IFRS –MANDATORY IN INDIA – AN OVERVIEW

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ABSTRACT

IFRS began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. However, it has been debated whether or not de facto harmonization has occurred. Standards that were issued by IASC (the predecessor of IASB) are still within use today and go by the name International Accounting Standards (IAS), while standards issued by IASB are called IFRS. This study highlights on the overview of IFRS and its mandatory implications in India.

Keywords:- IFRS, GAAP, Convergence

I. INTRODUCTION

The International Financial Reporting Standards, usually called the IFRS Standards, are standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. They are the rules to be followed by accountants to maintain books of accounts which are comparable, understandable, reliable and relevant as per the users internal or external. IFRS, with the exception of IAS 29 Financial Reporting in Hyperinflationary Economies and IFRIC 7 Applying the Restatement Approach under IAS 29, are authorized in terms of the historical cost paradigm. IAS 29 and IFRIC 7 are authorized in terms of the units of constant purchasing power paradigm.

IFRS began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. However, it has been debated whether or not de facto harmonization has occurred. Standards that were issued by IASC (the predecessor of IASB) are still within use today and go by the name International Accounting Standards (IAS), while standards issued by IASB are called IFRS. IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On 1 April 2001, the new International Accounting Standards Board (IASB) took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards "International Financial Reporting Standards".

In the absence of a Standard or an Interpretation that specifically applies to a transaction, management must use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgement, IAS 8.11 requires management to consider the definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses in the Framework.

II. REVIEW LITERATURE

Katerina Struharova, Karel steker, Milana Otrusinova (2011), "Shift to IFRS – what (Kateřina Struhařová, Shift to IFRS – what would this mean for Czech, Issue 2, Volume 5, 2011)would this mean for Czech companies" Usage of IFRS financial statements in the Czech Republic is very rare. This is due to the fact that only listed entities are required to prepare its consolidated financial statements in line with IFRS. If other entities want to prepare their financial statements under IFRS they have to prepare them in addition to financial statements under CZ GAAP which are mandatory for statutory purposes. ***Source:- http://shodhganga.inflibnet.ac.in/bitstream/10603/18812/10/10_chapter2.pdf***

Dr. Naseem Ahmad and Professor Nawab Ali Khan (2010), "Global convergence of financial reporting" this article define that all major economies have established time lines to converge with or adopt IFRSs in the near future. The international convergence efforts of the organisation are also supported by the Group of 20 Leaders (G20) who, at their September 2009 meeting in Pittsburgh, US, called on international accounting bodies to redouble their efforts to achieve this objective within the context of their independent standard-setting process. In particular, they asked the IASB and the US FASB to complete their convergence project by June 2011. Adopting a single global accounting language will ensure relevance, completeness, understandability, reliability, timeliness, neutrality, verifiability, consistency, comparability and transparency of financial statements and these bring about a qualitative change in the accounting information reports which will strengthen the confidence and empower investors and other users of accounting information around the world. ***Source:- http://shodhganga.inflibnet.ac.in/bitstream/10603/18812/10/10_chapter2.pdf***

Scott Hartman (2009), "Ready for IFRS?" This article based on the Adoption of IFRS (International Financial Reporting Standards) in the US undoubtedly would mark a significant change for many US companies. It would require a shift to a more principles-based approach, place far greater reliance on management (and auditor) judgment, and spur major changes in company processes and systems. But this change should not be feared. A move to IFRS also presents a tremendous opportunity. Moving to an entirely new accounting structure ultimately might enable companies to streamline reporting processes and reduce compliance costs. While there are differences between US GAAP and IFRS, the general principles, conceptual framework and accounting results between them are often the same, or similar, for most commonly-encountered transactions.

Source:- http://shodhganga.inflibnet.ac.in/bitstream/10603/18812/10/10_chapter2.pdf

III. RESEARCH METHODOLOGY

This study is a theoretical framework of IFRS wherein secondary data has been taken to put the edge of the study through source Wikipedia and other related secondary sources like thesis , articles and websites.

IV. OBJECTIVES OF THE STUDY

To know the theoretical background of IFRS

To know the mandatory facets to implement IFRS in India

V. OBJECTIVE OF FINANCIAL STATEMENTS

Financial statements are a structured representation of the financial positions and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it.

VI. TO MEET THIS OBJECTIVE, FINANCIAL STATEMENTS PROVIDE INFORMATION ABOUT AN ENTITY'S

- Assets;
- liabilities;
- Equity;
- Income and expenses, including gains and losses;
- Contributions by and distributions to owners in their capacity as owners; and
- Cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

VII. THE FOLLOWING ARE THE GENERAL FEATURES IN IFRS

Fair presentation and compliance with IFRS: Fair presentation requires the faithful representation of the effects of the transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework of IFRS.

Going concern: Financial statements are present on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Accrual basis of accounting: An entity shall recognize items as assets, liabilities, equity, income and expenses when they satisfy the definition and recognition criteria for those elements in the Framework of IFRS.

Materiality and aggregation: Every material class of similar items has to be presented separately. Items that are of a dissimilar nature or function shall be presented separately unless they are immaterial.

Offsetting: Offsetting is generally forbidden in IFRS. However certain standards require offsetting when specific conditions are satisfied (such as in case of the accounting for defined benefit liabilities in IAS 19 and the net presentation of deferred tax liabilities and deferred tax assets in IAS 12).

Frequency of reporting: IFRS requires that at least annually a complete set of financial statements is presented. However listed companies generally also publish interim financial statements (for which the accounting is fully IFRS compliant)for which the presentation is in accordance with IAS 34 Interim Financing Reporting.

Comparative information: IFRS requires entities to present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. In addition comparative information shall also be provided for narrative and descriptive information if it is relevant to understanding the current period's financial statements. The standard IAS 1 also requires an additional statement of financial position (also called a third balance sheet) when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. This for

example occurred with the adoption of the revised standard IAS 19 (as of 1 January 2013) or when the new consolidation standards IFRS 10-11-12 were adopted (as of 1 January 2013 or 2014 for companies in the European Union).

Consistency of presentation: IFRS requires that the presentation and classification of items in the financial statements is retained from one period to the next unless:

it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8; or

an IFRS standard requires a change in presentation.

VIII. CRITICISMS OF IFRS

In 2012 the US Securities and Exchange Commission Staff issued a 127-page report of potential issues with IFRS that would need to be addressed before adoption by the United States. The staff of the IFRS Foundation provided a detailed answer on the main criticisms in the SEC staff report.

A number of criticisms were voiced in the beginning of 2013 in the French media to which the IASB Board member Philippe Danjou responded in his document 'An Update on International Financial Reporting Standards (IFRSs).'

It is widely acknowledged that IAS 29 Financial Reporting in Hyperinflationary Economies had no positive effect during the six years it was implemented during hyperinflation in Zimbabwe. [6] This led people[who?] to ask the purpose of IAS 29. As of March 2014, IAS 29 was being implemented in its original ineffective form in Venezuela and Belarus. It was suggested to the IASB in 2012[by whom?] that IAS 29 should be corrected to require daily indexation which would result in effective constant purchasing power accounting and would stabilize the non-monetary economy during hyperinflation. The IASB has offered no response to date (March 2014) to this criticism and has not yet altered IAS 29 to require daily indexation.

IX. ADOPTION

IFRS are used in many parts of the world, including the South Korea, European Union, India, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, Chile, Philippines, South Africa, Singapore and Turkey, but not in the United States. Please refer to PricewaterhouseCoopers' "IFRS by country" publication for a detailed explanation of the level of IFRS adoption per country. 140 Jurisdiction profiles are available online.

It is generally expected that IFRS adoption worldwide will be beneficial to investors and other users of financial statements, by reducing the costs of comparing alternative investments and increasing the quality of information. Companies are also expected to benefit, as investors will be more willing to provide financing. Companies that have high levels of international activities are among the group that would benefit from a switch to IFRS. Companies that are involved in foreign activities and investing benefit from the switch due to the increased comparability of a set accounting standard. However, Ray J. Ball has expressed some skepticism of the overall cost of the international standard; he argues that the enforcement of the standards could be lax, and the regional differences in accounting could become obscured behind a label. He also expressed concerns about the fair value

emphasis of IFRS and the influence of accountants from non-common-law regions, where losses have been recognized in a less timely manner.

To assess progress towards the goal of a single set global accounting standards, the IFRS Foundation has developed and posted profiles about the use of IFRSs in individual jurisdictions. These were based on information from various sources. The starting point was the responses provided by standard-setting and other relevant bodies to a survey that the IFRS Foundation conducted. Currently, profiles are completed for 124 jurisdictions, including all of the G20 jurisdictions plus 104 others. Eventually, the plan is to have a profile for every jurisdiction that has adopted IFRSs, or is on a programme toward adoption of IFRSs.

X. MANDATORY IN INDIA

The Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statements for the periods beginning on or after 1 April 2016 in a phased manner. There is a roadmap issued by MCA for adoption of IFRS.

Reserve Bank of India has stated that financial statements of banks need to be IFRS-compliant for periods beginning on or after 1 April 2011.

The ICAI has also stated that IFRS will be applied to companies above INR 1000 crore (INR 10 billion) from April 2011. Phase wise applicability details for different companies in India:

Phase 1: Opening balance sheet as at 1 April 2011*

i. Companies which are part of NSE Index – Nifty 50

ii. Companies which are part of BSE Index – Sensex 30

a. Companies whose shares or other securities are listed on a stock exchange outside India

b. Companies, whether listed or not, having net worth of more than INR 1000 crore (INR 10 billion)

Phase 2: Opening balance sheet as at 1 April 2012*

Companies not covered in phase 1 and having net worth exceeding INR 500 crore (INR 5 billion)

Phase 3: Opening balance sheet as at 1 April 2014*

Listed companies not covered in the earlier phases * If the financial year of a company commences at a date other than 1 April, then it shall prepare its opening balance sheet at the commencement of immediately following financial year.

On 22 January 2010, the Ministry of Corporate Affairs issued the road map for transition to IFRS. It is clear that India has deferred transition to IFRS by a year. In the first phase, companies included in Nifty 50 or BSE Sensex, and companies whose securities are listed on stock exchanges outside India and all other companies having net worth of INR 10 billion will prepare and present financial statements using Indian Accounting Standards converged with IFRS. According to the press note issued by the government, those companies will convert their first balance sheet as at 1 April 2011, applying accounting standards convergent with IFRS if the accounting year ends on 31 March. This implies that the transition date will be 1 April 2011. According to the earlier plan, the transition date was fixed at 1 April 2010.

The press note does not clarify whether the full set of financial statements for the year 2011–12 will be prepared by applying accounting standards convergent with IFRS. The deferment of the transition may make companies happy, but it will undermine India's position. Presumably, lack of preparedness of Indian companies has led to the decision to defer the adoption of IFRS for a year. This is unfortunate that India, which boasts for its IT and accounting skills, could not prepare itself for the transition to IFRS over last four years. But that might be the ground reality.

Transition in phases

Companies, whether listed or not, having net worth of more than INR 5 billion will convert their opening balance sheet as at 1 April 2013. Listed companies having net worth of INR 5 billion or less will convert their opening balance sheet as at 1 April 2014. Un-listed companies having net worth of Rs5 billion or less will continue to apply existing accounting standards, which might be modified from time to time. Transition to IFRS in phases is a smart move.

The transition cost for smaller companies will be much lower because large companies will bear the initial cost of learning and smaller companies will not be required to reinvent the wheel. However, this will happen only if a significant number of large companies engage Indian accounting firms to provide them support in their transition to IFRS

XI. SIZE OF COMPANIES

The government has decided to measure the size of companies in terms of net worth. This is not the ideal unit to measure the size of a company. Net worth in the balance sheet is determined by accounting principles and methods. Therefore, it does not include the value of intangible assets. Moreover, as most assets and liabilities are measured at historical cost, the net worth does not reflect the current value of those assets and liabilities. Market capitalisation is a better measure of the size of a company. But it is difficult to estimate market capitalisation or fundamental value of unlisted companies. This might be the reason that the government has decided to use 'net worth' to measure size of companies. Some companies, which are large in terms of fundamental value or which intend to attract foreign capital, might prefer to use Indian accounting standards convergent with IFRS earlier than required under the road map presented by the government. The government should provide that choice.

XII. DIFFERENCE BETWEEN IFRS & GAAP

Some accountants consider methodology to be the primary difference between the two systems; GAAP is rules-based and IFRS is principles-based. This disconnect manifests itself in specific details and interpretations; IFRS guidelines provide much less overall detail than GAAP. Consequently, the theoretical framework and principles of the IFRS leave more room for interpretation and may often require lengthy disclosures on financial statements. On the other hand, the consistent and intuitive principles of IFRS are more logically sound and may possibly better represent the economics of business transactions.

Perhaps the most notable specific difference between GAAP and IFRS involves their inventory treatments. IFRS rules ban the use of last-in, first-out, or LIFO, inventory accounting methods. GAAP rules allow for LIFO. Both systems allow for the first-in, first-out method, or FIFO, and the weighted average cost method. GAAP does not allow for inventory reversals, while IFRS permits them under certain conditions.

Another key reporting difference is that GAAP requires financial statements to include a statement of comprehensive income. IFRS does not consider comprehensive income to be a major element of performance and therefore does not include it. This leaves some room for mixing owner and nonowner activity within the financial statements.

XIII. CONCLUSION

Most large companies, which will comply with Indian accounting standards convergent with IFRS in the first phase, choose one of the international firms, Indian accounting firms and smaller companies will not benefit from the learning in the first phase of the transition to IFRS.

It is likely that international firms will protect their learning to retain their competitive advantage. Therefore, it is for the benefit of the country that each company makes judicious choice of the accounting firm as its partner without limiting its choice to international accounting firms. Public sector companies should take the lead and the Institute of Chartered Accountants of India (ICAI) should develop a clear strategy to diffuse the learning.

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