International Journal of Advanced Research and Development
ISSN: 2455-4030
Impact Factor: RJIF 5.24
www.advancedjournal.com
Volume 3; Issue 1; January 2018; Page No. 206-208

IND as: Benefits and challenges

Shweta Jain
Research Scholar, Department of Commerce, Delhi University, Delhi, India

Abstract
In India, accounting standards are formulated by the ASB which was set up by the Institute of Chartered Accountants of India (ICAI) in the year 1977. The ASB formulates accounting standards by considering international accounting standards (IFRS) and try to integrate them in the light of conditions, laws, customs, usages, business conditions prevailing in India. India has its own GAAP, but due to the need to have global accounting standards, India has formulated new set of standards called, IND AS. There is a complete roadmap for implementation of such standards. There are various benefits of following such global accounting standards. But there are various challenges in its implementation. Therefore, convergence of IFRS requires commitment from various stakeholders such as accountant professional, academicians, company accountants and audit firm and national regulators to overcome the challenges and promote international.

Keywords: convergence, harmonization, IFRS, accounting standards, IND AS

Introduction
A business entity communicates its financial position using financial statements and annual reports. For effective communication, language should be the same. The problem of uniform reporting can be reduced when all the firms use the same accounting practices. Therefore a need was felt to set common accounting standards to be followed by the business firms throughout the country. Accounting standards may be defined as the written policy documents issued by an accounting expert body or regulatory body that covers the various aspects of recognition, measurement, disclosure and presentation of accounting transaction in financial statement. In India, accounting standards are formulated by the ASB which was set up by the Institute of Chartered Accountants of India (ICAI) in the year 1977. The ASB formulates accounting standards by considering international accounting standards (IFRS) and try to integrate them in the light of conditions, laws, customs, usages, business conditions prevailing in India.

Global status of IFRs
More than 120 countries throughout the world, including Australian, New Zealand, the 27 European Union member states and Russia currently require or permit the use of International Financial Reporting Standards (IFRS) developed by the IASB.

Objectives of the study
1. To understand the road map for applicability of IFRS in India.
2. To know the benefits and challenges for implementation of IFRS in India.

IND AS-converged form of IFRS
Globalization has made the world smaller and smaller. Various MNCs have their entered in India and Indian companies also have their subsidiaries operating in foreign countries. For better understanding of the business reporting and comparability of financial statements across the globe, there was a need of having a common global language. This need was fulfilled by the International Financial Reporting Standards (IFRS) that are formulated by IASB, an independent, not-for-profit organization which was created under the laws of the State of Delaware, United States of America on March 2001. IFRS are formulated to meet the need of universal language for business affairs to make it more transparent, comparable and understandable across nations.

Every country has its own Generally Accepted Accounting Principles (GAAP) that are applicable to companies operating in that local jurisdiction. Now the countries have to decide how to implement IFRS. There are two ways of implementing those global standards-adopting and convergence. But which path to chose rest solely on the country's accounting bodies and standard setter.

Adoption- is process of adopting IFRS as issued by IASB, with or without modifications. Modifications being, generally in the nature of additional disclosures requirement or elimination of alternative treatment. It involves an endorsement of IFRS by legislative or regulatory with minor modifications done by standard setting authority of a country.

Convergence- is harmonization of national GAAP with IFRS through design and maintenance of accounting standards in a way that financial statements prepared with national accounting standards are in compliance with IFRS.

India has decided to take the second path i.e. convergence to implement global standards and established new accounting standards called IND AS. These standards are the named and numbered in the same way as that of IFRS. These IND AS are carved out to ensure that these are suitable for their

application in the Indian environment. On February 16, 2015, the Ministry of Corporate Affairs (MCA) released a roadmap for the phase wise implementation, to be active from April 1, 2016. The road map is intended to bring both domestic and foreign companies in its domain.
This is explained as follows:

Roadmap for IND as applicability
Voluntary Adoption: Companies may voluntary adopt IND AS for financial statements for the period begin on or after 1st April 2015. Once the company decides to follow IND AS, it cannot switch back to old accounting standards.

Mandatory Adoption: Phase I for the period 2016-17

Table 1

Companies whose debt/equity securities are listed or are in the process of listing on stock exchange in India or outside India.	Having net worth of Rs. 500 crores or more
Unlisted companies	Having net worth of Rs. 500 crores or more
Holding, subsidiaries, joint venture and associate companies of above companies.	

Phase II for the period 2017-18

Table 2

Companies whose debt/equity securities are listed or are in the process of listing on stock exchange in India or outside India.	Having net worth of less than Rs. 500 crores.
Unlisted companies	Having net worth of Rs. 250 crores or more but less than Rs. 500 crores.
Holding, subsidiaries, joint venture and associate companies of above companies.	

- The above road map is not applicable to those companies which are listed or in the process of listing on SMES exchange. But If these companies are the holding, subsidiary, associate company or joint venture of the companies.
- Scheduled commercial banks, insurance companies and NBFCs.

Foreign subsidiaries: An overseas subsidiary, associate or joint venture of an Indian company is not required to prepare its standalone financial statements as per the IND AS, and instead, may continue with its jurisdictional requirements. However, these entities will still have to report their IND AS adjusted numbers for their Indian parent company to prepare consolidated IND AS accounts.

Phase III for scheduled commercial banks (excluding rrbs) and insurers/insurance companies for accounting periods beginning from 1 april 2018 onwards
- Scheduled commercial banks (excluding RRBs)
- All-India term-lending refinancing institutions (i.e. Exim Bank, NABARD, NHB and SIDBI)
- Insurers/insurance companies
- Notwithstanding the roadmap for companies, holding, subsidiary, joint venture or associate companies of scheduled commercial banks

NBFCs: NBFCs will be required to prepare IND AS based financial statements in two phases.
Phase 1: Mandatory for accounting periods beginning from 1 April 2018 onwards
- NBFCs having a net worth of 500 crore INR or more
- Holding, subsidiary, joint venture or associate companies of the above, other than those companies already covered under the corporate roadmap announced by MCA.

Phase 2: Mandatory for accounting periods beginning from 1 April 2019 onwards

Table 3

NBFCs whose debt/equity securities are listed or are in the process of listing on stock exchange in India or outside India.	Having net worth of less than Rs. 500 crores.
NBFCs that are unlisted companies	Having net worth of Rs.250 crore or more but less than 500 crores.
Holding, subsidiaries, joint venture and associate companies of above companies.	

Companies/entities not covered in the roadmap
- NBFCs having a net worth below Rs. 250 crore and not covered under the above provisions shall continue to apply existing Accounting Standards.
- Urban cooperative banks (UCBs) and RRBs shall not be required to apply IND AS and shall continue to comply with the existing Accounting Standards.

Benefits of IND AS
New accounting standards IND AS that are converged with IFRS helps the economy in general and investors, businesses and accounting professionals in particular. Some of the benefits of convergence of IFRS are described below:
- **Benefits to investors:** Investors need timely and comparable financial information contained in financial statements. When such financial statements are prepared using accounting standards that are globally applicable, provides more investment opportunities to investors across countries than financial statements prepared using different set of standards.
- **Benefits to industry:** Industry would be able to raise more capital from markets at a lower cost if prepare statements according to global standards. The burden of financial reporting reduces as it simplifies the process of preparation of standalone and consolidated statements. The maintenance of different set of financial statements gets reduced.
- **Benefits to accounting professionals:** The use of the common global accounting standards would narrow down the difference exists in different accounting standards of different nations. Thereby enhancing the mobility of accounting practitioners across nations.
- **Benefits to economy:** The economy that uses common global accounting standards able to fetch more capital

inflow as it reduces the cost of raising funds. Thus facilitates the pace of growth and capital formation into the economy.

- **Benefits to stock exchange:** Stock exchanges around the world could profit from harmonization of accounting standards, as more companies begin to adopt the international standards, they will become eligible for listing.

Challenges in convergence with IFRS

- **Amendments to the existing law:** The main regulators of India- RBI, SEBI, Companies Act 2013, IRDA, banking laws and regulations govern reporting requirements in India. There is a need to amend the industry specific accounting guidance issued by these regulators to successfully transit to new accounting standards.
- **Awareness about international practices:** Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. There are a number of differences between the Indian GAAP and IFRS. This may cause the users of financial statements to look at them from a new perspective. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.
- **Training:** Professional accountants are the main element to ensure successful implementation of IFRS converged standards. The biggest obstacle for professionals in implementing IFRS is the lack of training facilities. Although various training programs, conferences, courses have started. But till there is a huge gap between professional required and professionals available.
- **Taxation:** IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS. It is extremely important that the taxation laws recognize IFRS compliant financial statements otherwise it would duplicate administrative work for the organizations.
- **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. To value various balance sheet items, experts have to be used. Moreover, adjustments to fair value result in gains or losses which are reflected in the income statements. Whether this gain or loss is a part of distributable profit is still debated.
- **Management compensation plan:** The management compensation generally depends upon the figure from the financial statements. As these figures undergo changes due to IFRS compliance, management compensation plans also have to be changed. The contracts need to be re-negotiated which again pose a new challenge.
- **Reporting systems:** The disclosure and reporting requirements under IFRS are completely different from the Indian reporting requirements. Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc. Existence of proper internal control and minimizing the risk of business disruption should be taken care of while modifying or changing the information systems.

Conclusion

Although it is expected that it will bring more transparency, consistency and comparability of financial statements across countries, thereby reducing cost of raising funds, enhances investors trust, more capital inflow into nation and so on. But the effect is yet to be seen as the IFRS converged accounting standards are applicable in India on mandatorily basis from the year 2016-2017. Despite of many benefits there are various challenges in implementation of new accounting standards. Therefore, convergence of IFRS requires commitment from various stakeholders such as accountant professional, academicians, company accountants and audit firm and national regulators to overcome the challenges and promote international.

References

1. https://www.pwc.in/assets/pdfs/services/ifrs/ind-as-roadmap-bank-and-insurance-2016.pdf
2. http://indianmba.com/Articles_on_Management/AOM49/aom49.html
3. http://vfgc.in/seminar2016proceeding/papers/3_4_Abhilasha_Nandeesha_and_Sagar.pdf
4. https://abhinavjournal.com/journal/index.php/ISSN-2277-1166/article/viewFile/922/pdf_204
5. www.sebi.gov.in
6. www.bseindia.com
7. www.nseindia.com
8. www.mca.gov.in
9. http://ifrs.icai.org/
10. www.icai.org