- Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*
- Ind AS 108, *Operating Segments*

However, the above Educational Materials are being revised in accordance with Ind AS recently notified by

the Ministry of Corporate Affairs and revised versions are expected to be issued shortly. Apart from above, the ICAI is committed and working rigorously to issue Educational Materials on remaining notified Ind ASs as soon as possible. Educational Materials on following Ind AS have been finalised the same will be issued shortly:

- Educational Material on Ind AS 101, *First-time adoption of Indian Accounting Standards*
- Educational Material on Ind AS 10, *Events after the Reporting period*

Certificate Course on IFRS

The Committee is conducting an extensive Certificate Course on IFRS throughout the country and abroad to impart knowledge about IFRS and Ind AS. The session plan of the course has been designed with a view to make members competent in field of Ind AS and IFRS. Apart from the comprehensive theoretical aspects, this course, sharpens the expertise and excellence of the members of the ICAI through multiple case studies across the industry and service sector. A certificate is awarded to the participants after attending and satisfactorily completing the course and passing the examination. So far, around 6050 members have been successfully trained in the Certificate Course on IFRS across various locations throughout the country and abroad.

Workshops and Awareness Programmes on Ind AS

The ICAI is also organising nation-wide One Day / Two Days awareness programmes, workshops, seminars etc. on Ind AS at various locations across the country. In these awareness programmes, training on the basic

Standards which form the premise for preparation and presentation of financial statements under Ind AS, such as, Ind AS related to presentation of financial statements, consolidation, business combinations, financial instruments, revenue recognition, first-time adoption etc. is imparted. Differences between Ind AS and existing AS are also specifically covered in order to educate the members and stakeholders about how accounting under Ind AS would be different from existing AS. These awareness programmes are very helpful for the participants in getting ready for implementing Ind AS.

Webcasts

The ICAI is also using technology-driven methodologies to create awareness and impart education about Ind AS/IFRS. The Ind AS (IFRS) Implementation Committee is continuously organising series of webcasts on various topics of IFRS-converged Ind AS at regular intervals.

Training Programmes

Apart from above initiatives, the ICAI through Ind AS (IFRS) Implementation Committee is making efforts to help industries in Ind AS implementation. In this regard, the Committee organises customised Ind AS and IFRS training programmes for corporates and business houses.

Conclusion

This paradigm shift from existing Accounting Standards to IFRS-converged Ind AS will improve the financial reporting in India and will bring Indian financial reporting at par with the global financial reporting. All these fast-paced implementation initiatives of the ICAI will certainly lead to smooth transitioning to Ind AS.
