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CONVERGING INDIAN ACCOUNTING STANDARDS TO IFRS – A JOURNEY TOWARDS GLOBAL STANDARDS

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ABSTRACT

Globalization bridges the gap between countries. As a result of this, movement of goods, capital, service, people and companies has become easy. On arrival one should respect law of particular country (kind of accounts to be followed). It is the primary duty of any company irrespective of Indian company or foreign company to prepare financial statements at the end of accounting period. While preparing financial statements some accounting standards needs to be followed that is laid down by Accounting Standard Board of the respective country. Indian company located in other country need to prepare its financial statements according to accounting standards of the country where it is located, this leads to variation in profits. This variation in profits is due to difference in accounting standards, which differs from country to country. In order to remove this variation in profits, International Accounting Standard Board introduced International Financial Reporting Standards called as IFRS. All the companies irrespective of their locations should follow IFRS in preparing financial statements. IFRS are the common accounting standards followed by all member countries of IFRS in preparing their financial statements. IFRS helps in arriving at equal profits regardless of their location. The aim of our study is to know how IFRS are helpful to the companies in preparing their financial statements and what are all the difficulties involved in implementing IFRS with respect to India. This paper makes use of only secondary data to analyze IFRS.

KEYWORDS : *Indian Accounting Standards, International Accounting Standards Board (IASB), International Financial Reporting Standards (IFRS) and converging Indian Accounting Standards to IFRS.*

INTRODUCTION

As a result of globalization, companies and investors who operate business in several countries need to understand each country's accounting principles. Basic accounting principles of each country are based on accrual and going concern assumptions. But application of these principles differs from one country to another country according to their economic and cultural environments. These differences in economic and cultural environments create complexities in preparation, consolidation, auditing and interpretation of financial statements. In order to remove such complexities in Accounting, International Accounting Standard Board

(IASB) introduced uniform accounting standards applicable to all countries across the globe. Uniform accounting standards also called as International Financial Reporting Standards (IFRS). IFRS applied in preparing balance sheet and other financial statements of a company. IFRS helps in arriving uniform profits by all countries.

Convergence of Accounting Standards refers to goal of establishing single set of accounting standards which will be used internationally and helps to remove the gap between Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards.

Accounting Standards

According to ICAI (Institute of Chartered Accountants of India), Accounting Standards are "written documents, policies, procedures issued by expert accounting body or government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statement". Accounting Standards are issued by the "Institute of Chartered Accountants of India" (ICAI).

OBJECTIVES OF ACCOUNTING STANDARDS

1. Standardize the diverse accounting policies.
2. To eliminate non-comparability of financial statements to the possible extent.
3. It adds the reliability to the financial statements.
4. It increases the arithmetic accuracy of financial statements.
5. Accounting standards help to understand Accounting Treatment in financial statements.

ADVANTAGES OF ACCOUNTING STANDARDS

1. Accounting standards reduce or eliminate confusing variations in the accounting treatments used to prepare the financial statements.
2. Accounting standards may call for disclosure beyond that required by law.
3. It facilitates comparison of financial statements of different companies.

Procedure for issuing accounting standards by ICAI

The following procedure is adopted for formulating the accounting standards:

1. Accounting Standards Board (ASB) shall determine the need and priority in regard to the selection thereof.
2. Formation of study groups by ASB.
3. ASB will also hold a dialogue with the representatives of the Government, Public Sector Undertakings and Industry for ascertaining their views.4. Based on the work of Study Groups and the dialogue with the organizations referred to above, an exposure draft of the proposed standards will be prepared.
5. The draft of the proposed standard will include the following basic points:
   a. Concepts and fundamental accounting principles relating to the standard.
   b. Definitions of the terms used in the standard.
   c. The manner in which the accounting principles have been applied.
   d. The presentation and disclosure requirements.
   e. Class of enterprises to which the standards will apply.
   f. Date from which the standard will be effective.
6. Finalization of proposed standards by ASB and submission to the Council of the Institute.
7. Modification or issue of accounting standards is the authority of the Council.

There are 32 accounting standards issued by institute of charted accountant of India (ICAI)

A.S. Number	*Types of Accounting Standards*
1	Disclosures of Accounting policies
2	Valuation of inventories
3	Cash flow statement
4	Contingencies and events occurring after the balance sheet date
5	Net profit and loss for the period, prior period items changes and changes in Accounting policies.
6	Depreciation Accounting
7	Accounting for construction contracts (Recently revised and titled as construction contracts)
8	Accounting for research and development
9	Revenue recognition
10	Accounting for fixed assets
11	Accounting for the effect of change in foreign exchange rates (Recently revised and titled as The effects of changes in foreign exchange rates)
12	Accounting for government grants
13	Accounting for investments
14	Accounting for Amalgamation
15	Accounting for retirement benefits in the financial statements of employer
16	Borrowing cost
17	Segment reporting
18	Related party disclosures
19	Leases
20	Earnings per Share
21	Consolidated financial Statements
22	Accounting for taxes on income
23	Accounting for investments in associates in consolidated financial statements
24	Discontinuing operations
25	Interim financial reporting
26	Intangible Assets
27	Financial reporting of interest in joint venture
28	Impairment of assets.Level-1,Level-2,Level-3.
29	Provisions, contingent liabilities and contingent Assets
30	Financial instruments - Recognition and Measurement
31	Financial instruments– Presentation
32	Financial instruments - disclosures

International Accounting Standards: (IAS)

Standards for preparation and presentation of financial statements created by the International Accounting Standards Committee (IASC). They were first written in 1973, and stopped when the International Accounting Standards Board (IASB) took over their creation in 2001. IASB is an independent accounting standard setting body, which consists of 14 members from nine countries and is based in London. This organization took over from the International Accounting Standards Committee in 2001. It is funded by contributions from major accounting firms, private financial institutions and industrial companies, central and development banks, and other international and professional organizations throughout the world.

International Accounting Standards (I. A. S)

1. Presentation of financial statements 2007
2. Valuation and presentation of inventories in the context of historical cost system 2005
3. Consolidated financial statement Superseded in 1989 by IAS 27 and IAS 28 1976
4. Depreciation Accounting Withdrawn in 1999
5. 5Information to be disclosed in financial statements Superseded by IAS effective 1 July 1998 1976
6. Accounting response to changing prices Superseded by IAS 15, which was withdrawn December 2003
7. Statement of changes in financial position (cash flow statement) 1992
8. Treatment of unusual and prior period items and changes in accounting policies in financial statements 2003
9. Accounting for research and development activities Superseded by IAS 39 effective 1 July 1999
10. Contingencies and events occurring after the balance sheet 2003
11. Accounting for construction contracts 1993
12. Accounting for income taxes 1996
13. Presentation of current assets and current liabilities Superseded by IAS 39 effective 1 July 1998
14. Reporting of financial information by segments Superseded by IFRS 8 effective 1 January 2009 1997
15. Information reflecting the effects of changing price Withdrawn December 2003 2003
16. Accounting for property, plant, and equipment 2003
17. Accounting for leases 2003
18. Revenue recognition 1993
19. Employee Benefits Superseded by IAS 19 (2011) effective 1 January 2013 1998 Employee Benefits (2011) 2011
20. Accounting for government grants and disclosure of government assistance 1983
21. Accounting for effects of changes in foreign exchange rates 2003
22. Accounting for business combination Superseded by IFRS 3 effective 31 March 2004 1998
23. Capitalization of borrowing cost 2007
24. Related party disclosures 2009
25. Accounting for investments Superseded by IAS 39 and IAS 40 effective 2001
26. Accounting for reporting by retirement benefit plan 1987
27. Separate Financial Statements (2011) 2011 Consolidated and Separate Financial Statements Superseded by IFRS 10,
28. IFRS 12 and IAS 27 (2011) effective 1 January 2013 2003
29. 28 Investments in Associates and Joint Ventures (2011) 2011
30. Investments in Associates Superseded by IAS 28 (2011) and IFRS
31. 12 effective 1 January 2013 2003
32. 29 Financial reporting in hyperinflationary economies 1989
33. 30 Disclosures in the financial statements at banks and similar financial institutions
34. Superseded by IFRS 7 effective 1 January 2007 1990
35. 31 Financial reporting of interest in joint ventures
36. Superseded by IFRS 11 &IFRS 12 effective 1 January 2013 2003
    - 33 Financial instruments: Disclosures and presentation 2003
    - 34 Earnings per share 2003
    - 35 Interim financial reporting 1998
    - 36 Discontinuing operations
37. Superseded by IFRS 5 effective 1 January 2005 1998
    - 37 Impairment of assets 2004
    - 38 Provisions, contingent liabilities and contingent assets 1998
    - 39 Intangible assets 2004
    - 40 Financial instruments: Recognition and measuremen
38. Superseded by IFRS 9 effective 1 January 2015 2003
    - 41 Investment property 2003
    - 42 Agriculture 2011

Meaning of IFRS

International Financial Reporting Standards are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation offinancial statements. "International Financial Reporting Standards are designed as a common global languagefor business affairs so that company accounts are understandable and comparable across internationalboundaries. They are progressively replacing the many different national accounting standards."

International Financial Reporting Standards (IFRSs) comprise of

International Financial Reporting Standards (IFRS)—standards issued after 2001

International Accounting Standards (IAS)—standards issued before 2001

Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)—issued after 2001

Standing Interpretations Committee (SIC)—issued before 2001

Framework for the Preparation and Presentation of Financial Statements (1989)

These are International Financial Reporting Standards

IFRS 1: First-time Adoption of International Financial Reporting Standards

IFRS 2: Share-based Payment

IFRS 3: Business Combinations

IFRS 4: Insurance Contracts

IFRS 5: Non-current Assets Held for Sale and Discontinued Operations

IFRS 6: Exploration for and Evaluation of Mineral Assets

IFRS 7: Financial Instruments: Disclosures

IFRS 8: Operating Segments

IFRS 9: Financial Instruments

IIFRS 10: Consolidated Financial Statements

IFRS 11: Joint Arrangements

IFRS 12: Disclosure of Interests in Other Entities

IFRS 13:Fair Value Measurement

These are International Financial Reporting Interpretations Committee

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* 2004

IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* 2004

IFRIC 3 *Emission Rights* Withdrawn June 2005 2004

IFRIC 4 *Determining Whether an Arrangement Contains a Lease* 2004

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* 2004

IFRIC 6 *Liabilities Arising from Participating in a Specific Market - WasteElectrical and Electronic Equipment* 2005

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reportingin Hyperinflationary Economies* 2005

IFRIC 8 *Scope of IFRS 2* Withdrawn effective 1 January 2010 2006

IFRIC 9 *Reassessment of Embedded Derivatives* 2006

IFRIC 10 *Interim Financial Reporting and Impairment* 2006

IFRIC 11 *IFRS 2: Group and Treasury Share Transactions* Withdrawn effective 1 January 2010 2006

IFRIC 12 *Service Concession Arrangements* 2006

IFRIC 13 *Customer Loyalty Programmes* 2007

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* 2007

IFRIC 15 *Agreements for the Construction of Real Estate* 2008

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* 2008

IFRIC 17 *Distributions of Non-cash Assets to Owners* 2008

IFRIC 18 *Transfers of Assets from Customers* 2009

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* 2009

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* 2011

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These are SIC Intrepretations

SIC 1 Consistency – Different Cost Formulas for Inventories Superseded **1997**

SIC 2 Consistency – Capitalisation of Borrowing Costs Superseded 1997

SIC 3 Elimination of Unrealised Profits and Losses on Transactions with Associates Superseded 1997

SIC 5 Classification of Financial Instruments - Contingent Settlement Provisions Superseded 1998

SIC 6 Costs of Modifying Existing Software Superseded 1998

SIC 7 Introduction of the Euro 1998

SIC 8 First-Time Application of IASs as the Primary Basis of Accounting Superseded 1998

SIC 9 Business Combinations – Classification either as Acquisitions or Unitings of Interests Superseded 1998

SIC 10 Government Assistance – No Specific Relation to Operating Activities 1998

SIC 11 Foreign Exchange – Capitalisation of Losses Resulting from Severe Currency Devaluations Superseded 1998
SIC 12 Consolidation – Special Purpose Entities 1998
SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers 1998
SIC 14 Property, Plant and Equipment – Compensation for the Impairment or Loss of Items Superseded 1998
SIC 15 Operating Leases – Incentives 1999
SIC 17 Share Capital – Reacquired Own Equity Instruments (Treasury Shares) Superseded 1999
SIC 17 Equity – Costs of an Equity Transaction Superseded 2000
SIC 18 Consistency – Alternative Methods Superseded 2000
SIC 19 Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29 Superseded 2000
SIC 20 Equity Accounting Method – Recognition of Losses Superseded 2000
SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets 2000
SIC 22 Business Combinations – Subsequent Adjustment of Fair Values and Goodwill
Initially Reported Superseded 2000
SIC 23 Property, Plant and Equipment – Major Inspection or Overhaul Costs Superseded 2000
SIC 24 Earnings Per Share – Financial Instruments and Other Contracts that May
Be Settled in Shares Superseded 2000
SIC 25 Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders 2000
SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease 2000
SIC 28 Business Combinations – 'Date of Exchange' and Fair Value of Equity Instruments Superseded 2001
SIC 29 Disclosure – Service Concession Arrangements 2001
SIC 30 Reporting Currency – Translation from Measurement Currency to Presentation Currency Superseded 2001
SIC 31 Revenue – Barter Transactions Involving Advertising Services 2001
SIC 32 Intangible Assets – Web Site Costs 2001
SIC 33 Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests Superseded 2001

IMPLEMENTATION OF IFRS IN INDIA

Following are the phases through which IFRS will be implemented in India

Phase Date Applicable for

Phase 1 1 April 2011 1. Companies which are part of NSE – Nifty 50
2.Companies which are part of BSE _ sensex 30
3.Companies whose shares or other securities which are listed on stock
exchange outside India
4.Companies whether listed or unlisted, whose net worth exceeds
Rs.1000 Crores as at 31 march 2009
Phase 2 1 April-2013 Companies whether listed or unlisted, whose net worth exceeds Rs
500 Crores but does not exceed Rs 1000 Crores, as at 31 March, 2009
Phase 3 1 April-2014 Listed Companies which have a net worth of Rs. 500 Crores or less
IFRS would not Unlisted companies which have a net worth of Rs.500 crores or less
be applicable for and whose shares or other securities are not listed on stock exchange
outside India.

CONVERGENCE OF INDIAN ACCOUNTING STANDARDS TO IFRS

The word convergence means moving towards "union or uniformity". In preparing financial statements

some accounting standards are followed, these standards are differ from country to country. The difference inaccounting standards yields different profits to different countries. In order to remove disparity in profits

Indian Government took a step for converging Indian Accounting standards with International Financial

Reporting Standards, which is also called as IFRS. International financial standards are issued by the

International Accounting Standards Board (IASB) is recognized as global financial reporting standards. Indiaas an emerging global economy, the Government of India has committed to convergence of Indian accountingstandards with IFRS from 1 April 2011.The ministry of corporate affairs, which is

responsible for bringingthe plan of convergence in India, has set up a high powered core group comprising various stake holders,including SEBI, for convergence with IFRS by 2011.The core group is supported by two sub-groups, headedby Shri Y.H.Malegam, chairman, national advisory committee on Accounting standards and Shri MohandasPai, director, Infosys and member, SEBI board, respectively. The first sub group was set up under thechairmanship of Y.H.Malegam, took the responsibility of identifying various legal and regulatory changes

required for convergence and prepare a roadmap for achieving the same. The second sub group was setup

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under the chairmanship of Mr T.V.Mohandas Pai,took the responsibility of interacting with various stakeholdersfrom business and industry to understand their concern on the issue of convergence with IFRS. SEBI hasproactively involved in the process of convergence of Indian Accounting standards with IFRS. As a steptowards encouraging convergence with IFRS, listed entities having subsidiaries have been allowed an optionto submit consolidated accounts as per IFRS. One of the challenges for successful convergence with IFRS isto ensure that availability of trained professionals who would help origination in process of convergence.These trained professionals provide adequate awareness, education to investors and to analysts in order tounderstand the financial statements in accordance with IFRS. The institute of Chartered Accountants of Indiais taking care of providing training to professionals with the collaboration of SEBI and with Deloitte designedan IFRS Training programme on weekends to train and educate analysts and users of financial statements.

Advantages of convergence to IFRS

Easy Comparison: Companies always would like to compare their performance with other companies' performance. IFRS make this work easier because all companies follow same accounting standards in preparing their financial statements.

One Accounting language companywide: Company with subsidiaries in foreign countries can useIFRS as common business language in preparing its financial statements.

IFRS facilitates Cross border movement: IFRS helps in cross border movement of capital and cross border acquisitions, enables partnerships & alliance with foreign entities.

Availability of professionals internationally: IFRS enhance the mobility of professionals internationally.

IFRS provides more compatibility: IFRS provide more compatibility among sectors, industry, & companies. This will improve relationship with investors, suppliers across the globe.

Increased investment opportunities : Common accounting standards help investors to understand available investment opportunities as opposed to financial statements prepared under different set of nationalaccounting standards.

Lower cost of capital: Greater willingness on the part of investors to invest across borders will enable entities to have access to global capital markets which lowers the cost of capital.

Higher economic growth :Increased investment opportunities lead to attraction of more investments which result in higher economic growth.

Better quality of financial reporting :Convergence will place better quality of financial reporting due to consistent application of accounting principles and reliability of financial statements.

Challenges in the process of convergence of ifrs in India are :

1. Unawareness of international accounting practices: There are lots of differences between the

GAAP and IFRS. It is a big challenge to bring the awareness of international accounting practices.

2. Lack of adequate training: The proper implementation of IFRS depends on the training facilities

and academic courses on IFRS in India. Even though The Institute of Chartered Accountants of India (ICAI) has started IFRS Training programmes for its members and others, still there is shortage of trained professionals.

3. Time: Lot of time taken to complete the transition from GAAPs to IFRS. It may vary from one entity to another ranging from a year to two years. Looking at Indian situation, it may take more than two years.

4. Cost: Transition to IFRS is also expensive.

CONCLUSION

From the above, it is clear that International Financial Reporting Standards are important to each and every organization which is competing in the globe. There are lot of difficulties and challenges faced in implementing and converging Indian accounting standards to IFRS. But if we look at advantages of convergence with IFRS, it is strongly recommended that there is necessity of transition. If professional bodies, corporate entities participate in transition, the task will become easier. Even IFRS should be introduced as a main subject in the universities to bring more awareness about its importance.

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