Ritu Wadhwa
Assistant Professor - Finance
Jaipuria Institute Of Management, Noida

Explication for Abridging Financial Reporting in India : An exchange of IFRS with Ind AS

ABSTRACT

There is a need for proper guidance and clear instruction as far as the financial reporting by companies in India is concerned. Unswerving, unfailing and uniform financial reporting is very critical for achieving the good corporate governance performance worldwide. In order to enhance the integrity of the businesses in the eyes of investors, it has become imperative to implement global standards for financial reporting. Earlier IFRS and now Ind AS has only one objective i.e. to bring a one-time prospect to expansively reconsider financial reporting and get a clear approach to financial policies and processes. With the same objective, this paper aims at clarifying the concept of Ind AS to make it easily acceptable by all the organization in India. At the same time, many issues have been discussed as to know the impact of announcement of Ind AS by Ministry of Corporate Affairs to replace IFRS in India. This research will also help the corporates, who have already implemented IFRS to their Financial Statements, to understand that not much difference has been found in Ind AS and IFRS. The challenge is for those, who yet need to understand and implement IFRS or Ind AS for that matter. Thus, an attempt has been made to discuss major differences between Ind AS and IFRS and the implication of the same on financial reporting by companies in India.

Key Words: Ind AS, IFRS, Financial Reporting

INTRODUCTION

The emergent of IFRS has harmonized with the prerequisite of their use by the European Union. Beginning in 2005, virtually all publicly held companies listed on exchanges in the European Union are obligatory to use IFRS. Australia, New Zealand, Hong Kong, Singapore, and the Philippines have adopted IFRS. Most countries, including China, are touching towards execution of IFRS in their accounting practices. In the last six years, there has been a significant augment in the adoption of IFRS universally. At present, there are more then 100 countries where IFRS is either permitted or essential for public reporting purpose in the domestic markets.

In early 2010, the Ministry of Corporate Affairs (MCA) released various information on the roadmap of IFRS and convergence plan for India. They specified the date of convergence to be 1 April 2011, through 2014 in three different phases for all selected Indian companies. Since the date given in the roadmap is no longer legitimate for Phase I companies, the new date for the new implementation for Ind AS is anticipated from the MCA. It is doubtful whether MCA will issue a fresh roadmap or just modify the implementation date. Accepting IFRS or Ind AS and its insinuation is a business imperative for Indian companies.

The reason for implementation of Ind-AS in a phased manner is to make it acceptable by all stakeholders in a smooth manner. India is congregating to IFRS and Indian IFRS standards (known as Ind-AS). There are many differences between Ind-AS and IFRS. The acceptance of Ind-AS has helped many organizations to abolish definite pain areas but at the same time there are other differences in Ind-As via-a-vis IFRS that is about to give rise to unique challenges. Any organization needs momentous time and pains to switch to Ind-AS and also need to identify the answers to the following questions:

1. In converting to Ind-AS, what tactic should be adopted?
2. In preparation of opening Balance Sheet under Ind-AS adoption, which all exemptions can be used?
3. Can an organization adopt the IFRS interpretations and standards that have not been covered by Ind-AS.?

OBJECTIVE OF RESEARCH

1. To understand the term Ind AS with reference to IFRS.
2. To identify the deviation of Ind AS from IFRS.
3. To know the impact of Ind AS on developing economy like India.

METHODOLOGY.

This paper is very technical paper and not much information is available for Ind AS. But Ind AS is not much different from IAS (International Accounting Standards) or IFRS (International Financial Reporting Standards). The information has been taken majorly from Ernst and Young Survey 2011, Website of Ministry of Corporate Affairs and, website of PricewaterhouseCoopers. Some research paper in this area, especially IFRS, has also been consulted to discuss the present challenges of new financial reporting standards in India.

IND AS AND IFRS – AN OUTLINE

At present IFRS has 38 standards but Ministry of Corporate Affairs has placed only 35 Ind-AS. The differences between the two standards can be categorized into the following:

DIFFERENCES BETWEEN IND AS AND IFRS AND WHICH CAN NOT BE AVOIDED

This deal with deviations with respect to

i) Business Combination (Ind AS 103/IFRS 3). Here the differences are with respect to common control transactions and accounting for gain on a bargain purchase.

ii) Construction contracts (Ind AS 11/ IAS 11) and Revenue (Ind AS 18/ IAS 18). Here the "agreement for the construction of real estate" has been taken out from Ind AS 18 Revenue.

iii) Employee Benefit (Ind AS 19/ IAS 19). The emphasis has been given to the recognition of actuarial gains and losses. In addition, use of high quality corporate bond rate to discount the employee benefit obligation has been eliminated.

iv) Financial Instrument: Presentation (Ind AS 32/ IAS 32). Some changes and exception has been given to the definition of financial liability.

DIFFERENCES BETWEEN IND AS AND IFRS WHICH ARE AVOIDABLE

This deal with divergence with respect to

i) First Time Adoption of Indian Accounting Standards (Ind AS 101/ IFRS 1). Here the difference can be noted in the date of transition and comparative prerequisite, reconciliation constraint to clarify the shift from previous GAAP, Exclusion regarding the transformation of long-term monetary assets and liabilities denominated in foreign exchange.

ii) The effect of changes in foreign exchange rates (Ind AS 21/ IAS 21). In this case there is an opportunity to identify exchange differentiation arising on the conversion of long term monetary items in equity

iii) Related Party Disclosure (Ind AS 24/ IAS 24). This may talk about the deviation in terms of superseding nature of edict for related party disclosure.

iv) Investments in Associates (Ind AS 28/ IAS 28). The differences arises on account for different accounting period and polices of associates and can be settled.

v) Financial Instruments: Recognition and Measurement (Ind AS 39/ IAS 39). Here it is important to care for the change in the fair value of a financial liability due to firm's own risk.

TEXTUAL DIFFERENCES BETWEEN IND AS AND IFRS, WHICH WILL NOT AVERT CONVERGENCE.

This deal with divergence with respect to

i) First-Time Adoption of Indian Accounting Standards (Ind AS 101/ IFRS 1). The difference deals with respect to definition of previous GAAP.

ii) Presentation of Financial Statements (Ind AS 1/ IAS 1). Here the diversion may arise because of single statement of profit or loss and the treatment of recognition of expenses as profit or loss.

iii) Statement of Cash Flows (Ind AS 7/ IAS 7). The perplexity of classification of interest and dividend in cash flow statement has been dealt clearly.

iv) Accounting for Government Grants and Disclosure of Government Assistance (Ind AS 20/ IAS 20). Here there is a need to discuss on the differences arising on issue of abolition of option to measure non-monetary government grants at nominal value and to eradicate the option to present grant as a deduction to arrive at carrying value of the assets.

v) Related Party Disclosure (Ind AS 24/ IAS 24). The differences with respect to change in definition of close family member is one of the textual difference between the two standards and can be avoidable.

vi) Consolidated Financial Statements (Ind AS 27/ IAS 27). A change in format of consolidated financial statement has been discussed here.

vii) Earning Per Share (Ind AS 33/ IAS 33). It will deal with the disclosure of Earning Per Share in the standalone financial statement which is mandatory now.

viii) Investment Property (Ind AS 40/ IAS 40). The difference arises with respect to elimination of option to recognize the investment property at the fair value.

Apart from the above broad categories, there are some Ind AS which are issued but has to be modified later like insurance contract, Exploration for and Evaluation of Mineral Resources. In addition, this paper did not talk about the IFRS pronouncement that are not issued or has been adopted early under Ind AS like IFRS 9 (Financial Instrument), IAS 41(Agriculture) etc.

DETAILED COMPARISON OF IND-AS AND IFRS WITH RESPECT TO TEXTUAL DIFFERENCE

The three broad categories have already been talked where there is difference between the Ind AS and IFRS where differences with respect to some reporting standard are avoidable and for some it is unavoidable. Here we will discuss in detail the textual difference between Ind AS and IFRS that will not prevent convergence.

5.1 Ind AS 101/ IFRS 1

IFRS 1 (First Time Adoption of Indian Accounting Standards) describes preceding GAAP as the basis of accounting that a first time adopter used instantly before adopting IFRS whereas Ind AS 101 requires companies to consider existing Indian accounting standards as preceding GAAP when they transit to Ind AS.

5.2 Ind AS 1/ IAS 1

Under IAS 1, the firm has an option to follow either a single statement approach or it may follow the two-statement approach to the preparation of Statement of Comprehensive Income. Under the single statement approach, all the companies are required to recognize all items of income and expense in statement of comprehensive income whereas under the system of two statement the firm is required to recognize the profit or loss in one income statement and other components of comprehensive income to be shown in the other account beginning with profit or loss. In case of IAS 1, it is providing an option to entity to present analysis of expenses in the profit and loss account on the basis of their nature or their function in the organization.

Under the Ind AS approach, only a single statement needs to be followed and should be titled as "Statement of Profit and Loss". As far as classification of expenses is concerned, Ind AS 1 requires the organizations to present the analysis of expenses based on their nature only.

5.3 Ind AS 7/ IAS 7

In case of financial entities, the dividend paid is classified as an item or operating activities under IAS 7. For the non-financial entities, IAS 7 gives a choice to classify interest paid and interest and dividend received as part of either operating or financial activities in statement of cash flows.

Whereas Ind AS 7 do not provide any choice of such kind. For the financial entities interest paid and interest and dividend received are classified as operating activities. Dividend paid is classified as part of financing activities in the cash flow statement.

For the other entities apart from financial entities, interest and dividend received is an item of investing activities whereas interest and dividend paid are the part of financing activities.

5.4 Ind AS 19/ IAS 19

IAS 19 gives following three options to recognize the actuarial gains and losses for the post employment defined benefit plans:

- Amortize to profit or loss by using "corridor approach"
- Recognize in other comprehensive income
- Recognize instantly in income statement.

Ind AS 19 do not provide any kind of option to recognize the actuarial gain or losses. In this reporting standard, these gains or losses are recognized in only other comprehensive income.

5.5 Ind AS 20/ IAS 20

Under IAS 20, the non monetary government grants can be measured either at the fair value or the nominal value. Under Ind AS 20, such grants can be measured only at their fair value.

5.6 Ind AS 24/ IAS 24

IAS 24 defines "close members of the family" as those family members who can influence the decision-making ability of the firm. This may include individual's domestic partner and children, children of the individual's domestic partner and dependent of the individual or individual's domestic partner.

The definition of "close members of the family" under Ind AS 24 may be specified within the meaning of 'relative' under the Companies Act 1956. It may also incorporate the domestic partner of the person, children and dependents of person's domestic partner. Also under Ind AS 24, some additional guidelines have been given to bring the more clarity with respect to the aggregation of transactions for disclosure. The clarification states that aggregation must not be done to imprecise the substance of momentous transactions. For example, purchase or sale of goods should not be aggregated with purchase or sale of fixed assets.

5.7 Ind AS 27/ IAS 27

IAS 27 does not stipulate any definite layout for the presentation of consolidated financial statements.

Ind AS 27 stipulates a definite format for the presentation of the consolidated financial statement. It sets out the minimum requirement for the disclosure on the face of 'Consolidated Balance Sheet' at the end of the period and a 'Consolidated Statement of Change in Equity' for the period as a part of the 'Consolidated Balance Sheet'. It also requires disclosure on the face of 'Consolidated Statement of Profit and Loss for the period and Notes to accounts.

5.8 Ind AS 33/ IAS 33

Under IAS 33, the disclosure of Earning Per Share (EPS) related information can be given in the consolidated financial statements when an entity presents both consolidated as well as standalone financial statement.

Ind AS 33 requires the companies for mandatory disclosure of all EPS related information in the standalone financial statement as well as in the consolidated financial statements. This also requires that any item of income or expense which used to be recognized in profit and loss, is debited or credited to share premium account or other reserve account as per the legal obligations and requirements. Thus, such amount shall be deducted from profit or loss from continuing operations for calculating basic and diluted EPS.

5.9 Ind AS 40/ IAS 40

Under IAS 40, an investment property can be measured using either cost model or fair value model after initial recognition.

Only cost model is used while measuring the investment property under Ind AS 40.

CHALLENGES FOR IMPLEMENTING IND-AS

It is very clear that in year one or two, every company in India is going to be affected by the new financial reporting standards. All organization need to come out of their comfortable zone and has to work very hard to achieve this convergence. MCA has done a commendable job by bringing Ind AS instead of IFRS as a mandatory requirement in India. The date is yet to be declared but it is also coming in phase manner as was for IFRS. Ind AS is providing the companies flexibility in terms of the valuation of assets that was missing in IFRS implementation and was the biggest hurdle for the convergence process. The adoption of Ind AS is expected to result in better quality of financial reporting due to sturdy application of accounting principles and enrichment in resoluteness of financial statements. There are various challenges in respect of readiness on the part of every company to adopt the new and effective financial reporting system, Scarcity of knowledgeable pool to implement such standards, regulatory amendments etc.

Various areas such as accounting for fixed asset, revenue recognition, and financial instruments and will pose realistic confronts for companies making the change to Ind-AS.

CONCLUSION AND SUGGESTIONS

Adaptation to Ind-AS or International Financial Reporting Standards necessitates more than just changing accounting policies, and companies are required to cautiously appraise the promptness of their financial reporting systems and the prospective business collision before making the alteration. Though the process has already taken place many years ago, ye the companies will take some more time to analyze these changes now under the perspective of Ind AS.

The organizations can utilize the supplementary time to implant Ind-AS fully in their systems, coach the finance teams in the new standards, and organize completely for the change to make sure of a full evolution. It is also possible that the organizations may also like to believe converting the entire finance systems to IASB IFRS so that, if necessary, financial information could be obtainable under both IASB IFRS and Ind-AS.

REFERENCES

1. www.pwc.com/india
2. http://www.mca.gov.in
3. India Inc. says 'Yes' to IFRS: Ernst & Young's Survey 2011