



INTERNATIONAL FINANCIAL REPORTING STANDARDS ROADMAP IN INDIA



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ABSTRACT

IFRS is International Financial Reporting System and International Accounting Standard Board – (IASB) provided the framework for its working. IFRS employs a uniform, single consistent accounting framework that is gravitating towards General Accepted Accounting Practice (GAPP) in the future. IFRS since its introduction in 2001 had provided uniform accounting in financial report. Other countries, including Canada and India are expected to transit to IFRS by 2011. This paper looks at the benefits of IFRS, Background, Issues and roadmap expected from the implementation of IFRS. The international standards through mutual international understanding of corporate objectives and the building of human capacity that will support the preparation of financial statements in organization.

KEY WORDS: IFRS, Convergence, Adopted, IASB, NASB, GAPP.

IFRS BACKGROUND

Ministry of Corporate Affairs issues roadmap for IFRS conversion in India on 22 January 2010, the Ministry of Corporate Affairs (MCA) issued a press release setting out the roadmap for International Financial Reporting Standards (IFRS) convergence in India. The roadmap requires IFRS to be made applicable in a phased manner. This is an historic step that will elevate Indian entities and their finance and accounting professionals to much greater heights. The publication of the roadmap was eagerly awaited by those who have been saying that the convergence to IFRS in India is a matter of when and how” and not “if.”

They have found that IFRS conversion is more than an accounting change and may affect many aspects of a company outside of the finance function including information technology, group structures, direct and indirect taxes, strategic plans such as an initial public offering or an acquisition, investor relations, debt arrangements, and executive

compensation. For the companies covered in Phase I (see below), there is no time to lose: listed companies having net worth greater than 1000 crores in Phase I are required to start reporting IFRS results from the first quarter of year beginning.

This roadmap will be followed by the publication of detailed guidance by the MCA and/or the Core Group. Since these questions will only be answered by the publication of guidance by the regulators, companies are advised not to treat this document as formal guidance.

IFRS IN INDIA

Conversion is much more than a technical accounting issue. IFRS or Ind AS may significantly affect any number of a company’s day-to-day operations and may even impact the reported profitability of the business itself. In early 2010, the Ministry of Corporate Affairs (MCA) issued various press releases on the IFRS roadmap and convergence plan for India specifying the convergence date to be



1 April, 2011, through 2014 for select Indian companies.

The timeline in the roadmap is no longer valid for Phase I companies, the new implementation date for In AS is awaited from the MCA. It is unclear if the MCA will release a fresh roadmap or just amend the implementation date. Understanding IFRS or Ind AS and its implications is a business imperative for Indian companies.

AN OVERVIEW OF IFRS ROADMAP

1. IFRS converged accounting standards shall apply to Indian companies in 3 phases as per the table:
2. The Core Group and its sub-group 1, constituted by the MCA for IFRS convergence, shall determine IFRS conversion roadmap for banking and insurance companies separately by 28 February 2010.
3. Non-listed companies with net worth of less than INR 500 crore and other small and medium-sized companies (SMCs) have been given an option to continue to either follow non converged standards (hereinafter referred to as "Indian GAAP") or to adopt IFRS.

4. The draft of the Companies (Amendments) Bill, proposing for changes to the Companies Act, 1956, will be prepared by February, 2010.
5. The Institute of Chartered Accountants of India (ICAI) has submitted to the MCA revised Schedule VI to the Companies Act, 1956. The NACAS shall review the draft and submit a revised Schedule VI to the MCA by 31 January 2010. Amendments to Schedule XIV will also be carried out in a time bound manner.
6. Convergence of all the accounting standards with IFRS will be completed by the ICAI by 31 March 2010 and the NACAS will submit its final recommendations to MCA by 30 April 2010.

IFRS PROPOSED ROADMAP FOR INDIA

The IFRS-converged accounting standards would apply to specified class of companies in phases as summarized below:



ROADMAP OVERVIEW

Phase 1 companies are required to start reporting IFRS results from the first quarter of year beginning 1 April, 2011. Also, depending on how a company elects to present comparative information in the first year, the actual date of transition could be as early as 1 April 2010. The core group and its sub-group 1, constituted by the MCA for IFRS convergence, shall determine IFRS conversion roadmap for banking and insurance companies separately by 28 February 2010. Non-listed companies with net worth of less than INR 500 crore and other small and medium-sized companies (SMCs) have been given an option to continue to either follow non converged standards (hereinafter referred to as "Indian GAAP") or to adopt IFRS. The draft of the Companies (Amendments) Bill, proposing for

changes to the Companies Act, 1956, will be prepared by February, 2010.

IFRS REPORTING IN INDIA

The Ministry issued a roadmap on India's convergence to IFRS. As per this roadmap, there will be two separate sets of Accounting Standards under Section 211(3C) of the Companies Act, 1956. The first set would comprise Indian Accounting Standards which are converged with the IFRSs ('Converged Standards') and will be applicable to the specified class of companies. The second set would comprise existing Indian Accounting Standards and will be applicable to other companies, including Small and Medium Companies (SMCs). The Converged Standards would apply in a Phased manner as indicated below:

Phase	Companies covered	Opening balance sheet
Phase I	<ul style="list-style-type: none"> Companies that are part of NSE - Nifty 50 Index Companies that are part of BSE Sensex 30 Index Companies that have shares or other securities listed in overseas stock exchanges ; and Listed and Unlisted Companies with net worth in excess of Rs 1000 Crores 	1 April, 2011
Phase II	Listed & Unlisted Companies with networth in excess of Rs 500 Crores but not exceeding Rs. 1000 Crores.	1 April, 2013
Phase III	Listed entities with networth of Rs 500 Crores or less	1 April, 2014
Unlisted Companies with net worth lesser than Rs 500 Crores and Small and Medium sized Companies are exempt		

The Ministry also issued a separate roadmap for companies in the financial services sector as below:

Class of companies		Opening balance sheet	
Insurance Companies Banking Companies		April 1, 2012	
	Scheduled Commercial Banks	April 1, 2013	
	Urban Co-operative Banks (UCB)	Net worth in excess of Rs. 300 crores	April 1, 2013
		Net worth in excess of Rs. 200 crores but not exceeding Rs. 300 crores	April 1, 2014
		Net worth not exceeding Rs. 200 crores	Optional
Non-Banking Financial Companies (NBFC)	Regional Rural Banks (RRB)	Optional	
	Companies which are a part of NSE - Nifty 50	April 1, 2013	
	Companies which are a part of BSE - Sensex 30		
	Companies, whether listed or not, which have a net worth in excess of Rs. 1,000 crores		
	All NBFCs that do not fall in the above categories	Listed	April 1, 2014
		Non-listed, which have a net worth in excess of Rs. 500 crores	April 1, 2014
		Non-listed, which have a net worth not exceeding Rs. 500 crores	Optional

CURRENT STATUS

The Ministry announced that it would implement the IFRS converged Indian Accounting Standards in a phased manner after various issues, including tax related issues, were resolved with the concerned Departments. In February 2011, the Ministry announced that the date of implementation of the IND AS will be notified at a later date.

PREPARE FOR CHANGE

Convergence with IFRS has strategic implications and will require harmonization of internal and external reporting. Business plans, earnings estimates and management remuneration plans that have reported earnings as the basis will require revisiting as these are expected to undergo change due to the impact of IFRS convergence.

Managing investor and market expectations will also be of paramount importance for the management and would form a critical component of the convergence process. The key to successfully managing this change is by preparing for it. It is important that companies plan the transition process and anticipate issues that your business will face on using the IFRS converged standards. Grant Thornton member firms both in India and other parts of the world have significant experience of having worked with companies implementing IFRS. We understand the key challenges faced by companies and help overcoming them. Our IFRS team in India has significant experience from a large number of IFRS engagements executed over the past years. Our team has prepared the groundwork and is ready to help assess your needs and manage the adoption process. Contact us to assist you in your journey towards adoption of IFRS. Watch this page for the road ahead towards the adoption of IFRS in India.

The Indian Accounting Standards (Ind AS) shall be applicable to the companies as follows:

- (i) Financial statements for accounting periods beginning on or after April 1, 2015 - ending 31st March, 2015 or thereafter
- (ii) mandatory basis for the accounting periods beginning on or after April 1, 2016 - ending 31st March, 2016, or thereafter

Companies specified below

- (a) Companies whose equity and/or debt securities are listed or are in the process any stock exchange in India or outside India and having net worth of Rs. 500 Crore or more.
 - (b) Companies other than those covered in (ii) (a) above, having net worth of Rs. 500 Crore or more.
 - (c) Holding, subsidiary, joint venture or associate companies of companies covered under (ii) (a) and (ii) (b) above.
- (iii) On mandatory basis for the accounting periods beginning on or after April 1, 2017, with comparatives for the periods ending 31st March, 2017, or thereafter, for the companies specified below:
- (a) Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees 500 Crore.

- (b) Companies other than those covered in paragraph (ii) and paragraph (iii)(a) above that is unlisted companies having net worth of rupees 250 crore or more but less than rupees 500 Crore.
- (c) Holding, subsidiary, joint venture or associate companies of companies covered under paragraph (iii) (a) and (iii) (b) above.

SME exchanges shall not be required to apply Ind AS. The companies shall continue to comply with the existing Accounting Standards unless they choose otherwise.

(iv) Once a company opts to follow the Indian Accounting Standards (Ind AS), it shall be required to follow the Ind AS for all the subsequent financial statements.

(v) Companies not covered by the above roadmap shall continue to apply existing Accounting Standards prescribed in Annexure to the Companies (Accounting Standards) Rules, 2006.

Source: <http://www.iasplus.com/en/news/2015/01/india>

NEW ROADMAP FOR CONVERGENCE

The Institute of Chartered Accountants of India recently submitted to the Ministry of Corporate Affairs a tentative roadmap for IFRS (International Financial Reporting Standards) implementation, its president was quoted saying. The roadmap suggests a phased implementation:

April 1, 2015: Companies with net-worth exceeding Rs 1,000 crore;

April 1, 2016: Companies with net-worth between Rs 500 crore and Rs 1,000 crore;

April 1, 2017: All remaining listed companies (that is, with net-worth less than Rs 500 crore).

This is a significant deferment compared to the original timeline of April 1, 2011, proposed by the Ministry. There is some merit to the deferred dates as the IFRS standards are currently undergoing change, and a stabilized set of standards is not expected until 2015. However, there are several 'gaps' in Indian GAAP, such as accounting for acquisitions or derivatives, leading to diverse practice. It would be desirable for stakeholders relying on financial statements to have a comprehensive set of standards to evaluate transactions by companies. The ICAI should also issue accounting guidance in key areas such as business combinations, financial instruments and so on, where Indian GAAP currently does not provide sufficient guidance.

IFRS implementation challenges in India



Awareness about International Practices:

Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change.

Training: Professional accountants are looked upon to ensure successful implementation of IFRS. The biggest hurdle for the professionals in implementing IFRS is the lack of training facilities and academic courses on IFRS in India.

Amendments to the Existing Law: It is observed that implementation of IFRS may result in a number of inconsistencies with the existing laws which include the Companies Act 1956, SEBI regulations, banking laws and regulations and the insurance laws and regulations.

Taxation: IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change.

Fair Value: IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of volatility and subjectivity to the financial statements.

Management Compensation Plan: The terms and conditions relating to management compensation plans would also have to be changed. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP.

Reporting systems: The disclosure and reporting requirements under IFRS are completely different from the Indian reporting requirements. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc.

Transition to IFRS: The Institute of Chartered Accountants of India has proposed two options for convergence:

- All at once
- Stage-wise approach

It has been observed that there are certain implementation dangers and compliance problems with either AS or IFRS in adopting the all at once approach. Therefore, stage-wise approach would be preferable.

CLARIFICATIONS ON THE ROADMAP

1. Presentation of comparatives:-

It has been clarified that the companies shall present the comparatives as per non-converged accounting standards. However, the companies shall also have an option to add an additional column to indicate what these figures could have been if the converged accounting standards had been applied in that previous year.

2. Voluntary early adoption:-

Companies covered in Phase 2 or 3 have an option to apply converged accounting standards for the financial year commencing on or after 1 April 2011.

3. Calculation of Net worth: -

On the cut-off dates, as mentioned above, the net worth will be calculated using the formula given below:

- Share Capital
- Add: Reserves
- Less: Revaluation Reserve
- Less: Miscellaneous Expenditure
- Less: Debit Balance of Profit and Loss Account

For companies which are not in existence on 31st March 2009, the net worth will be calculated on the basis of the first balance sheet ending after that date.

4. Discontinuing use of converged accounting:-

The converged Accounting Standards on the basis of the eligibility criteria, it will be required to follow such Accounting standards for all the subsequent financial statements even if any of the eligibility criteria does not subsequently apply to it.

5. Applicability to group entities:-

It has been clarified that the criteria is to be considered for each company's stand-alone accounts. The companies covered in a particular phase having subsidiaries, joint ventures or associates (group companies) not covered in those phase will have to prepare their consolidated financial statements according to the converged Accounting Standards.

IFRS ROADMAP ISSUED BY THE MCA

Comparatives: Companies preparing opening balance sheet as at 1st April, 2011 in accordance with the IFRS-converged accounting standards will show previous year's figures as per non-converged accounting standards

Early Application: Companies covered in Phase II and III, have an option to early application of IFRS-converged accounting standards only for the financial year commencing on 1st April, 2011 or thereafter.

Net Worth: Net worth is defined as Share Capital plus Reserve less Revaluation Reserve, Miscellaneous Expenditure and Debit Balance of the Profit and Loss Account. It is to be calculated on the basis of standalone audited balance sheet of the company. There has been no announcement regarding

(i) Quarterly reporting under the IFRS-converged accounting standards

(ii) Adoption of "IFRS for SMEs" in India. The MCA press releases have brought some clarity to Indian companies but more clarifications around the applicability and transition provisions are required. With IFRS set to become the future Indian GAAP and IFRS being a moving target, Indian companies should actively monitor and participate in the IASB's standard setting process.

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