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IMPACT OF IFRS ON EMPLOYEE BENEFIT ACCOUNTING AND DISCLOSURE PRACTICES IN INDIAN COMPANIES

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ABSTRACT

Indian economy has entered a new threshold with the advent of reforms in the fields of accounting, taxation, trade and commerce. Introducing Ind AS in Accounting, GST Bill in Taxation, liberalization and globalization policies in trade and commerce are major significant steps towards aligning Indian economy to the global world. Rapid integration of the Indian economy with rest of the world over a decade give an urgent need to the firms to adhere with the Ind AS because in order to access over the foreign stock market the firms has to harmonize their financial statements with the financial reports of multinational corporations. It not only provide the easy availability of fund at cheaper cost but also creates a confidence in foreign investors leading to more FDIs. Employees are one of the most important factor in an organization hence accounting for employee benefit is a vital item in financial statement. Employee benefit is one of the most difficult issues that accountants and standard setters have to deal with. This paper is an attempt to focus on the reform of Ind AS 19 of Accounting for Employee Benefit. It explore the difference in IFRS and AS on accounting for employee benefit and also the impact and implications of IFRS on accounting for employee benefit and its disclosure in Indian companies.

KEYWORDS:

IFRS, Ind AS 19, AS 15, Employee Benefit Accounting, ICAI

INTRODUCTION

An IASC (International Accounting Standards Committee) was formed by the accounting fraternity of 10 countries in 1973 which issued IAS (International Accounting Standards). Subsequently this responsibility has transferred to International Accounting Standard Board (IASB) in 2001, whereby these standards were restructured and are presently known as International Financial Reporting Standards (IFRS). IFRS helps in providing information regarding the financial position of a company which help investors as well as organizations in making economic decisions.

Indian Accounting Standard are a set of accounting rules and procedures notified by the Ministry of Corporate Affairs (MCA) which are converged with IFRS, Accounting Standard Board of Institute of Chartered Accountants of India (ICAI). A commitment was made by India towards the convergence of Indian Accounting Standards with IFRS at the G-20 Summit in 2009. In accordance with this the MCA, Government of India had previously issued a roadmap for implementation of Ind AS converged with IFRS from beginning of April 2011. However due to unresolved tax and other issues this plan was postponed. Presently India has two sets of accounting standards namely existing accounting standards under companies (AS) Rules 2006 and IFRS converged Ind AS which are numbered and named in the same way as the corresponding IFRS.

A drastic change has witnessed over a decade in the business world on the globe due to the globalization of economies. The multinational corporations in search of better business opportunities, not only for growth but also for its sustainability, are establishing and extending their business operations in diverse countries with emerging economies. Every country has its separate accounting rules and regulations for financial reporting. In order to fulfill their capital needs, the companies are entering into foreign markets by getting their securities listed in foreign stock exchanges. International investors and analysts would like to equate and compare the financial statements based on similar accounting rules because the difference in the accounting frameworks among the countries create a confusion for investors which results into the inefficiency in foreign capital market, and this has given rise to the acceptance for an globally accepted set of accounting rules and standards for global fillings. The synchronization of financial reporting standards around the globe will assist to develop a confidence of investors specifically in the information they are using to make their decisions and assess their risks. Indian AS of Accounting for Employee Benefit has been revised to align it to the IFRS. The latest revision of the existing AS 15 has brought about a number of conceptual changes in the accounting for long term employee benefits extending the areas of actual valuation needed in this respect.

ADVANTAGES OF IFRS

The most important attainment in case of IAS adoption is enhancement of accounting quality. Different researchers reveal different reasons for better result of adoption of IAS which are as follows.

Firstly, Establishment of IFRS was based on developed market's demand, hence this accounting frame is evidently qualified (Ball 2006). In addition there is a requirement of higher quality measurement, for example the use of fair value results in better reflection in economic positions of entities in the market. Also there are more disclosures which is demanded under IFRS; therefore the information asymmetries are reduced between different organizations. Furthermore IFRS could eliminate different accounting methods which lead to alleviating managerial discretion in regard to classify accounting items, which might result in manipulation of earnings. Hence IFRS adoption could enhance the accounting quality. Finally, IFRS was based on fundamental principles; thus, it is difficult for organizations to falsify records.

Secondly, it is clear that higher levels of comparability and compatibility can be achieved by adopting IFRS. Currently there are wide range of countries demanding and adopting IFRS in the world. Subsequently in case that India will adopt IFRS, then financial statements of Indian companies will be more comparable to such reports in other countries. As a result the attention will be paid to the Indian market by more and more investors. In addition to this the Indian entities that use the internationally accepted accounting standards will have more opportunities, to enter into foreign markets.

Thirdly, the accounting information and data can be improved by the adoption of the set of international accounting standards which increase the comparability between financial reports across different markets as well as countries. Subsequently it also result in the elimination of information unevenness/asymmetries and unfamiliarity of foreign investors. These positive signals are clearly a huge encouragement to FDIs and international trade. It is worth noting that developing economies like India might achieve more advantages as compared to developed nations in case of the adoption.

All along with the above three main benefits, the adoption of the IASs could support firms to achieve higher reputation because of greater transparency, as compared to domestic competitors who do not use IFRS.

Apart from these benefits IFRS adoption in India is not an easy task as it faces lot of difficulties and challenges. Adopting IFRS means to bring a complete change in reporting standards, awareness of which should be created among different stakeholders including shareholders, banks, firms, stock exchanges, government etc. Professional accountants have to ensure the successful implementation of IAS in India. Another considerable challenge is the lack of adequate and professional personnel with regard to new accounting standards.

LITERATURE REVIEW

Karthik Ramanna and Ewa Sletten (2009) conducted the study on need for adopting IFRS taking 102 non- European union Countries, they found that a country is more likely to adopt IFRS if it is adopted by countries or trade partners within its geographical region. Also, more powerful countries are less likely to adopt IFRS.

Ihab Alsaqqa and Nedal Sawan (2013), studied on the advantages and the challenges of adopting IFRS into UAE stock market and found that financial reporting based on IFRSs may be useful for decision making, the results suggest that the quality of financial reporting and level of disclosures will improve by using IFRS.

Firoz and Abdul Aziz Ansari (2011) critically analyzed the Indian Banking Industries' financial statements and found that implementation of IFRS has a great effect over financial instruments, advances and investments and banking industry needs more detailed analysis and valuation of existing advances and all other instruments in order to comply with IFRS.

Shobhan Sen (2013), conducted a study on IFRS convergence and applicability in India: some issues, and found that difficulties have cropped up in the IFRS adoption process particularly relating to the differences prevailing between the existing standards and the IFRS norms.

Arshi Barin and Abdul Aziz Ansari (2017) studied on the impact of IFRS on revenue recognition: a case of India and analyzed that revenue recognition is one of the most common ways of creative accounting and therefore revenue should be recognized carefully. A detailed guidance is provided by IFRS 15 on the identification of separate performance obligations of a single transaction. Under IFRS 15 a five-step model with a single principle is introduced for recognizing revenue that applies to all contracts. The implementation of IFRS has the major impact on the revenue of the firms. However the extent differs from sector to sector and from time to time.

Rakesh and Shilpa R (2013) found out that the adoption of IFRS by companies and FDI in India are closely related to each other and the international investors and analysts would like to equate and compare the financial statements based on similar accounting rules in order to increase their level of confidence. IFRS prove to be an effective tool for increasing the comparability and uniformity of financial statements of those Indian companies which have adopted it.

Sankar Thappa (2012) conducted the study on the various phases of implementation of IFRS in India and recommended that difficulties in the implementation of IFRS can be addressed by creating awareness on importance of compliance with accounting and auditing standards and by giving training to the staff.

Preeti, D.S. Rawat and Deepti (2015) studied on challenges and prospects of IFRS in Indian Accounting System and found that the primary objective of comparability and uniformity of the financial statements prepared in India with the rest of the countries of globe achieved by following the converged IFRS and as a result of more refined measurements of performance and state of affairs the contents of corporate financial reporting has significantly changed and greater comparability and transparency can be achieved due to enhanced disclosures.

Kaushik datta (2009) studied on "similarities and differences a comparison of IFRS, US GAAP and India GAAP" and recognizes that there are indeed many advantages arising from convergences to various stakeholders.

Santanu Das (2014) studied on "Indian Accounting Standards and IFRS", they found that global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets with IFRS is also in the interest of the industry since compliance with them would be able to create greater confidence in the mind of investors and reduce the cost of raising foreign capital.

OBJECTIVES OF THE STUDY

Employees are one of the most important factor in an organization hence accounting for employee benefit is a vital item in financial statement. Employee benefit is one of the most difficult issues that accountants and standard setters have to deal with.

Following are the objectives of the present study:

1) To explore the difference in IFRS and AS on accounting for employee benefit.
2) To explore the impact and implications of IFRS on accounting for employee benefit and its disclosure in Indian companies.

RESEARCH METHODOLOGY

Exploratory and descriptive research is used in this study to show the impact of IFRS on employee benefit accounting in Indian companies.

DIFFERENCE BETWEEN AS 15 AND IND AS 19

IND AS 19 is replacing AS 15 (revised 2005) with regulatory guidelines making it mandatory for companies with a net worth exceeding INR 500 Crores to make this transition effective from April 1, 2016, sooner or later all companies will have to transition to IND AS 19 and hence understanding the changes will be critical to stay prepared. While the new standard is very similar to IFRS equivalent standard (IAS 19), IND AS 19 has introduced a number of changes which will impact the financial reporting of post-employment and long term employee benefit schemes for companies in India.

1) It also covers the employee benefit which arises from constructive obligations while AS 15 does not consider the same.
2) The term employee includes whole time directors while AS 15 includes directors only.
3) Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. While AS 15 does not clarify the same.
4) For post-employment benefits, actuarial gains and losses arising from experience differing from what was assumed, changes in assumption and investment gains and losses on plan assets are to be recognized immediately through the OCI (Other Comprehensive Income). Currently under AS15, actuarial gains and losses are recognized immediately in profit and loss.
5) Expected return and interest cost on plan assets are replaced with net interest income/cost on the net asset or liability recognized on the balance sheet, this interest income or cost is measured based on the plan's discount rate.
6) For plan changes, the non-vested portion of the related past service cost/credit can currently be spread across the future time period over which benefits are vested. Going forward under IND AS 19, all past service costs/credits must be fully recognized in P&L. the revised standard also provides additional guidance on the recognition of plan expenses and the treatment of special events.
7) Impact on the balance sheet position at the time of adoption of Ind AS 19- the principle of calculation of net liabilities (liability - asset) remains the same. Companies might have an option of reinstating the liabilities for foreign subsidiaries where they have a market in deep corporate bonds and the discount rate could be changed accordingly. Moreover, for those schemes where there are unrecognized past service costs/credits, the balance sheet position may change.
8) There is a greater focus on disclosures, which have been expanded to include more insight about the risks to the company associated with post-employment and other long term benefits. These risks include the timing, amount and uncertainty of future cash flows, and implications of the regulatory environment in which plans operate.

IMPACT ON AN ORGANIZATION AND ON FINANCIAL REPORTING

Impact on an organization and its processes

1) Ind AS 19 is likely to have a major effect on many organizations. Ind AS 19 may have the reverse effect, since actuarial losses are allowed to be recognized in OCI (Other Comprehensive Income). Senior management, finance, operational and human resource personnel will need to work closely with each other, their actuaries and their external advisors have to ensure a full understanding of the accounting and business impact of alternative employee benefits and of emerging best practices in an IFRS environment.

2) Actuarial principles under Ind AS 19 are different from AS 15. Every entity need to capture with their actuaries and they also have to ensure that the actuarial report which is going forward is in accordance with the revised principles laid down in Ind AS 19. Actuaries should also be asked to furnish detailed information required under Ind AS 19.

Impact on financial reporting

- **Reduced volatility in income statement on account of actuarial difference**

  Actuarial losses and gains arise due to changes in actuarial assumptions, such as with respect to the employee turnover, discount rate, increase in salary and mortality rate etc. The requirement to account for actuarial losses and gains in OCI (Other Comprehensive Income) will reduce volatility in their income statement which arises on account of actuarial differences.

- **Timing of recognition of termination benefits**

  Under Ind AS 19, termination benefits are required to be accounted for when the scheme is announced and the management is demonstrably committed to it. While under Indian GAAP, termination benefits are required to be accounted for based on legal liability when employee signs up for the Voluntary Retirement Scheme (VRS) instead of constructive liability. This is generally a timing issue for creating a provision.

COMPARATIVE DISCLOSURES UNDER AS-15 AND Ind AS-19

Table 1.1

Employee Benefits Expenses	AS-15 (2015-16)	Ind AS-19 (2015-16)	Ind AS-19 (2016-17)
Salaries and Wages	3730	3736	3889
Contribution to Provident and other Funds	226	222	229
Staff Welfare Expenses	304	304	316
Total	4260	4262	4434

Source: Compiled by Authors from Annual Report of Reliance Industries Limited 2015-16 and 2016-17

Defined Contribution Plans

Table 1.2

Particulars	AS-15 (2015-16)	Ind AS-19 (2015-16)	Ind AS-19 (2016-17)
Employer's Contribution to Provident Fund	95	95	105
Employer's Contribution to Superannuation Fund	12	12	12
Employer's Contribution to Pension Scheme	38	38	40

Source: Compiled by Authors from Annual Report of Reliance Industries Limited 2015-16 and 2016-17

Defined Benefit Plan

Table 1.3: Reconciliation of Opening and Closing Balances of Defined Benefit Obligation

Particulars	Gratuity (Funded)		
	AS-15 (2015-16)	Ind AS-19 (2015-16)	Ind AS-19 (2016-17)
Defined Benefit Obligation at beginning of the year	615	615	657
Current Service Cost	33	33	34
Interest Cost	49	49	53
Actuarial Gain / (Loss)	10	10	(34)
Benefits Paid	(50)	(50)	(46)
Defined Benefit Obligation at end of the year	657	657	664

Source: Compiled by Authors from Annual Report of Reliance Industries Limited 2015-16 and 2016-17

Table 1.4: Reconciliation of Opening and Closing Balances of Fair Value of Plan Assets

Particulars	Gratuity (Funded)		
	AS-15 (2015-16)	Ind AS-19 (2015-16)	Ind AS-19 (2016-17)
Fair Value of Plan Assets at beginning of year	615	615	657
Expected Return on Plan Assets	49	58	54
Actuarial Gain / (Loss)	9	-	-
Employer Contribution	34	34	-
Benefits Paid	(50)	(50)	(46)
Fair Value of Plan Assets at end of year	657	657	665
Actual Return on Plan Assets	58	58	54

Source: Compiled by Authors from Annual Report of Reliance Industries Limited 2015-16 and 2016-17

Table 1.5: Reconciliation of Fair Value of Assets and Obligations

Particular	Gratuity (Funded)		
	AS-15 (2015-16)	Ind AS-19 (2015-16)	Ind AS-19 (2016-17)
Fair Value of Plan Assets	657	657	665
Present Value of Obligation	657	657	664
Amount Recognized in Balance Sheet	-	-	1

Source: Compiled by Authors from Annual Report of Reliance Industries Limited 2015-16 and 2016-17

Table 1.6: Expenses recognized during the year

Particulars	Gratuity (Funded)		
	AS-15 (2015-16)	Ind AS-19 (2015-16)	Ind AS-19 (2016-17)
In Income Statement			
Current Service Cost	33	33	34
Interest Cost	49	49	53
Return on Plan Assets	(49)	(49)	(53)
Actuarial (Gain) / Loss	1	NA	NA
Net Cost	34	33	34
In Other Comprehensive Income			
Actuarial (Gain) / Loss	NA	10	(34)
Return on Plan Assets	NA	(9)	(1)
Net (Income) / Expenses for the period Recognized in OCI	NA	1	(35)

Source: Compiled by Authors from Annual Report of Reliance Industries Limited 2015-16 and 2016-17

FINDINGS OF THE STUDY

1) It can be seen from the above disclosures of two different years i.e. 2015-16 and 2016-17 that employee benefit expenses under AS-15 is Rs. 4260 in the year 2015-16 while under Ind AS-19 it is Rs. 4262 for the same year. Salaries and wages has increased from Rs 3730 to Rs. 3736, as Ind AS-19 also include whole time directors, while contribution to provident fund has decreased from Rs.226 to Rs. 222 and staff welfare expenses remain unchanged as shown in Table 1.1.
2) There is no any impact on disclosure regarding defined contribution plans.
3) Disclosure regarding reconciliation of opening and closing balances of defined benefit obligation remains same as reported under AS-15.
4) Expected return on plan assets under AS-15 was Rs. 49 for the year 2015-16 while for the same year it is Rs. 58 under Ind AS-19, it means that Ind AS-19 requires that actuarial gains and losses are recognized in Other Comprehensive Income, while under AS-15 it is immediately recognized through P&L Statement which can be witnessed from Table 1.4.
5) The actuarial gains and losses and return on plan assets are recognized in Other Comprehensive Income under Ind AS-19, while under AS-15 it was recognized through Income Statement as can be seen from Table 1.6

CONCLUSION

The adoption of IFRS not only made the comparison of financial statements of firms across the globe easier but it also assist Indian organizations to enter into the foreign stock and capital markets for availability of funds at cheaper cost. Moreover, IFRS follows a concept of fair value which can help Indian firms to reflect their true worth of Assets held in the financial statements. The above discussion shows that employee benefit accounting under Ind AS 19 goes under the considerable change as compared to AS 15. The accounting and disclosure pattern under Ind AS 19 requires the firm that termination benefits are required to be provided in its annual report when the scheme is announced and the management is demonstrably committed to it. It also shows that the requirement to account for actuarial gains and losses in OCI (Other Comprehensive Income) will reduce volatility in their income statement which arises on account of actuarial differences. All along with various benefits of global comparability, confidence of foreign investors, global accessibility of foreign markets and enhanced accounting quality, it also faces many challenges in India among whom lack of adequate and professional personnel with regard to new accounting standards is more important.

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