



Convergence with IFRS in India

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Abstract

International Financial Reporting Standards (IFRS) refers to global language of accounting standards. This paper focuses on the convergence of IFRS with Indian Accounting Standards (Ind AS). Considering this, secondary data is collected through articles, journals, published books, web sites, etc.

Keywords: IFRS, Ind AS, financial reporting, uniform accounting standards

Introduction

Introduction to Accounting Standards

Accounting is an information science used to collect, classify and manipulate financial data for organization and individuals. Accounting is an instrument within organization as a means of determining financial stability. According to the Sec211 (3C) of Indian companies Act, "Accounting Standards means the standards of accounting recommended by the Institute of Chartered Accountants of India (ICAI) constituted under the Chartered Accountants Act, 1949"

Formulation of Accounting Standards

Formulation of Accounting Standard at International Level

The history of accounting refers to around seven thousand years ago. It was initiated in Mesopotamia, but first systematic financial records were introduced by "Luca Pacioli" in 1494 described as double-entry accounting system. For the first time American Institute of Certified Public Accountants (AICPA) took up the responsibilities for setting the accounting standards during the movement towards setting the accounting standards process till the year 1973, when the Financial Accounting Standard Board (FASB) was established in U.S. and offer Generally Accepted Accounting Principles (GAAP) and on the other hand International Accounting Standard Committee (IASC), located in London, England offered International Accounting Standard (IAS) from 1973 to 2001 forty one International Accounting standard (IAS) issued by IASC. In 2001 IASC changed to International Accounting Standard Board (IASB).

International Financial Reporting Standards (IFRS) are a set of accounting standards, introduced by the IASB. The IFRS is formulated with a view to harmonize different accounting policies and practices in use in various countries. The objective of accounting standards is, therefore, to reduce the accounting methods in the preparation of financial statements within the countries, thereby insuring comparability of the financial statements of different endeavor with a view to provide meaningful statement to various users of financial statements to enable them to make the best economic decisions.

Formulation of Accounting Standards in India

History of Formulation of Accounting Standards in India starts from 1977 when Accounting Standard Board (ASB) was formed by the ICAI for this purpose. ASB issued number of Accounting Standards but these standards could not get legal recognition till 1999. In 1999 National Advisory Committee on Accounting Standards (NACAS) was constituted by the government. An amendment in Indian Companies Act made it mandatory that the standards issued by the NACAS should be followed. At present, Accounting Standards are formulated by ASB in consultation with NACAS. These standards are studied by the central government who declares the date of implementation. 29 Accounting Standard have been formulated so far out of which one (AS-8) has been withdrawn. It has been replaced by the AS-26. Thus, there are 28 Accounting Standards alive in the country.

Changing Scenario of Accounting Standards in India

India is passing through the process of economic reforms. Entire scenario of economic activity is undergoing several changes. Process of Liberalization, Privatization and Globalization which was initiated in 1991, is affecting all the sectors of economy. Accounting Standards, being the guideline to prepare the financial statements, have to keep pace with these changes. A number of fundamental changes have been made and are being made in the text and applicability of Accounting Standards. Efforts are being made to make the Indian Accounting Standards in tune with the International Accounting Standards.

In India accounting standards are changing because the IFRS (International Financial Reporting Standards) convergence has gained momentum all over the world and in India too. As now the Indians are going globally on the massive scale, the need of convergence seems all the way very important. Till date approximately 120 countries either have fully adopted (approximately around 90 countries) or modified IFRS with their own standards. The main reason for the adoption of these standards by whole world is to have common acceptable standards, which are practiced worldwide, ensuring transparency, reliability and utility of the financial information.

In India accounting standards are developed by the ICAI (The Institute of Chartered Accountants of India) in 2007, India officially decided to converge with International Financial Reporting Standards. Then ICAI and IASB (International Accounting Standard Board) has decided to work together, collaborate and develop quality and comparable accounting standards instead of fully adopting the IFRS standards completely. Now the ICAI and MCA (Ministry of Corporate Affairs), both of them are working on the development and implementation of accounting standards in India.

Why Conversion Is Needed

Accounting is an information system and its main aim to provide financial information to a number of parties such as investors, management, creditors, governments etc. such information is provided through a set of financial statements, namely, profit and loss account and balance sheet. The financial statements of an enterprise should depict the true and fair view of its operating results and financial position. However, what constitutes "true and fair" view has not been defined either in the Companies Act, 2013 or in any other statute. Over a period of time a number of Generally Accepted Accounting Principles (GAAP) in the form of concepts and conventions have been developed and accepted to bring comparability and uniformity in the financial statements of various business entities. But the difficulty is that GAAP also allow a large number of alternative treatments for the same item. Different enterprises may adopt different accounting policies for the same transaction or an enterprise may follow different accounting policies for the same item over different accounting periods. As a result, the financial statements become inconsistent and incomparable. Hence there is an urgent need to harmonize and standardized these diverse accounting policies. Certain standards must be followed for preparing the financial statements, so that there is the minimum possible ambiguity and uncertainty about the figures contained in financial statements. The International Accounting Standards Committee came into existence on 29th June, 1973 to develop accounting standards. The Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India are associate members of the IASC. The Institute of Chartered Accountants of India is also drawing up its own accounting standards which are basically patterned on the International Accounting Standards and are modified according to the conditions and practices prevailing in India.

Significant political and economical change has been noticed worldwide, a change has created major new demand for capital and therefore new investment opportunities. Rapid globalization of capital market has increased community awareness of the information need to the international investor and the desirability of the International Accounting Standards.

Companies that use International Accounting Standard vary considerably in the level of compliance. Although now days national and international accounting standards increasingly converging.

There is an urgent need of uniform accounting standards application in developing nations. This is true due to:

- Accounting is strongly influenced by the surrounding environment.
- National environment differ specially between different countries.
- Developing nations are not homogeneous which make it misleading to try and generalize.

Lately it has been seen that there is a significant capital reforms in the recent years in the capital market.

To standardized the diverse accounting policies and practices and with the view to eliminate the non-comparability of financial statements and to add reliability to financial statements, accounting standards are used.

Today, the world has become an economic village. MNCs are establishing their outlets in various countries. Further, sound financial reporting structure is essential for economic well being throughout the world. The major requirement for good financial reporting is uniform accounting practices. But, the different accountings standards are used in different countries create confusion for users of financial statements. This confusion leads to inefficiency in capital market throughout the world. Accounting Standards have been playing significant role to bring uniformity in accounting practices across the world. To what extent these rules have achieved their objectives; this is the question faced by the standard setting bodies of different countries. It is globally accepted that more than one accounting methods exists to do the business events or to record the financial statements, due to this main problem arises because two different accounting methods for the same transaction will give you two different results. Because of the adoption of many different methods of accounting, the financial statements will no longer remain comparable.

Accounting standards setting bodies have accepted that accounting standards are permitting to use various methods for recording the same transaction in accounting. There is an internationally accepted body for

formulating accounting standards named as International Accounting Standard Committee (IASC), has also recognized this fact they have tried to reduce and eliminate the use of alternatives as far as possible.

The Indian Accounting Standards (Ind AS) in the flow of money across border facilitate global listing and allow comparability of the financial statement on the international level. This facilitates global investments, thus benefiting the capital market stakeholders. The Indian accounting standards helps the investors in doing the comparison of the investment on the global level. With the Indian accounting standards in place, there is no need for the reinvestment of financial statements of Indian corporate.

Conclusion

Convergence of Ind AS (Indian Accounting Standards) into IFRS is certainly a difficult task. All stakeholders should agree and convince themselves of the gains that would accrue once standards are converged. Most importantly, this will increase credibility of Indian businesses in the international financial markets and they will significantly benefit out of it. Now Indian market can't afford to lag further because it's already lagging behind. The development and implementation of convergence has been slow as of now. The government should set up a task force, which will recommend changes in existing laws facilitate regulatory compliance and monitor implementation to ensure completion by the agreed timelines.

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