INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INDIAN ACCOUNTING STANDARDS

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The drastic changes since the early 90's in economic philosophy and environment coupled with privatization and globalization has necessitated advancement in accounting principles followed in India and in global practices relating to corporate financial reporting. The present article primarily discusses the need for globalization of financial reporting practices and the Indian roadmap to take the Indian financial reporting norms closer to international practices along with its pros and cons. This article consists of nine sections dealing with meaning of International Financial Reporting Standards &Indian Accounting Standards, Adoption of IFRS V. Convergence, Need for Globalization of Financial Reporting Standards, Roadmap for Convergence in India, Present Status of Converged Indian Accounting standards, Risks associated with Convergence, Effect of Indian Accounting Standards on Income Tax and Tax Returns and concluding observations respectively.

1 International Financial Reporting Standards

The International Financial Reporting Standards (IFRSs) mean the International Accounting Standards(IASs) issued between 1973 and 2001 by the International Accounting Standards Committee (IASC),Accounting Standards Interpretations issued by standard Interpretation Committee(SIC) Of IASC, the International Financial Reporting Standards issued from 2001 onwards by the International Accounting Standards Board(IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. IASB is a privately funded international accounting standards setter based in London. At present, there are 29 International Accounting Standards(IASs), 11 interpretations issued by Standards Interpretations Committee, 9 International Financial Reporting standards (IFRSs) and 16 interpretations issued by International Financial Reporting Interpretations Committee.

2 Indian Accounting Standards

Indian Accounting Standards are the standards are the standards issued by the Central government in consultation with the National Advisory Committee on Accounting

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Standards (NACAS). Since the beginning of the 21st Century, particularly in the later half of the first decade, the move is to harmonise the Indian financial reporting practices with the International financial reporting norms. The harmonization of the country specific reporting with global reporting practices may be achieved by following either adoption approach or adaption/ convergence approach.

Adoption of IFRSs means following the IFRS in toto without any exception. Convergence with IFRSs means achieving harmony with IFRSs. In other words, convergence with IFRSs can be considered as designing and applying the national accounting standards to ensure that financial statements prepared in accordance with the national accounting standards draw an unreserved compliance with IFRSs. Paragraph 14 of the International Accounting Standard (IAS) 1 states that financial statements shall not be described as complying with the IFRS unless they comply with all the requirements of IFRS. However, the IASB accepts in its 'Statement of Best Practice: Working relationship between the IASB and other accounting standards setters' that adding disclosure requirements or removing optional treatments does not create non-compliance with IFRSs. In fact, the IASB wants to remove optional treatments from IFRSs. This makes it sufficiently clear that if a country wants to add a disclosure that is considered necessary in the local environment or removes an optional treatment, this will not amount to non-convergence with the IFRSs i.e. it can still be said to comply with the IFRSs. Thus, convergence with IFRSs means adoption of IFRSs with the aforesaid exceptions, where necessary.

There has been a lot of debate in the past over the question whether India should adopt IFRSs or it should converge its own Accounting Standards with IFRSs. Finally, it was decided by the Government of India, in consultation with the ICAI and the National Advisory Committee on Accounting Standards (NACAS) constituted under section 210A of the Companies Act, 1956, that India should converge its national Accounting Standards with IFRS and should not adopt the same. To achieve this, Indian Accounting Standards are revised to fall in line with the IFRSs. The ministry of Corporate Affairs has notified 35 converged Indian accounting standards.

3 Adoption of IFRS *vs* Convergence

IFRSs issued by the IASB are not country specific; they are meant to be applied across the globe. Each country has its own peculiarities. Even the European Union (EU) examines the IFRSs issued by IASB and considers, before their application by companies being made mandatory, whether any changes are required in them or not. In Indian context, it was observed that adoption of IFRSs may not be practicable and departures will have to be made mainly on the following grounds:

(I) Legal and regulatory environment prevailing in the country

Different regulators may prefer to enforce a particular accounting standard from a date as they consider appropriate. Due to the different legal environment prevailing in India, adoption of IFRS without any modification is not practicable. For example, IAS 1 'Presentation of Financial Statements' gives the option to follow different terminology for the titles of the financial statements. This option has been removed in the converged Indian Accounting Standard 1 'Presentation of Financial Statements' by prescribing only one terminology to be used by all the entities, e.g. use of the term 'balance sheet' instead of the term 'Statement of financial position'. These changes are considered necessary keeping in view the terminology prevalent in the country. Various laws use this term and it is not practicable to change them at each and every place. Further, IAS 1 requires an entity to present an analysis of expenses recognized in the Statement of Profit and Loss using a classification based on either their nature or their function within the entity. The converged Indian Accounting Standard 1 requires the entity to present only nature wise classification of expenses as the Schedule VI to the Companies Act, 1956 is based on the nature wise approach. Further, Indian companies are accustomed to present the nature wise classification of the expenses so far and at the same time, presenting the expenses only nature wise does not lead to non-convergence.

(ii) Economic environment prevalent in the country

Certain IFRSs have been framed on the presumption of certain economic environment. For example, IAS 41 'Agriculture' has been based on the fair value approach but markets in India may not have adequate depth and breadth for determination of the fair value in a reliable manner in the present economic environment.

(iii) Industry preparedness and practices in the country

Certain changes in the convergence process may be required in view of the prevailing industry practices in the country. For example, International Financial Reporting Interpretations Committee 15 (IFRIC 15) requires the real estate developers to recognize the revenue in their financial statements based on the completion method i.e. only in the last year of the completion of the project. In that case, the Profit & Loss Account of the developers will not truly and fairly reflect the performance of the business, as during the past years the real estate project continues, no revenue will be recognized. In other words, the Profit & Loss Account will not reflect the measure of performance of the business.