

IFRS and Indian Scenario

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International Financial Reporting Standards (IFRS) is the new language of financial reporting and communication to investors and other corporate stakeholders. More than 120 countries have adopted the process of convergence with IFRS. India also converging with IFRS in a phased manner. The IFRS represents a radical change in accounting for transactions as well as reporting of financial statements. The present article begins with the concept, objectives and global status of IFRS. Further, it is also highlights Indian scenario of IFRS along with the fair value accounting and use of fair value under IFRS.

IFRS AND INDIAN SCENARIO

The history of accounting indicates the evolutionary pattern which reflects changing socio-economic conditions and the enlarged purposes to which accounting is applied. Accounting information should be reliable in use so that users of accounting information may be able to rely on some basic assumptions about quality of accounting information produced by accountants. But in practice the accounting profession has failed to give reliable information to investors. Since the accounting principles are broad guidelines for general application, they permit a wide variety of methods and practices. The lack of uniformity of methods and practices makes it difficult to compare the financial reports of different companies. Moreover, the multiplicity of accounting practices makes it possible for management to conceal economic relatives by selecting those alternative presentations of financial results which allow earnings to be manipulated. The financial statements prepared under such conditions, therefore, may have limited usefulness for several users of information. This problem has been recognized all over the world and various professional bodies are engaged in the task of standardizing accounting practices.

INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE (IASC):

To maintain uniformity in accounting principles and standards throughout the world, International Accounting Standards Committee (IASC) came into

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force from 29th June, 1973 when 16 accounting bodies from 9 nations (USA, Canada, UK, Australia, France, Germany, Japan, Mexico and Netherlands) signed the agreement and constitution for its formation. The basic objective of the committee is to formulate and publish the accounting standards in the public interest. The Board of International Accounting Standards Committee issued many of International Accounting Standards between 1973 and 2001. The development of International Accounting Standards facilitated to understand the international accounting system and a smooth flow of international investments.

INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB):

The International Accounting Standards Board is made up of 15 members representing 9 countries, including China, Japan, Australia and the US in April, 2001. It is sponsored by variety of financial institutions, companies, banks and accounting firms. The International Accounting Standards Board (IASB) was founded to undertake the responsibilities of the IASC which was established in 1973.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS):

In 2002, a year after their establishment, the IASB got united with the Financial Accounting Standards Board (FASB) to combine their knowledge and develop a set of high-quality accounting standards that would be compatible with all countries in order to carry out international business affairs and their accounting successfully. This set of global accounting standards is referred to as the International Financial Reporting Standards (IFRS).

From June 2009, we have two sets of IFRSs; Full IFRS and IFRS for Small & Medium Enterprises (IFRS for SMEs). The IFRS for SMEs reduces the volume of full IFRS by 85% and will be useful for 95% business houses all over the world. The countries that have not adopted full IFRS may adopt IFRS for SMEs. IFRS for SME has been propounded mainly on the cost-benefit ground and has made no compromise on recognition and measurement criteria but has offered relaxation on disclosure aspects. Thus, IFRS is a principle based standard.

The term IFRS has both a narrow and broad meaning. Narrowly, IFRS refers to the new numbered series of pronouncements that the IASB is issuing, as distinct from IAS series issued by its predecessor. More broadly, IFRS refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB and IAS and the Standards Interpretation Committee (SIC) interpretations approved by the predecessor IASC. Thus, IFRS comprises of the following four types of standards;

- 1) IAS issued before 2001.
- 2) IFRS standards issued after 2001.
- 3) Interpretations originated from Standard Interpretation Committee (SIC) issued before 2001.
- 4) Interpretations originated from International Financial Reporting Interpretation Committee (IFRIC) issued after 2001.

OBJECTIVES OF IFRS:

The following are the main objectives of IFRS:

- To develop and introduce a single set of top quality global accounting standards.
- To produce transparent and top quality information in financial reporting statements.
- To make the financial reporting statements more comparable and comprehensive to the concerned users for taking appropriate decisions.
- To boost the confidence of the investors throughout the world.

IMPORTANCE AND GLOBAL STATUS OF IFRS:

The IFRS are rapidly recognized in many parts of the world. Presently, 120 countries have introduced IFRS for domestic listed companies. Out of which, 90 countries have totally conformed with IFRS. China has decided to converge from 2008. Other countries are expected to transition to IFRS by 2011. However, Mexico and Japan plan to introduce IFRS for all listed companies by 2012 and 2016 respectively. It is also expected that all major countries including India will have adopted IFRS by 2014.

LIST OF IFRS:

The IFRS statements currently issued are as follows;

- IFRS 1: First Time Adoption of International Financial Reporting Standards.
- IFRS 2: Share-based Payment.
- IFRS 3: Business Combinations.
- IFRS 4: Insurance Contracts.
- IFRS 5: Non-Current Assets held for sales and discontinued operations.
- IFRS 6: Exploration for and Evaluation of Mineral Assets.
- IFRS 7: Financial Instruments; Disclosures.
- IFRS 8: Operating Segments.
- IFRS 9: Financial Instruments.

INDIAN SCENARIO:

The International Accounting Standards do not have any statutory authority. International Accounting Standards are being used as national standards in some developing countries. But India has formulating and publishing its own accounting standards on the basis of International Accounting Standards with a view to harmonize varying accounting policies and practices. The Institute of Chartered Accountants of India (ICAI) formed the Accounting Standards Board (ASB) in April 1977, which included representatives from Industry and Government. At present ASB formulates the Accounting Standards in India. But as these accounting standards are sensitive to the local environment and, hence, depart from the corresponding IFRS in order to ensure consistency with legal, regulatory and economic environment in India.

In the present scenario of LPG, the world has become an economic global village. The use of different accounting framework in different countries leads to inconsistent treatment and presentation of same underlying economic transaction creates confusion for users of financial statements. This confusion results in inefficiency in the capital market all over the world. Therefore, it is more essential to introduce the IFRS for Indian Accounting System. To achieve harmony with IFRS, the convergence of Indian Accounting Standards is obviously required. In India, IFRS are supposed to be introduced from 1st April, 2011 with Sensex and Nifty companies. However, it has been found that huge legislative changes are imperative in the field of Company Law, Income Tax Act and Rules, Securities and Exchange Board of India (Rules and Regulations), Foreign Exchange Management Act (FEMA) and other allied areas. IFRS give emphasis on fair value measurement practices. The Ministry of Company Affairs decided not to adopt IFRS in its original form. To adopt the IFRS in phased manner the Ministry of Company Affairs has notified convergence of 35 Indian Accounting Standards (Ind.AS) with IFRS on 25th February, 2011 (see Annexure-1).

The Corporate India looks forward to clear road map for shifting IFRS for accounting. The convergence of the Indian Accounting Standards, currently used by domestic companies and IFRS is one of the major issues concerning India Inc. as this would lead to a revaluation of their assets and liabilities and in several cases the new accounting norms will also result in change in income recognition norms.

THE IFRS AND FAIR VALUE ACCOUNTING:

The Fair Value Accounting allows both upward and downward revision of values unruffled by concern for their realization. The IFRS allows Fair Value Accounting under the following three circumstances:-

- 1) At the time of measurement of some assets and liabilities on their initial recognition in the financial statements (e.g. IAS 16, IAS 17, IAS 18, IAS 20, IAS 38, IAS 39, IAS 41 and IFRS 1, IFRS 2 and IFRS 3).
- 2) At the time of measurement of some assets and liabilities at each balance sheet data (e.g. IAS 16, IAS 19, IAS 26, IAS 27, IAS 28, IAS 31, IAS 38, IAS 39, IAS 40, IAS 41 & IFRS 1, IFRS 2, and IFRS 3
- 3) At the time of determining some asset impairments. This impairment principle is applied in IFRS to all assets including inventories, property, plant and equipment, intangible assets, financial assets, pension assets and tax assets. Under the IFRS fair value plays an important part in applying impairment principle because an entity can recover such assets by selling them or by exchanging them with another knowledgeable, willing party in an arm's length transaction.

Under IFRS, financial assets are initially recognised at fair value. Subsequently, loans and advances and investments that the entity intends to hold till maturity are measured at amortised cost using the effective interest method, and all other financial assets are measured at fair value.

THE USE OF FAIR VALUE UNDER IFRS:

The following table is useful to understand the use of Fair Value under IFRS:

Assets & Liabilities	Usual Measurement basis allowed	Fair Value Option under IFRS
Non-Current Assets:		
Property, plant and equipment	Cost	Yes
Investment property	Fair value or cost	
Biological assets	Fair Value	
Goodwill	Cost	No
Other Intangibles	Cost	Yes (Under some cases)
Available-for sale financial assets	Fair value	-
Loans receivable	Amortized cost	Yes (under some cases)
Current Assets: Inventories	Cost	No
Construction contract assets	Cost	No
Harvested agricultural produce	Fair value	-
Trade receivables	Amortized cost	Yes (under some cases)
Finance lease receivable	-do-	No
Other loans receivable	-do-	Yes (under some cases)

Held for trading investment	Fair value	-
Derivatives	Fair value	-
Held-to maturity investment	Amortized cost	Can be excluded from held to maturity category
Cash equivalents	Fair value	
Cash	Fair value (same as cost)	-
Non-Current Liabilities:		
Long-term borrowings	Amortized cost	No
Finance lease obligations	-do-	No
Defined benefit post employment obligations	PV of expected payments less FV of plan asset	No
Deferred tax	Expected payment	No
Long-term provisions	PV of expected payments	
Current Assets: Trade payables	Amortized cost	No
Derivatives	Fair value	-
Short-term borrowings	Amortized cost	No
Other financial liabilities	-do-	Yes
Current tax payable	Expected payment	No
Short-term provisions		

Source: Cairns (2006)

CONCLUSION:

IFRS are the global standards and will change accounting practice for financial assets. IFRS has today become a universal financial reporting language through which all the global companies are communicating with its global investors rather than having a divergent set of standards applied differently in different countries. India has already announced the convergence of Ind. AS with IFRS. The Ind. AS will be implemented very soon. The Indian accounting professionals have to make them well equipped at the earliest possible time by acquiring adequate knowledge through training. The comparison of financial statement will be easier and more cost-effective through common financial reporting language of IFRS.

ANNEXURE – I

LIST OF INDIAN ACCOUNTING STANDARDS CONVERGED WITH IFRS (Referred to as Ind. AS)

- Ind AS 1 : Presentation of Financial Statements
- Ind AS 2 : Inventories
- Ind AS 7 : Statement of Cash Flows
- Ind AS 8 : Accounting Policies, Changes in Accounting Estimate and Errors.
- Ind AS 10 : Events after the Reporting Period
- Ind AS 11 : Construction Contracts
- Ind AS 12 : Income Taxes
- Ind AS 16 : Property, Plant and Equipment

Ind AS 17	: Leases
Ind AS 18	: Revenue
Ind AS 19	: Employee Benefits
Ind AS 20	: Accounting for Government grants and Disclosures of Government Assistance
Ind AS 21	: The Effects of Changes in Foreign Exchange Rates
Ind AS 23	: Borrowing Costs
Ind AS 24	: Related Party Disclosures
Ind AS 27	: Consolidated and Separate Financial Statements
Ind AS 28	: Investment in Associates
Ind AS 29	: Financial Reporting in Hyperinflationary Economies
Ind AS 31	: Interests in Joint Ventures
Ind AS 32	: Financial Instruments: Presentation
Ind AS 33	: Earning per share
Ind AS 34	: Interim Financial Reporting
Ind AS 36	: Impairment of Assets
Ind AS 37	: Provisions, Contingent Liabilities and Contingent Assets
Ind AS 38	: Intangible Assets
Ind AS 39	: Financial Instruments: Recognition and Measurement
Ind AS 40	: Investment Property
Ind AS 101	: First-time Adoption of Indian Accounting Standards
Ind AS 102	: Share-based Payment
Ind AS 103	: Business Combinations
Ind AS 104	: Insurance Contracts
Ind AS 105	: Non-Current Assets held for sale and discontinued Operations.
Ind AS 106	: Exploration for and Evaluation of Mineral Resources
Ind AS 107	: Financial Instruments: Disclosures
Ind AS 108	: Operating Segments

ANNEXURE – II

LIST OF INTERNATIONAL ACCOUNTING STANDARDS (IAS)

IAS 1	: Presentation of Financial Statements
IAS 2	: Inventories
IAS 3	: Consolidated financial statements, originally issued in 1976. effective from 01.01.1977. Superseded in 1989 by IAS 27 and IAS 28.
IAS 4	: Depreciation Accounting withdrawn in 1999, replaced by IAS 16, 22 and 38, all of which were issued or revised in 1998.
IAS 5	: Information to be disclosed in financial statements originally issued in 1976, effective from 1 st January, 1977, superseded by IAS 1 in 1997.
IAS 6	: Accounting Responses to Changing Prices superseded by IAS 15, which was withdrawn in Dec, 03.
IAS 7	: Cash Flow Statements
IAS 8	: Accounting Policies, changes in Accounting Estimates and Errors.
IAS 9	: Accounting for Research and Development Activities – Superseded by IAS 38 with effect from 01.07.1999
IAS 10	: Events after The Balance Sheet Date
IAS 11	: Construction Contracts
IAS 12	: Income Taxes
IAS 13	: Presentation of Current Assets and Current Liabilities – Superseded by IAS 1

IAS 14	:	Segment Reporting – Superseded by IFRS 8 on January, 2008
IAS 15	:	Information reflecting the effects of changing prices – Withdrawn from December 2003
IAS 16	:	Property, Plant and Equipment
IAS 17	:	Leases
IAS 18	:	Revenue
IAS 19	:	Employee Benefits
IAS 20	:	Accounting for Government Grants and Disclosures of Government Assistance
IAS 21	:	Effect of Changes in Foreign Exchange Rates
IAS 22	:	Business Combinations – superseded by IAS 3 effective from 31 st Marcy, 2004.
IAS 23	:	Borrowing Costs
IAS 24	:	Related Party Disclosures
IAS 25	:	Accounting for Investments – superseded by IAS 39 and 40 effective from 2001
IAS 26	:	Accounting and reporting by Retirement Benefit Plans
IAS 27	:	Consolidated Financial Statements
IAS 28	:	Investments in Associates
IAS 29	:	Financial Reporting in Hyperinflationary Economics
IAS 30	:	Disclosures in the Financial Statements of Banks and Similar Financial Institutions-superseded by IFRS 7 effective from 2007
IAS 31	:	Interests in Joint Ventures
IAS 32	:	Financial Instruments: Presentation (Financial Instrument Disclosures are in IFRS 7 Financial Instrument Disclosure and no longer in IAS 32)
IAS 33	:	Earning per Share
IAS 34	:	Interim Financial Reporting
IAS 35	:	Discontinuing Operations-Superseded by IFRS 5 effective from 2015.
IAS 36	:	Impairment of Assets
IAS 37	:	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	:	Intangible Assets
IAS 39	:	Financial Instruments: Recognition and Measurement
IAS 40	:	Investment Property
IAS 41	:	Agriculture.

ANNEXURE – III

LIST OF IFRIC INTERPRETATIONS

IFRIC 1	:	Changes in existing decommissioning, restoration and Similar liabilities.
IFRIC 7	:	Approach Under IAS 2 – Financial Reporting in Hyper- Inflationary Economics (issued in Feb, 2006)
IFRIC 8	:	Scope of IFRS 2 (issued in February 2006) has been eliminated with amendment issued to IFRS 2
IFRIC 9	:	Re-assessment of Embedded Derivatives (issued in April, 2000)
IFRIC 10	:	Interim Financial Reporting and Impairment (issued in November 2006)
IFRIC 11	:	IFRS 2 – Group and Treasury Share transactions (issued in November 2006)
IFRIC 12	:	Service Concession Arrangements (issued in Nov. 2006)
IFRIC 13	:	Customer Loyalty Programmes (issued in June 2007)
IFRIC 14	:	IAS 19 – the limit on a deemed benefit asset, minimum Funding requirements and their interaction (issued in July, 2001)
IFRIC 15	:	Agreement for construction of real estate (issued in July, 2008)
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation (issued in July 2008)

- IFRIC 17 : Distribution of Non-Cash Assets (Issued in January 2009)
 IFRIC 18 : Transfer of Assets from Customers (issued in Jan, 2009)
 SIC 7 : Introduction of Euro (Updated to January, 2000)
 SIC 10 : Government Assistance–No specific Relation to Operating Activities (updated to January 2006)
 SIC 12 : Consolidation – Special purpose Entities (Updated to January, 2006)
 SIC 13 : Jointly Controlled Entities – Non-monetary contributions by Ventures (updated to January 2006)
 SIC 15 : Operating Lease Incentives (updated to January 2006)
 SIC 21 : Income Taxes – Recovery of Revalued Non-depreciable Assets (updated to January 2006)
 SIC 25 : Income Taxes – Changes in Tax Status of an Entity to its Shareholders (updated to January 2006)
 SIC 27 : Evaluating the Substance of Transactions involving the Legal form of a lease (updated to January 2006)
 SIC 29 : Disclosures-Service Concession Arrangements (updated to January 2006)
 SIC 31 : Revenue-Barter Transactions involving advertising Services (updated to January 2006)
 SIC 32 : Intangible Assets-Website Costs (updated to January 2006)

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