IFRS and India: The Way Forward...

Accounting Standards help in harmonising various accounting policies and practices followed by businesses. Use of Accounting Standards reduces the alternatives in accounting treatments in preparation of financial statements, ensures comparability of results over various periods for an organisation as well as across the industry, and provides meaningful information to various stakeholders in business and users of financial statements to empower them to make considered economic decisions.

Due to complexities of current businesses and introduction of e-commerce, new thinking in accounting concepts was imperative. Recognising the need for harmonising accounting standards the world over, the International Accounting Standards Committee (IASC) was established in 1973 and it was reconstituted as the International Accounting Standards Board (IASB) which promulgated International Accounting Standards having worldwide acceptance.

Our Prime Minister had committed at the G-20 meeting that India will converge to global accounting standards issued by IASB by April 2011. Consequently, the Ministry of Corporate Affairs has decided to have a consultative exercise with stakeholders to implement these standards in India to harmonise the way accounting is done in India with that of globally accepted accounting standards. Stock exchanges across the world will also accept financial statements which comply with International Financial Reporting Standards.

In this regard, the Institute of Chartered Accountants of India (ICAI), being a part of the IASC, has taken several initiatives to integrate International Accounting Standards to the Indian environment. Considering that about 150 countries across the world have already decided to adopt or converge with International Accounting Standards, the ICAI could not have let the country to be left behind. The ICAI, through its Accounting Standard Board, has undertaken considerable research and consultation and has held discussions with representatives of several interest groups for formulation of the Indian Version of IFRS which is called Ind-AS.

Since India is one of the best investment destinations in the world in the current economic scenario, investors across the world would expect India to adopt such standards at an early date as the world is expected to have the same accounting language for understanding the implications of investment. Also, Indian companies have started investing in other countries of the world in a big way and would also benefit by such understanding.

India is one of the few countries to develop its own Accounting Standards over the years by establishing the Accounting Standards Board (of the ICAI) as early as in 1977. These Accounting Standards have been prepared with such expertise that the same were adopted by the National Advisory Committee on Accounting Standards (NACAS) for recommending to the Central Government for publication under Section 211(3C) of the Companies Act without any major changes.

When the question of choosing between convergence and adoption was considered by ICAI and MCA, it was decided that convergence is a better approach as it allows flexibility for adjustments or making exceptions wherever required, in terms of regulatory requirements of the country and also consideration of customs, practices and business environment prevailing in the country.

However, several challenges would be faced in implementation of Ind-AS converged with IFRS. First is that IFRS itself is a moving target. The original standards issued are amended from time to time which would require corresponding changes in Ind-AS. Requirement of regulatory changes is the prime challenge. However, several challenges in terms of cost of changes required in the information technology system, changes in tax liability, challenges in retrospective application in accounting, change in income recognition norms and revaluation of assets and liabilities, and taxation impact of one-time IFRS adjustments in opening balance sheet are some of the serious issues. The effect on profitability in various industries on adoption of IFRS is unknown even though it is widely believed that Corporate India would show lower profits post IFRS implementation. Calculation of Fair Value is itself a problem area in a country like India.

Application of IFRS only to consolidated Financial Statements and not standalone Financial Statements is a solution for resolving tax issues. Alternatively, if IFRS is made applicable to all companies, then the companies can maintain a separate set of accounts based on historical cost accounting method for tax purposes. However, the issue needs to be debated in detail and resolved by the Government.

ICAI has completed its initial work of submitting the converged Ind-AS to NACAS after due discussion in 2011 itself. However, because of various reasons, the Government of India has not been able to roll out Ind-AS as per the initial roadmap given by it. In view of delay in implementation, the four-stage implementation initially recommended may even be shortened. Every CA needs to be alert to the Indian Government's moves in this regard.

In this context, there lies a challenge for Indian CAs to un-learn and re-learn the accounting treatment. Understanding several concepts such as Negative Goodwill, depreciation method to be reviewed annually, intangible assets having indefinite life, removal of distinction between integral and non-integral operations and accounting for de-recognition of financial assets are some of the major learning areas for CAs.

-Editorial Board

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