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Accounting Standards and Financial Reporting in India

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Abstract

There is a growing international agreement on the International Financial Reporting Standards as suitable standards for assessment of the financial health of a company across the globe. Globalization has laid down a way for all the countries to adopt a single set of accounting standards. Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of international financial reporting standards universal. Financial reporting in India is undergoing an important change due to the adoption of Indian accounting Standards (Ind AS) that are converged with International financial Reporting Standards (IFRS). The notification of these IFRS converged standards fills up significant gaps that exist in the current accounting guidance, and India can claim to have financial reporting standards that are contemporary and virtually at par with the leading global standards. This will, in turn, improve India's place in global rankings on corporate governance and transparency in financial reporting. Around 150 countries have already adopted IFRS in their economy. But in India, Ministry of corporate affairs has decided to go for full convergence of IFRS by 2018 through IND AS. The present paper deals with the status of IFRS adoption in India.

Keywords: *IFRS, Financial Reporting, IAS, ASB, ICAI, SEBI.*

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1. INTRODUCTION

Accounting is a mode of communication for those who are interested in it. AICPA defines accounting as "The art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof." Accounting that provides information to people outside the business entity is called financial accounting and provides information to various users and interested parties. Financial reporting in India is undergoing a momentous transformation owing to the adoption of Indian Accounting Standards (Ind AS) that are converged with International Financial Reporting Standards (IFRS). This important and long pending reform may go a long way in helping India improve its global rankings on corporate governance and transparency in financial reporting. Its not just a financial reporting change, but one that has an organisation wide impact. Companies should assess the impact of these standards on key business areas such inorganic growth, including acquisitions and joint ventures, capital raising, tax planning, International Financial Accounting Standards (IFRS), formerly known as International Accounting Standards (IAS) are the Standards, Interpretations and Framework for the preparation and presentation of Financial statements adopted by the International Accounting Standards Board (IASB). IAS was issued in 1973 and 2001 by the Board of the Internal Accounting Standards Committee (IASC). On April 1, 2001 the new IASB took over the responsibility of setting International Accounting Standards from IASC. It has since then continued to develop standards called as the new standards IFRS. Globalization has changed the close economy into open economy. Now a day's national economy is integrating in international market with other countries by spreading their trade and business outside their own country. Foreign Direct Investment, Foreign Institutional Investors, Merger and Acquisition, Franchising and Business Outsourcing are some examples of international transaction in global business. The Board issues the International Financial Reporting Standard formerly known as International Accounting Standards. The use of common set of accounting standards throughout the world provides an easy way of comparability and transparency of financial information. It also reduces the cost of preparing financial statements. A constant use of accounting standards provide higher quality information which enables the investors to make a better decision, indirectly fund will allocate in more efficient manner in the market and the company can reduce its overall cost of capital. The present paper deals with the status of IFRS adoption in India.

2. CONCEPT OF IFRS

"A single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions" IFRS in Indian context. At present, Accounting Standards Board (ASB) formulates and issues accounting standards in India which are more or less in line with IFRS except for a few instances where departure is necessary to comply with the legal, regulatory and economic environment. Council of the Institute of Chartered Accountants of India (ICAI) opened in May 2006 that adopting IFRS was considered and supported by the ASB. IFRS task force was set up to provide a road map for convergence and it decided to converge with IFRS from the accounting period commencing on or after 1 April 2011. [In India, Ministry of Corporate Affairs carried out the process of convergence of Indian Accounting Standards with IFRS after a wide range of consultative process with all the stakeholders in pursuance of G-20 commitment and as a result thirty five Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called IND AS)].

Adopting IFRS in India is going to be very challenging by Indian Corporate but at the same time Indian Corporate are likely to obtain significant benefits from adopting IFRS. The European Union addresses many benefits as a result of adopting IFRS. Overall most investors and auditors concern that IFRS improve the quality of financial statements and implementation of IFRS was a positive sign for development for European Union financial reporting At the present time IFRS are harmonizing as a financial reporting language across the globe. Over 100 countries in the Europe an Union, Africa, Asia and Asia-Pacific region either require or permit the use of IFRS. In India recently ICAI released a concept paper on convergence with IFRS in India; it includes the detail of strategy for adoption of IFRS in India with effect from April 1 2011. Ministry of Corporate Affairs had also confirmed the agenda for convergence with IFRS in India by 2011. In the US replacing the IFRS in place of US GAAP, is still an ongoing debate.

3. IFRS - IN INDIA

The drastic shift in the economic environment in India during last decade has led to increased attention towards accounting standards as a means to ensuring potential and transparent financial reporting by the corporate entities. ICAI, as a premier accounting authority in our country, playing a leadership role by establishing ASB, more than two and half decades back, to fall in line with the national and global expectations. In the present scenario the accounting standards issued by the ICAI have come a long way. The ICAI as the accounting standard - formulating body in the country has always made efforts to set up high quality Accounting Standards and the Institute is quite successful in doing so. Indian Accounting Standards established by the Institute have withstood the test of time. With the continuous globalization, has given rise to the discussion on convergence of national accounting standards of ICAI with International Financial Reporting Standards. Today, the ASB of ICAI formulates the Accounting Standards based on International Financial Reporting Standards. However, these accounting standards have remained sensitive to local conditions, including both the legal and economic environments. Likewise, Accounting Standards issued by the Institute (ICAI) depart from corresponding International Financial Reporting Standards with a view to ensure consistency with legal and economic environment of India.

At present, Accounting Standards Board (ASB) formulates and issues accounting standards in India which are more or less in line with IFRS except for a few instances where departure is necessary to comply with the legal, regulatory and economic environment.

Ind-AS are accounting standards converged with International Financial Reporting Standards (IFRS). Given the background of serious global economic setbacks seeing the light of the day in the recent years, there is an increased concern over implementation of more stringent accounting and disclosure norms. Also, the global business practices of corporate houses in the advent of expanded global market spanning over multiple countries not only had opened up the cross country business opportunities, but also compliance with more than one reporting frameworks belonging to respective countries. This has also made the need for a common reporting frame

work across boundaries felt leading to the unanimous preference to IFRS as the reporting framework world over given.
India is the first country to comply with the whole of core principles of IFRS including the controversial IFRS – 15 – 'Revenue from contracts with customers' and IFRS – 9 – 'Financial Instruments' through mandatory implementation of Ind AS 115 - 'Revenue recognition' and Ind AS – 109 – 'Financial Instruments'. Soon after the long-awaited roadmap for implementing the Indian Accounting Standards (Ind AS) was announced in January this year, The Ministry of Corporate Affairs (MCA), moved quickly and notified its phase-wise roadmap for the adoption of Ind AS–India's accounting standards, converged with the IFRS. The notification of Ind AS is a positive development and places India well at the centre of high quality financial reporting. The MCA issued a notification on 16 February this year, announcing the Companies (Indian Accounting Standards) Rules, 2015, for the application of Ind AS. The application of Ind AS is based on the listing status and networth of a company. Ind AS will first apply to companies with a net worth equal to or exceeding 500 crore INR beginning 1 April 2016. This will also require comparative Ind AS information for the period of 1 April 2015 to 31 March 2016. Listed companies as well as others with a net worth equal to or exceeding 250 crore INR will follow these new accounting norms from 1 April 2017 onwards. From April 2015, companies covered in the first phase will have to take a closer look at the details of the notified 39 new Indian accounting standards.

4. FINANCIAL REPORTING

Financial reporting may be defined as communication of published financial statements and related information from a business enterprise to the external users including shareholders, creditors, customers, governmental authorities and the public. It is the reporting of accounting information of an entity to a user or group of users. Company financial reporting is a total communication system involving the company as issuer (preparer); the investors and creditors as primary users, other external users; the accounting profession as measurers and auditors; and the company law regulatory or administrative authorities. The term 'financial reporting' is not restricted to information communicated through financial statements. Although financial reporting and financial statements have essentially the same objectives, some useful information is better provided by financial statements and some is better provided, or can only be provided by means of financial reporting other than financial statements. However, it is difficult, if not possible, to have clear distinction between financial reporting and financial statements. But it is now an accepted fact that financial reporting has a broader scope than the financial statements which are only one of the many means of conveying information about enterprise financial performance.

- Financial statements are a central feature of financial reporting. They are a principal means of communicating accounting information to those outside an enterprise. Financial reporting may also contain information from sources other than accounting records, accounting systems are generally organized on the basis of elements of financial statements and provide the bulk of the information for financial statements.
- Financial reporting includes not only financial statements but also other means of communicating information that relates, directly or indirectly, to the information provided by

accounting system, that is, information about an enterprise's resources, obligations, earnings, etc. Information communicated by means of financial reporting other than financial statements may take various forms and relate to various matters. News releases, management's forecasts or other descriptions of its expectations, and descriptions of an enterprise's social or environmental impact are the main examples of reports giving financial information other than financial statements or giving only non-financial information.

- Financial statements are often audited by independent accountants for the purpose of enhancing confidence in their reliability. Some financial reporting by management outside the financial statements is audited, or is reviewed but not audited, by independent accountants or other experts, and some is provided by management without audit or review by persons outside the enterprise.

5. FINANCIAL REPORTING REGULATION IN INDIA

Economic reporting instruction in India has been temporarily accessible below:

- The Companies Act, 1956
- The SEBI
- The ICAI
- Guidelines for Information on Websites.

The Companies Act, 1956: The companies Act, 1956 regulates business reporting by mandating the acceptance of accounting standards promulgated by Institute of Chartered Accountants of India (ICAI) by amending Section 211 and prescribing the set-up and satisfied of financial reporting below part 211 and Schedule VI. Section 211 envisages what should go into financial statements by prescribing the inclusion of balance sheet, statement of profit and loss, notes to accounts, supplementary statements, schedules, narrative disclosure, cash flow statement, supplement statements, auditor's report, and directors' report.

The SEBI: The SEBI is the regulatory authority in India established under Section 3 of the SEBI Act, 1992. The statutory powers of the SEBI include:

- Protecting the interests of investors in securities,
- Promoting the development of the securities market,
- Regulating the securities market. Specifically, the SEBI imposes a number of disclosures under different Clauses that include:
- Dispatch of a copy of the complete and full annual report to the shareholders (Clause 32),
- Disclosure of material developments and price sensitive information (Clause 36),
- Compliance with Takeover Code (Clause 40B),
- Disclosure of interim unaudited financial result (Clause 41) and
- Corporate governance report (Clause 49) disclosure of listing agreement (Clause 49) that requires compulsory disclosure of composition of Board, code of conduct, audit committee, related party disclosure, remuneration of directors, shareholder details, and compliance report on corporate governance compliance with Accounting Standards issued by the ICAI (Clause 50).

The ICAI: The ICAI is premier professional accountancy body in India. It plays a significant role in regulating corporate reporting as well as disclosure practices in India. Earlier, this was done by

promulgating accounting standards and then in the name of IND AS. However, the ICAI has started converging all its domestic standards with IFRS through promulgating a roadmap for convergence with IFRS, which requires a phased approach for IFRS adoption.
Phases of Convergence to IFRS in India

Phase 1

DATE
Opening balance sheet as of 1 April 2011
CONVERGE
- Companies that part of NSE 50 (Nifty 50)
- Companies that part of BSE SENSEX (BSE 50) Companies whose shares or other securities are listed on a stock market exchange outside India
- Companies, listed or not, having net worth exceeding Rs. 1,000 crore.

Phase 2

DATE
Opening balance sheet as of 1 April 2013
CONVERGE
- Companies not listed in phase 1 and having net worth exceeding Rs. 500 crore

Phase 3

DATE
Opening balance sheet as of 1 April 2014
CONVERGE
- Listed companies not covered in the earlier phase

(If the financial year of a company commences at date other than 1 April, then it shall prepare its opening balance sheet at the commencement of the immediately following fiscal year.)
However, this convergence is yet to start in view of several bottlenecks present in the adoption on one hand and the absence of preparedness by Indian corporate sector on the other.

6. Guidelines for Information on Websites

A milestone in the Indian corporate information disclosure in India was the "Voluntary Guidelines for Companies to Provide Information in Websites" issued by Ministry of Company Affairs in 2012.
List of IFRS Items Proposed under the Guideline:

IFR Dimension
❖ General information about company
ITEMS
❖ Company Business; Risk and concerns of company; Industry scenario; Brand information; Experiences in years; Core competence; and; Market share.

IFR Dimension
❖ Detail of Board of Directors

ITEMS

- ❖ Name and Address of Directors; Details of promoters and their shareholdings; Code of conduct for Directors and senior management; Remuneration of Managing Director/whole time director; Number and Date of board Meetings for last 3 years; Date of Annual general meetings for last 3 years; and Attendance of each director in each meeting for last 3 years.

IFR Dimension

- ❖ Audit Committee

ITEMS

- ❖ Description; Terms of reference; Composition; Date of Meeting for last 3 years; and Attendance of each member in last 3 years

IFR Dimension

- ❖ Functional Information

ITEMS

- ❖ Financial information and ratios; and Comparison of important ratios with industry peers.

IFR Dimension

- ❖ Investor information

ITEMS

- Composition of Shareholders/ investors grievance committee; Reference of such committee; Detail of shareholders complaints in last 3 years; received, resolved and pending; Auditors' qualifications; Any penalty imposed by government/court; and Complaint of Insider trading during last 3 years.
- Particulars of share sold/purchased in company by directors and their relatives during last 3 years.

IFR Dimension & ITEMS

- Online investor grievance complaint system and its online follow-up till resolution.
- Detail of related party transactions during last 3 years and detail of mandatory compliance done
- Initiative towards corporate Social Responsibility and Environment Protection during last 3 years
- Details of pending litigation likely to affect financial position and working results.
- The basic of the guidelines is to promote good corporate governance, investor education and protection and advocacy of corporate social responsibility by companies for inclusive growth of the corporate sector. The basic feature of the guideline is that a company may maintain a functional website on a voluntary basis with such a company wishing to have the website to have paid up capital of not less than Rs. 10 crore or having more than 100 shareholders.

Role of Training Institutes/Academician for Convergence with IFRS

- ➢ **ICAI's Initiatives for adoption of IFRS:** In this scenario, India, though being an important emerging economy in the world, is yet to adopt the IFRS. Internationally, in so far as cross-border investments are concerned, a non-IFRS compliant country is perceived as an additional risk factor. Within India also, in recent times, the issue of convergence with IFRS has been raised time and again at various forums. After a series of discussion with various legal and regulatory authorities, the Ministry of Corporate Affairs has committed itself to convergence of Indian entities with IFRS from April 2011. ICAI was given the responsibility of formulating the convergence process and ensure smooth convergence. For this purpose, the Accounting Standard Board (ASB) of ICAI constituted a Task Force in the year 2006 to explore the approach for convergence with IFRS and lay down the road map for convergence with IFRS. Since then, ICAI has been relentlessly making extensive analysis of various phases the convergence process would go through. It has identified the legal and regulatory requirements arising out of convergence with IFRS. ICAI has also recommended changes in the respective Acts, guidelines and other regulatory provisions related to RBI, SEBI, NACAS and IRDA and have submitted its recommendations to the respective authorities.

This would eventually pave the way to a smooth transition process. In addition, the ICAI Accounting Board has pointed out several national issues requiring debates and conclusions that would enable the convergence process to meet the deadline.

- **Other Stakeholders Involved:** As the convergence process involves concerted efforts of legal and regulatory authorities concerned, all recommendations to various authorities have to be considered and closed by the respective regulators. This is the last mile to go to complete the convergence process. The list of such recommendations sent to the various Ministries/Regulatory authorities is presented here:
  - Changes required in Company's Act 1956
  - Changes required in SEBI guidelines
  - Changes required in IRDA rules and regulations
  - Changes required in RBI Banking Regulation Act.
  - Standards to be notified by NACAS

In addition to implementation of the changes suggested by way of notifications / guidelines and so on, the applicability of IFRS to the types of entities has to be finalised.

- **Implementation Phase in India:** The applicability of International Financial Reporting Standards for convergence of Indian entities would be in several phases as the issues involved in one-shot adoption are complex. For example, there are issues to be addressed, which may impact tax revenue collection in the Indian scenario. Also to be sorted is the applicability of IFRS to Small and Medium Scale Enterprises, pending deliberations by various authorities.

  Hence, in the first phase, ICAI has submitted a suggested list of companies that come under different parameters for adoption of IFRS standards. These entities include companies listed with BSE/NSE Sensex, insurance companies, mutual funds, entities with a capital base of over 50 million dollars outside India, companies that are publicly accountable with an aggregate borrowing of over Rs. 1,000 crores and such others.
- **Training on IFRS:** India has a large number of accounting professionals. ICAI has already taken the initiatives for a comprehensive capacity building programme to prepare the CA profession for this transition. A large number of professionals have already undergone

training and this process is being accelerated by the ICAI. To summarise, convergence is inevitable. The timeline is tight. The need of the hour is coordinated and continuous efforts by all concerned to make the process a grand success.

7. BENEFICIARIES OF CONVERGENCE WITH IFRS

There are several beneficiaries to the convergence of Indian Generally Accepted Accounting Principles (GAAP) with IFRS. Some of them are discussed here below:

- **The Investors:** Convergence of Indian Accounting Standards with IFRS makes accounting information more reliable, relevant, timely and comparable across different legal and economic frameworks and requirements since it would then be prepared by using a common set of accounting standards which will facilitate the investors who are willing to invest in the countries apart from India. It will also develop better understanding of financial statements worldwide which increase the confidence among the people as investors.
- **The Industry:** The other important set of beneficiary the researchers came across is the industry which in the event of convergence with IFRS will be benefited because of some basic reasons. Firstly, it will enhance confidence in the minds of the foreign investors, Secondly, it decreases the burden of financial reporting. Thirdly, it would make the process of preparing the individual and group financial statements easier and simplest, and the last and important one is that this will reduce cost of preparing the financial statements using different sets of accounting standards.
- **Accounting Professionals:** However, there would be initially many problems but convergence with IFRS would surely benefit the accounting professionals and it will be helpful them to sell their talent and expertise across the globe.
- **The Corporate World:** Convergence with IFRS would build the reputation and long lasting relationship of the Indian corporate world with the international financial entities. Moreover, the corporate entities back in India would be benefited because of several reasons. The higher level of consistency will be maintained between external and internal reporting. Two, it provides better access to global financial markets. Three, it will improve the risk rating and makes the corporate world more and more competitive globally as their comparability with the global competitors.
- **The Economy:** All the discussions made above explains how convergence with IFRS would help industry grow and is beneficial to the corporate entities in the country as this would make the internal and external highly consisted, and it will report improvement in the risk rating among the foreign investors. Moreover, the international comparability is also benefiting the industrial and capital markets in the country which lead to better economy across the country.

Companies following Ind-AS in India:

- Infosys. Ltd, Wipro. Ltd,
- Dr. Reddys Lab Ltd., Bharti Airtel Ltd .,
- Sterlite Industries Ltd. , Tata Motors Ltd.

- Seimens Ltd., Tata Consultancy Ltd.,
- Great Eastern Energy Corporation Ltd, Noida Toll Bridge.

8. CONCLUSION

Ind AS – Indian Accounting Standards converged with International Financial Reporting Standards (IFRS) has now become a reality. The transition from Indian GAAP to Ind AS is a historic and a landmark change. It is true that the IFRS are expected to dominate the accounting world in India from year 2019 onwards. Convergence to IFRS is expected to improve the relevance, reliability and comparability of financial reports and, thus, benefit global investors. It is expected that the global financial reporting process will eventually be based on a single set of high-quality accounting standards as issued by the IASB. Finally, as India has already been playing an important role in the global economy and many Indian companies occupied significant positions in International Capital Market. IFRS adoption is the need of the day in order to enter global market. IFRS will not only help economy, but also speed up further the acceptance of IFRS as global accounting language which provide the single set of high quality information globally. Keeping in mind the fact that IFRS is more a principle based approach with limited implementation and application guidance all accountants whether practicing or non-practicing have to participate and contribute effectively to the convergence process so the need is to have a systematic approach to make the organization and the investors ready for the change and the for renovation . In reporting under statute, the auditor must ensure full compliance with statutory requirements. More than 100 countries will adopt IFRS during the next five years. The accounting as a discipline all over the world is improving. In India, development and research in the field of accounting have been very dismal and adoption of accounting standards has been very slow when compared to other nations. Integration of diverse accounting standards may sound very easy, but in practice it is very difficult to achieve. It is also observed that rule-based accounting leads companies to work around the rule. Implementation of IFRS is a top priority today for all the regulators and accounting standard setters across the world are working together on adoption of IFRS.

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