GLOBAL CONVERGENCE OF ACCOUNTING STANDARD AND INDIAN PERSPECTIVE

Dr. Vineet Chouhan*

ABSTRACT

Current Accounting and Reporting Practices fail to meet the information needs of the stakeholders in the 21st Century. One of the critical solutions of this problem is Convergence with Highly Active and Proven ***International Accounting standard*** *(IAS) and* ***International Financial Reporting Standards*** *(IFRS). The convergence of Indian Accounting Standard (AS) is a crucial decision taken by* ***Institute of Chartered Accountants of India*** *(ICAI). The Indian Companies have to adopt IFRS and IAS mandatorily in three stages and in the given time period i.e., from 1st April 2011 to 1st April 2014.*

The Convergence of Accounting policy has gained momentum in the current scenario at global level. The paper in this context provided historical background of IAS & IFRS, no. of standards, problem of stakeholders at global level and also provide current position of these standards, comparison the Indian AS with IAS & IFRS, problems due to convergence and finally comment upon the convergence and its impact over Indian industries. Not only the paper deals with the positive aspects of convergence like massive workforce & India can be developed as a global accounting hub but also other aspects of the problem like Changes which is to be accepted under various laws like Companies Act, SEBI Act, Income Tax Act, RBI Act, IRDA and other Act.

Key Words:

Convergence, International Accounting standard (IAS), International financial Reporting Standards (IFRS), Indian Accounting Standard (AS), International Accounting Standard Committee. (IASC), National Advisory Committee on Accounting Standards (NACAS).

*Assistant Professor, School of Management, Sir Padampat Singhania University,Udaipur, Rajasthan

It was in 1959 that the first step towards International Accounting Standards was taken. The work of developing International Accounting Standard began (Choi, Frost, & Meek, 1999). Since then, the work of accounting and non-accounting organizations concluded in the form of setting up of the **International Accounting Standards Committee (IASC)** in 1973. IASC is governed by 22 trustees, chaired by former US Federal Reserve chairman Paul A Volcker. The IASC Foundation is funded by contributions from the major Accounting Firms, Private Financial Institutions and Companies throughout the world, Central and Development Banks, and other International and Professional Organisations.

In 1997 the IASC changed its structure to bring about convergence between national accounting standards and practices and high quality global accounting standards. It was the body which issued International Accounting Standards from 1973 to 2000. In 2001 IASC was replaced by **International Accounting Standards Board (IASB**), which assumed the responsibility for publicizing international accounting standards. **IASB** is an independent body and consists of members from nine different countries around the globe having variety of functional backgrounds.

International Financial Reporting Standards (IFRS) the new version of **International Accounting Standards (IAS)** are issued by IASB. It adopted all the existing IAS (numbered 1 to 41) issued by IASC (before 2001) and decided that it will make amendments in the present IAS and all future standards issued will be termed as IRFS. IASB is reviewing the IAS and has amended as well as replaced some of them with new IFRS. Several interpretations of Standards have also been issued. Broadly, IFRSs refers to the entire body of IASB and IASC pronouncement.

The purpose of this IFRS is to ensure that the financial statements under IFRS an entity, as well as their interim financial reports concerning a portion of the exercise covered by such financial statements, contain high quality information and provides benefit to users. The Asian crises of 1997-1998 marked a motivation for supporting international accounting standards, where many countries either adopted international accounting standards in their entirety, or with minor changes.

IFRS issued yet

There are thirteen IFRS yet to be issued by IASB up to 2010. These were converted as Indian Accounting Standards. Table 1 shows the list of those standards.

Table 1: IFRS and Converged Indian Accounting Standard

S. No.	IFRS	Compatible Ind. AS	Details
1	IFRS 1	Ind. AS 101	First time Adoption of International Financial Reporting Standards
2	IFRS 2	Ind. AS 102	Share-based Payment
3	IFRS 3	Ind. AS 103	Business Combinations
4	IFRS 4	Ind. AS 104	Insurance Contracts
5	IFRS 5	Ind. AS 105	Non-current Assets Held for Sale and Discontinued Operations
6	IFRS 6	Ind. AS 106	Exploration for and Evaluation of Mineral Resources
7	IFRS 7	Ind. AS 107	Financial Instruments: Disclosures
8	IFRS 8	Ind. AS 108	Operating Segments
9	IFRS 9	Not yet converged	Financial Instruments
10	IFRS 10		Consolidated Financial Statements
11	IFRS 11		Joint Arrangements
12	IFRS 12		Disclosure of Interests in Other Entities
13	IFRS13		Fair Value Measurement

Source: Ministry of Corporate Affairs, website: http://www.mca.gov.in /Ministry /accounting_standards.html.

Out of the IFRS issued only 8 IFRS were adopted by India till 2013 in the form of Ind AS 08

CURRENT POSITION OF CONVERGENCE IN VARIOUS COUNTRIES

Over 150 Countries have either approved or mandated application of IFRS for their domestic listed companies including Australia, European Union, Hong Kong, Austria, Finland, France, Russia, Sweden, Germany, UK, Singapore, Taiwan, Pakistan, Malaysia, Russia, South Africa, Singapore, Turkey and Mauritius etc. till 2010. In addition, the US is also gearing towards IFRS. With the emergence of global financial markets, IFRS is increasingly becoming relevant and overshadowing regional accounting standards. Globalisation of IFRS is also necessitated as global financial markets are integrating and investors are looking for more consistency in the financial reporting of multinational corporations.

The current overview include the list of the following countries

Australia

The Australian Accounting Standards Board (AASB) has issued 'Australian equivalents to IFRS' (A-IFRS), numbering IFRS standards as AASB 1–8 and IAS standards as AASB 101–141. These statements replaced previous Australian generally accepted accounting principles with effect from annual reporting periods beginning on or after 1 January 2005 (i.e. 30 June 2006 was the first report prepared under IFRS-equivalent standards for June year ends).

The AASB continues to mirror changes made by the IASB as local pronouncements. In addition, over recent years, the AASB has issued so-called 'Amending Standards' to reverse some of the initial changes made to the IFRS text for local terminology differences, to reinstate options and eliminate some Australian-specific disclosure.

Canada

The use of IFRS will be required for Canadian publicly accountable profit-oriented enterprises for financial periods beginning on or after 1 January 2011. This includes public companies and other profit-oriented enterprises that are responsible to large or diverse groups of shareholders.

European Union

All listed EU companies have been required to use IFRS since 2005. In order to be approved for use in the EU, standards must be endorsed by the **Accounting Regulatory Committee (ARC),** which includes representatives of member state governments and is advised by a group of accounting experts known as the European Financial Reporting Advisory Group. As a result IFRS as applied in the EU may differ from that used elsewhere.

Parts of the standard IAS 39: Financial Instruments: Recognition and Measurement were not originally approved by the ARC. IAS 39 was subsequently amended, removing the option to record financial liabilities at fair value, and the ARC approved the amended version. The IASB is working with the EU to find an acceptable way to remove a remaining anomaly in respect of hedge accounting.

Hong Kong

Hong Kong Financial Reporting Standards (HKFRS) started in 2005, and are identical to International Financial Reporting Standards. While Hong Kong had adopted many of the earlier IAS as Hong Kong Standards, but some (including IAS 32 and IAS 39) had not been adopted, And all standards made up to December 2003 were improved and new and revised IFRS issued in 2004 and 2005 came into effect in Hong Kong beginning 2005.

India

The Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statements for the periods beginning on or after 1 April 2011. This will be done by revising existing accounting standards to make them compatible with IFRS.

The ICAI has also stated that IFRS will be applied to companies above Rs.1000 crore from April 2011. Phase wise applicability details are also given in this paper afterward.

Japan

The Accounting Standards Board of Japan has agreed to resolve all inconsistencies between the current JP-GAAP and IFRS wholly by 2011.

Pakistan

Listed companies working in Pakistan must follow all issued IAS/IFRS except IAS 39 and IAS 40. Implementation of these standards has been held in abeyance by State Bank of Pakistan for Banks and DFIs IFRS-1: Effective for the annual periods beginning on or after January 1, 2004. This IFRS is being considered for adoption for all companies other than banks and DFIs. IFRS-9: Under consideration of the relevant Committee of the Institute. These IFRS will be effective for the annual periods beginning on or after 1 January 2013.

Russia

Since 1998 the Russian government has been implementing a program to harmonize its national accounting standards with IFRS. Since then 20 new accounting standards were issued by the Ministry of Finance of the Russian Federation aiming to make parallel accounting practices with IFRS. Despite these efforts essential differences between national accounting standards and IFRS remain. Since 2004 all commercial banks have been obliged to prepare financial statements in accordance with both national accounting standards and IFRS. Full transition to IFRS is delayed and is expected to take place from 2011.

Singapore

In Singapore the Accounting Standards Committee (ASC) is in charge of standard setting. Singapore closely models its Financial Reporting Standards (FRS) according to the IFRS, with appropriate changes made to outfit the Singapore context, consultations with the IASB are made to ensure consistency of core principles Before a standard is sanctioned.

South Africa

All companies listed on the Johannesburg Stock Exchange have been required to comply with the requirements of International Financial Reporting Standards since 1 January 2005. The IFRS for SMEs may be applied by 'limited interest companies', as defined in the South

African Corporate Laws Amendment Act of 2006. Alternatively, the company may choose to apply full South African Statements of GAAP or IFRS. South African Statements of GAAP are entirely consistent with IFRS, although there may be a delay between issuance of an IFRS and the equivalent SA Statement of GAAP.

Turkey

Turkish Accounting Standards Board translated IFRS into Turkish in 2006. Since then Turkish companies listed in Istanbul Stock Exchange are required to prepare IFRS reports.

INDIAN PERSPECTIVE

Deadline for convergence:

In India, The Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statements for the periods beginning on or after 1 April, 2011. The existing accounting standards have also been revised to make them compatible with IFRS. The banks are also not so far in accepting the new vergen of indian compatible IFRS. The Reserve Bank of India has stated that for preparing financial statements all the banks have to adopt IFRS and make their records as per it from the periods beginning on or after 1 April, 2011.

Phase-I:- The following categories of companies will convert their opening balance sheets as at 1st April, 2011, if the financial year commences on or after 1st April, 2011 in compliance with the notified accounting standards which are convergent with IFRS. These companies are:-

a. Companies which are part of NSE – Nifty 50
b. Companies which are part of BSE - Sensex 30
c. Companies whose shares or other securities are listed on stock exchanges outside India
d. Companies, whether listed or not, which have a net worth in excess of Rs.1,000 crores.

Phase-II :- The companies, whether listed or not, having a net worth exceeding Rs. 500 crores but not exceeding Rs. 1,000 crores will convert their opening balance sheet as at 1st April, 2013, if the financial year commences on or after 1st April, 2013 in compliance with the notified accounting standards which are convergent with IFRS.

Phase-III :- Listed companies which have a net worth of Rs. 500 crores or less will convert their opening balance sheet as at 1st April, 2014, if the financial year commences on or after 1st April, 2014, whichever is later, in compliance with the notified accounting standards which are convergent with IFRS.

When the accounting year ends on a date other than 31st March, the conversion of the opening Balance Sheet will be made in relation to the first Balance Sheet which is made on a date after 31st March.

Companies which come under following categories will not be required to follow the notified accounting standards which are converged with the IFRS but need to follow only the notified accounting standards which are not converged with the IFRS although they may voluntarily adopt them. These companies includes: -

(a) Non-listed companies which have a net worth of Rs. 500 Crores or less and whose shares or other securities are not listed on Stock Exchanges outside India.

(b) Small and Medium Companies (SMCs).

MAJOR DIFFERENCE IN IFRS/ IAS AND INDIAN AS

Use of fair value concept:

In IFRS fair value concept is used for testing of impairment of assets, measurement of retirement benefits and 'mark-to-market' accounting for derivatives. While the Indian GAAP requires financial statements to be prepared on historical cost except for fixed assets which could be selectively revalued. IFRS gives growing emphasis on fair value. In addition to the requirements under Indian GAAP, the carrying amounts of the following assets and liabilities are based on fair value IFRS:

- Initial recognition of all financial assets and financial liabilities is at fair value
- Subsequent measurement of all derivatives, all financial assets and financial liabilities held for trading or designated at fair value through profit or loss.
-All financial assets classified as available-for-sale, are measured at fair value
-Non-current provisions are measured at fair value which is derived by discounting estimated future cash flows
-Share-based payment awards are measured at fall' value Option available for measurement of property.
-Plant and equipment at fair value, subject to certain conditions.
-Option available for measurement of intangible assets at fair value, subject to certain conditions.
-Option available for measurement of Investment property at fair value.

Problem due to convergence

1. **Currency Problem:** Entities in India prepare their financial statements in Indian rupees. However under IFRS, an entity measures its assets, liabilities, revenues and

expenses in its functional currency, the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity which may be different from the local currency.

2. **Provision made for proposed dividend:**

   Dividends that are proposed or declared after the balance sheet date are not recognised as liability at the balance sheet date under IFRS. Proposed dividend is a non-adjusting event and is recorded as a liability in the period in which it is declared and approved.

3. **Revenue Recognition Difference (Upper hands of AS)**

   Several companies recognize such upfront fees as income under Indian AS because it is Received as per contract and non-refundable. It is received as fees for the activation process. Under IFRS, the fee is accounted for in accordance with the substance of transaction. Under this approach, the customer pays the upfront activation fee not for any service received by the customer, but in anticipation of the future services from the company. Thus, despite the non-refundable nature of the fees, revenue recognition would be deferred over the estimated period that services will be provided to the customer.

4. **Prior Period Items:** Rectification of errors are recognised in the current year's profit and loss account and are generally recognized prospectively Under IFRS, the prior period comparatives are restated in both cases. Indian GAAP does not have the concept of restatement of comparatives except in case of special-purpose financial statements prepared for public offering of securities.

CHANGES REQUIRED IN VARIOUS LAWS

In India setting of Accounting standard- is subject to direct or indirect oversight by several regulators, such as NACAS established by the Ministry of Corporate Affairs, the Reserve Bank of India (RBI),the Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI). Further, the Indian Companies Act, 1956 (the Act) directly provides guidance on accounting and financial reporting matters. Courts in India also have the powers to endorse accounting for certain transactions even if the proposed accounting treatment may not be consistent with Generally Accepted Accounting Principles.

1. ICAI and In respect of the converged Accounting Standards, the Chairman of the Accounting Standards Board of ICAI will submit the converged version of Accounting Standards to **National Advisory Committee on Accounting Standards**

(NACAS) from time to time for recommendations and onward submission to Ministry. However, convergence of all the accounting standards will be completed by ICAI by 31st March, 2010 and the NACAS have to be submitted its recommendations to the Ministry by 30th April 2010.

2. **Companies Act:**

The format for presentation of financial statements for Indian companies Prescribe under Schedule VI of Act is substantially different from the presentation and disclosure requirements under IFRS. For example, the Act determines the classification for redeemable preference shares as equity of an entity, whereas these are to be considered as a liability under IFRS. Also, Schedule XIV of the Act provides minimum rates of depreciation - such minimum depreciation rates are also inconsistent with the provisions of IFRS.

The draft of the Companies (Amendment) Bill, proposing for changes to the Companies Act, 1956 incorporating the recommendation of Sub-Group 1 Report is yet to be accepted.

Revised Schedule VI to the Companies Act, 1956 according to the converged Accounting Standards has been submitted by the ICAI to NACAS

3. **Regulatory Guidelines (RBI ACT):**

The Reserve Bank of India (RBI) and Insurance Regulatory and Development Authority (IRDA) regulate the financial reporting for banks, financial institutions and insurance companies, respectively, including the presentation format and accounting treatment for certain types of transactions. The RBI provides detailed guidance on provision relating to non-performing advances, classification and valuation of investments, etc. Several of these guidelines currently are not consistent with the requirements of IFRS.

Separate roadmap for banking and insurance companies will be submitted by the Sub-Group I in consultation with the concerned regulators by 28th February, 2010.

4. **Securities and Exchange Board of India(SEBI):**

SEBI has also prescribed guidelines for listed companies in respect of presentation formats for quarterly and annual results and accounting for certain transactions. Some of Existing Regulations are not in accordance with IFRS *e.g.*, Clause 41 of the Listing Agreement permits companies to publish and report only standalone quarterly

financial results, however IFRS considers only consolidated financial statements as the primary financial statements for reporting purpose.

5. **Court procedures:**

   Courts in India commonly approve accounting under amalgamation /restructuring schemes, which may not be in accordance with the accounting principles/standards. Under the current accounting/ legal framework such legally approved deviations from the accounting standards/principles are acceptable.

6. **Income tax:**

   Computation of taxable income is governed by detailed provisions of the Indian Income Tax Act; 1961.Convergence with IFRS will require significant changes/ clarifications from the tax authorities on treatment of various accounting transactions. Government of India has made Direct Tax Code with the view point of Tax Collection from companies after IFRS Convergence.

7. **Unrealised losses and gains on derivatives** are required to be marked- to market under IFRS. Different taxation frameworks are possible for the tax treatment of such unrealised losses and gains. The treatment of such unrealised losses/ gains should be addressed in line with the convergence time frame. It is imperative that tax authorities are engaged sufficiently in advance to decide on such critical aspects of taxation.

CONCLUSION

With IFRS financial statements that are universally accepted one of the risks of IFRS convergence without adequate involvement of all stakeholders and adequate regulatory changes is that financial statements prepared using the 'converged' Indian standards may still not fully comply with IFRS. This would be very unfortunate as Indian entities that may be required to present IFRS-compliant financial statements to stakeholders outside India (overseas stock exchanges, overseas regulators, investors and alliance partners) would still need to reconcile with such converged IFRS financial statements prepared using the Indian framework.

One of the question of Concern is that the companies included (BSE-30 & NSE Nifty-50) in the first phase are not ready to converge itself with these standards and in that case use of converged standards is questionable. Accordingly, at the onset of the convergence, there is a need to develop an enabling regulatory frame work and infrastructure that would assist and facilitate IFRS convergence. The Government would need to frame and revise laws in consultation with the NACAS and the ICAI. Similarly, regulators such as the RBI, IRDA and

SEBI would need to consider accepting IFRS in substitution of the present set of specific accounting rules prescribed by them. As the timelines for convergence approach, all entities will have to consider their own roadmap and gear up for complying with the GAAP differences. Convergence to IFRS is time-consuming, challenging and will require complete support and sponsorship of the Board of Directors/Members of Audit Committee /Senior Management. Given the task and challenges, all entities should ensure that their convergence plans are designed in a manner to achieve the objective of doing it once, but doing it right.

REFERENCE:

1. Adhikari, Ajay and Tondkar, Rasoul H., "Environmental Factors Influencing Accounting Disclosure Requirements of Global Stock Exchanges", Journal of International Financial Management and Accounting, Vol. 4, 1992, 75-105.
2. Anderson, Nancy, "The Globalization GAAP", Management Accounting, August 1993, 52-54.
3. Baingani, vikas,& Nitin agarwal, “IAS and IFRS: A Comparative Study”, The Chartered Accountant of India, 2005, feb., 1050-1052
4. Baydoun, Nabil and Willett, R., "Cultural Relevance of Western Accounting Systems to Developing Countries", Abacus, Vol. 31 (1), 1995, 67-92.
5. Biddle, Gary C. and Saudagaran, Shahrokh M, "Foreign Stock Listings: Benefits, Costs, and the Accounting Policy Dilemma", Accounting Horizons, 1991, (September), 69-80.
6. Bhusan, Ravi and Lessard, Donald, R., "Coping With International Accounting Diversity: Fund Managers' Views on Disclosure, Reconciliation and Harmonization", Journal of International Financial Management and Accounting, 1992, (Summer), 149-164.
7. Cheung, Sherman C. and Lee, Jason, "Disclosure Environment and Listing on Foreign Stock Exchanges", Journal of Banking and Finance, Vol. 19, 1995, 347-362.
8. Choi, Frederick, D.S. and Lee, Changwoo, "Merger Premia and National Accounting Differences in Accounting for Goodwill", Journal of International Financial Management and Accounting, Vol. 3 (3), 1991, 219-240.
9. Choi, Frederick, D.S. and Levich, Richard M., "Behavioral Effects of International Accounting Diversity", Accounting Horizons, 1991, June, 1-13.
10. Choi, Frederick, D.S. and Levich, Richard M., The Capital Market Effects of International Accounting Diversity, Dow-Jones Irwin, Chicago, II, 1990.

11. Choi, Frederick, D.S., Frost, Carol A. and Meek, Gary K., International Accountin.q, Prentice Hall, Upper Saddle River, NJ, 1999.
12. Doupnik, Timothy. S. and Salter, Stephen B., "External Environment, Culture, and Accounting Practice: A Preliminary Test of a General Model of International Accounting Development", International Journal of Accounting, Vol. 30 (2), 1995, 189-207.
13. Dunne, Kathleen M. and Ndubizu Gordian A., "International Acquisition Accounting Method and Corporate Multinationalism: Evidence from Foreign Acquisitions", Journal of International Business Studies, Vol. 26 (2), 1995, 361-374.
14. Fechner, Harry, H. E. and Kilgore, Alan, "The Influence of Cultural Factors on Accounting Practice", International Journal of Accounting, Vol. 29 (3), 1994, 265-277.
15. Fletcher, Greg, "International Accounting Standards--Past, Present and Future", AFP Exchange, Vol. 22 (4), 2002, 14-19.
16. Gernon, Helen and Wallace, Olusegun R.S., "International Accounting Research: A Review of its Ecology, Contending Theories and Methodologies", Journal of Accounting Literature, Vol. 14, 1995, 54-106.
17. Gray, Sidney J., "Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally", Abacus, Vol. 3, 1988, 1-15.
18. Hansen, Fay, "International Standards Will Smooth Credit Management", Business Credit, Vol. 105 (3), 2003, 60-63.
19. Hofstede, Geert, Culture's Consequences: International Differences in Work Related Values, Sage Publications, Beverley Hills, CA, 1980.
20. Hussey, Roger, and Ong, Audra, "Financial Reporting: IAS-The IASB and the White Rabbit", Accountancy, 2003, 98-99.
21. Lee, Changwoo and Choi, Frederick D. S., "Effects of Alternative Goodwill Treatments on Merger Premia: Further Empirical Evidence", Journal of International Financial Management and Accounting, 1992, (Autumn), 220-236.
22. Meek, Gary K. and Saudagaran, Shahrokh M., "A Survey of Research on Financial Reporting in a Transnational Context", Journal of Accounting Literature, Vol. (9), 1990, 145-182.
23. Pacter, Paul, "International Accounting Standards: The World Standards by 2002", The CPA Journal, Vol. 7, 1998, 14-21.

24. Perera, Hector., "Culture and International Accounting: Some Thoughts on Research Issues and Prospects", Advances in International Accounting, Vol. 7, 1994, 267-285.
25. Saudagaran, Shahrokh M. and Biddle, Gary C., "Foreign Listing Location: A Study of MNCs and Stock Exchanges in Eight Countries", Journal of International Business Studies, Vol. 26 (2), 1995, 319-341.
26. Saudagaran, Shahrokh M. and Diga, Joselito G., "Financial Reporting in Emerging Capital Markets; Characteristics and Policy Issues", Accounting Horizons, Vol. 11 (2), 1997, 41-46.
27. Website: www.worldgappinfo.com
28. http://www.mca.gov.in /Ministry/accounting_standards.html