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The Implementation of IND AS and Its Transitional Impact on Indian Companies

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ABSTRACT:
Indian Companies have a far more global access as compared to earlier days and also because of leveraged policies of Indian Government toward the flow of FDI, a need was felt to introduce globally accepted Accounting Standards (IFRS). Most of the Countries in the world follow or adopt IFRS/IAS issued by International Accounting Standard Board (IASB). In India the Government has decided to converge and not to adopt IFRS. So, the converged IFRS named as IND AS has been notified by Government to implement it in phased manner by Indian Companies. This study covers the implementation of IND AS and its transitional impact on Indian Companies. Mandatory IFRS adoption attracts foreign analysts, particularly those from countries that are simultaneously adopting IFRS along with the covered firm's country and those with prior IFRS experience. Mandatory IFRS adoption improves foreign analysts' forecast accuracy.

The enterprises are classified and labeled as Level I, Level II and Level III companies. Based on this classification and the category in which they fall the Accounting standards are applicable to the enterprises. Companies can voluntarily adopt Ind AS for accounting periods beginning on or after 1 April 2015 with comparatives for period ending 31 March 2015 or thereafter. However, once they have chosen this path, they cannot switch back. We conclude that implementation of IFRS is benefited to the economy by increasing the growth of its international business. Financial statements prepared using a common set of accounting standards help investors in better understanding the investment opportunities. The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the individual and group financial statements and thereby reduces the cost of financial reporting. Empirical findings suggest that both accounting convergence and higher quality information under IFRS are the likely drivers of the comparability improvement. We suggest the mandatory IFRS adoption improves cross-country information comparability by making similar things look more alike without making different things look less different.

Keywords: Indian Accounting Standards (IND AS), International Accounting Standard Board (IASB), IFRS (International Financial Reporting Standards), IAS (International Accounting Standards), Ministry of Corporate Affairs (MCA), IRDA (Insurance Regulatory and Development Authority of India).

The Implementation of IND AS and Its Transitional Impact on Indian Companies

I. INTRODUCTION

Every country has followed their own accounting policies and accounting standards. But in the past few decades, the global economic scenario has changed significantly. Now there are transnational companies that operate in multiple nations. So now there is a requirement for a standard global standard. As on date 123 countries across the globe have converged with IFRS, India is soon to join the bandwagon. The Ministry of Corporate Affairs in its press release dated 25.2.2011 notified 35 Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called Draft IND AS). Further, On 2 January 2015, the Press Information Bureau, Government of India, Ministry of Corporate Affairs (MCA) issued a note outlining the various phases in which Indian Accounting Standards converged with IFRS (Ind AS) is proposed to be implemented in India, for Companies other than Banking Companies, Insurance Companies and NBFCs. Consequently, the companies will need to convert their accounts from Indian GAAP to IFRS.

Accounting Standards are written policy documents issued by expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation, and disclosure of accounting transactions in financial statements. The Indian Accounting Standards (IND AS) are Accounting Standards, harmonized with IFRS (International Financial Reporting Standards)/IAS (International Accounting Standards) to make Financials Accounts and Reports of Indian Companies internationally accessible, acceptable, transparent and comparable.

Indian Companies have a far more global access as compared to earlier days and also because of leveraged policies of Indian Government toward the flow of FDI, a need was felt to introduce globally accepted Accounting Standards (IFRS). Most of the Countries in the world follow or adopt IFRS/IAS issued by International Accounting Standard Board (IASB). In India the Government has decided to converge and not to adopt IFRS. So, the converged IFRS named as IND AS has been notified by Government to implement it in phased manner by Indian Companies.

II. LITERATURE REVIEW

Emmanuel T. De George; Colin B. Ferguson, Nasser A. Spear(2013) in this study covers evidence of a directly observable and significant cost of International Financial Reporting Standards (IFRS) adoption, by examining the fees incurred by firms for the statutory audit of their financial statements at the time of transition. They used a comprehensive dataset of all publicly traded Australian companies; they quantify an economy-wide increase in the mean level of audit costs of 23 percent in the year of IFRS transition. It concludes that estimated an abnormal IFRS-related increase in audit costs in excess of 8 percent, beyond the normal yearly fee increases in the pre-IFRS period. This study provides evidence that small firms incur disproportionately higher IFRS-related audit fees. Empirical findings suggest that firms with greater exposure to audit complexity exhibit greater increases in compliance costs for the transition to IFRS.

Rita W. Y. Yip; Danqing Young (2012) in their study examined the mandatory adoption of International Financial Reporting Standards (IFRS) in the European Union significantly improves information comparability in 17 European countries. They studied the three proxies of accounting functions that translate economic events into accounting data, the degree of information transfer, and the similarity of the information content of earnings and of the book value of equity to measure information comparability. Their results suggest that mandatory IFRS adoption improves cross-country information comparability by making similar things look more alike without making different things look less different. Also suggest that both accounting convergence and higher quality information under IFRS are the likely drivers of the comparability improvement. In addition, they found evidence that cross-country comparability improvement is affected by firms' institutional environment.

Hongping Tan, Shiheng Wang (2011) this study investigated the accounting harmonization it effect in one particular group of financial statement user and financial analysts. They found that mandatory International Financial Reporting Standards (IFRS) adoption attracts foreign analysts, particularly those from countries that are simultaneously adopting IFRS along with the covered firm's country and those with prior IFRS experience. Mandatory IFRS adoption improves foreign analysts’ forecast accuracy. The change in analyst following increases with the distance between prior local Generally Accepted Accounting Principles (GAAP) and IFRS and with the extent to which IFRS adoption eliminates GAAP differences between the firm's country and the analyst's country. IFRS adoption also attracts more local analysts, particularly those with prior IFRS experience and with an international portfolio prior to mandated IFRS adoption in their home country. Local analysts’ forecast accuracy is not affected by IFRS adoption. This study suggests that accounting harmonization brings comparability benefits that enhance the usefulness of accounting data.

Objectives of the study:
The present paper attempts to study the implementation of IND AS and its transitional impact on Indian Companies and to come out with suggestions for improving the usefulness of accounting data.

III. METHODOLOGY

For the Purpose of the study secondary data has been taken from the published articles in journal, news papers, magazines and websites.

Scope of the Study:

The present study is confined to the implementation of IND AS and its transitional impact on Indian Companies. The study covers all important aspects of IND AS and takes the suggestions for improving the hurdle in implementing standards.

Limitations:

The study is used the secondary data for examine the crowd funding and P2P lending in India, which were collected from the published research articles, books and websites. Therefore the accuracy of the data depends on the accuracy ensured in the data presented.

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Classification of Enterprises:

The enterprises are classified and labeled as Level I, Level II and Level III companies. Based on this classification and the category in which they fall the Accounting standards are applicable to the enterprises

Level I Enterprises

Enterprises which fall under any one or more category below mentioned are termed as Level I Companies

1. Enterprises whose equity or debt securities are listed whether in India or outside India
2. Enterprises which are in the process of listing their equity or debt securities. Board of directors' resolution must be available as an evidence
3. Banks including co-operative banks
4. Financial institutions
5. Enterprises carrying on insurance business
6. All commercial, industrial and business reporting enterprises, whose turnover not including 'other income' for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore
7. All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crores at any time during the accounting period
8. Holding and subsidiary enterprises of any one of the above at any time during the accounting period

Level II Enterprises

Enterprises which fall under any one or more category below mentioned are termed as Level II Companies

1. All commercial, industrial and business reporting enterprises, whose turnover (excluding 'other income') for the immediately preceding accounting period on the basis of audited financial statements is greater than Rs. 40 lakhs but less than Rs. 50 crore
2. All commercial, industrial and business reporting enterprises having borrowings, including public deposits, is greater Rs. 1 crore but less than Rs. 10 crores at any time during the accounting period
3. Holding and subsidiary enterprises of any one of the above at any time during the accounting period

Level III Enterprises

Enterprises which do not fall under Level I and Level II, are considered as Level III enterprises.

Implementing IFRS in India:

Voluntary adoption

Companies can voluntarily adopt Ind AS for accounting periods beginning on or after 1 April 2015 with comparatives for period ending 31 March 2015 or thereafter. However, once they have chosen this path, they cannot switch back.

Mandatory applicability:

Phase I

Ind AS will be mandatorily applicable to the following companies for periods beginning on or after **1 April 2016**, with comparatives for the period ending **31 March 2016** or thereafter:

1. Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of 500 crore INR or more.
2. Companies having net worth of 500 crore INR or more other than those covered above.
3. Holding, subsidiary, joint venture or associate companies of companies covered above.

Phase II

Ind AS will be mandatorily applicable to the following companies for periods beginning on or after **1 April 2017**, with comparatives for the perio d ending **31 March 2017** or thereafter:

1. Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside

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India and having net worth of less than rupees 500 Crore.
2. Unlisted companies other than those covered in Phase I and Phase II whose net worth are more than 250 crore INR but less than 500 crore INR.
3. Holding, subsidiary, joint venture or associate companies of above companies.

Phase III
Mandatory applicability of IND AS to all Banks, NBFCs, and Insurance companies from 1st April 2018, whose:
Net worth is more than or equal to INR 500 crore with effect from 1st April 2018.
IRDA (Insurance Regulatory and Development Authority) of India shall notify the separate set of IND AS for Banks & Insurance Companies with effect from 1st April 2018. NBFCs include core investment companies, stock brokers, venture capitalists, etc. Net Worth shall be checked for the past 3 financial years (2015-16, 2016-17, and 2017-18)
Phase IV
All NBFCs whose Net worth is more than or equal to INR 250 crore but less than INR 500 crore shall have IND AS mandatorily applicable to them with effect from 1st April 2019.

SEBI Clarification:

For all the issuer companies whose offer documents are filed with SEBI on or after 1st April 2016, SEBI has issued a clarification on the applicability of the Indian Accounting Standards (IND AS) and disclosures to be made in the offer documents. Typically, SEBI requires issuer companies to disclose financial information for the previous 5 financial years immediately preceding the year of filing of the offer document, while following uniform accounting policies for each of the financial years. For those issuer companies filing an offer document these points can be noted:
1. Up to March 31, 2017, all of the financial statements filed by them can be under Indian GAAP.
2. Between April 1, 2017 and March 31, 2018, disclosures in the previous three financial years immediately preceding the relevant financial year will have to be made under the IND AS principles, while disclosures for the remaining two financial years may be done under Indian GAAP.
3. Between April 1, 2018, and March 31, 2019, disclosures in the previous three financial years immediately preceding the relevant financial year will have to be made under the IND AS principles, while disclosures for the remaining two financial years may be done under Indian GAAP.
4. Between April 1, 2019 and March 31, 2020, disclosures in the previous four financial years immediately preceding the relevant financial year will have to be made under the IND AS principles, while disclosures for the remaining one financial year may be done under Indian GAAP.
5. On or after April 1, 2020, disclosures in all the previous five financial years will have to be made as per the IND AS principles.

IV. CONCLUSION AND SUGGESTIONS:

The purpose of this study is to evaluate the implementation of accounting standards issued in India by Accounting Standard Board (ASB) and international financial reporting standards (IFRS) issued by International Accounting Standard Board (IASB). We conclude that the market are expands globally, the need for a global standard also increases. Implementation of IFRS is benefit to the economy by increasing the growth of its international business. It facilities the maintenance of orderly and efficient capital markets and also helps in increasing the capital growth and thereby economic growth.

Financial statements prepared using a common set of accounting standards help investors in better understanding the investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. For better understanding of financial statements, global investors have to incur more costs in terms of time, effort and money to convert them so that they can better understand global opportunities. Investor's confidence would be stronger if accounting standards used are globally accepted.
A major push towards implementing IFRS has been coming from the industry. The reason being that the industry would be able to raise capital from foreign markets at a lower cost if it can create confidence in the minds of foreign investors that its financial statements comply with globally accepted accounting standards. The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the individual and group financial statements and thereby reduces the cost of financial reporting. The findings suggest that both accounting convergence and higher quality information under IFRS are the likely drivers of the comparability improvement; hence implementation of IND AS and its transitional impact on Indian Companies are positive.

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Annexure:

Table 1: List of Indian Accounting Standards (IAS)

S. No.	Standard No.	Title of accounting standard
1	AS 1	Disclosure of Accounting Policies
2	AS 2	Valuation of Inventories
3	AS 3	Cash Flow Statements
4	AS 4	Contingencies and Events Occurring after the Balance Sheet Date
5	AS 5	Net Profit or Loss for the period,Prior Period Items and Changes in Accounting Policies
6	AS 6	Depreciation Accounting
7	AS 7	Construction Contracts (revised 2002)
8	AS 9	Revenue Recognition

9	AS 10	Accounting for Fixed Assets
10	AS 11	The Effects of Changes in Foreign Exchange Rates (revised 2003),
11	AS 12	Accounting for Government Grants
12	AS 13	Accounting for Investments
13	AS 14	Accounting for Amalgamations
14	AS 15	Employee Benefits (revised 2005)
15	AS 16	Borrowing Costs
16	AS 17	Segment Reporting
17	AS 18	Related Party Disclosures
18	AS 19	Leases
19	AS 20	Earnings Per Share
20	AS 21	Consolidated Financial Statements
21	AS 22	Accounting for Taxes on Income.
22	AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
23	AS 24	Discontinuing Operations
24	AS 25	Interim Financial Reporting
25	AS 26	Intangible Assets
26	AS 27	Financial Reporting of Interests in Joint Ventures
27	AS 28	Impairment of Assets
28	AS 29	Provisions,Contingent` Liabilities and Contingent Assets

Table 2: List of Ind Accounting Standards (Ind AS)

S.No.	Standard No.	Title of Accounting Standard
1	Ind As 101	First-time Adoption of Indian Accounting Standards
2	Ind AS 102	Share based Payment
3	Ind AS 103	Business Combinations
4	Ind AS 104	Insurance Contracts
5	Ind AS 105	Non-current Assets Held for Sale and Discontinued Operations
6	Ind AS 106	Exploration for and Evaluation of Mineral Resources
7	Ind AS 107	Financial Instruments
8	Ind AS 108	Operating Segments
9	Ind AS 1	Presentation of Financial Statements
10	Ind AS 2	Inventories
11	Ind AS 7	Statement of Cash Flows
12	Ind AS 8	Accounting Policies, Changes in Accounting Estimate
13	Ind AS 10	Events after the Reporting Period
14	Ind AS 11	Construction Contracts
15	Ind AS 12	Income Taxes
16	Ind AS 16	Property, Plant and Equipment
17	Ind AS 17	Leases
18	Ind AS 18	Revenue
19	Ind AS 19	Employee Benefits

20	Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance
21	Ind AS 21	The Effects of Changes in Foreign Exchange Rates
22	Ind AS 23	Borrowing Costs
23	Ind AS 24	Related Party Disclosures
24	Ind AS 27	Consolidated and Separate Financial Statements
25	Ind AS 28	Investments in Associates
26	Ind AS 29	Financial Reporting in Hyperinflationary Financial Economies
27	Ind AS 31	Interests in Joint Ventures
28	Ind AS 32	Financial Instruments
29	Ind AS 33	Earnings per Share
30	Ind AS 34	Interim Financial Reporting
31	Ind AS 36	Impairment of Assets
32	Ind AS 37	Provisions, Contingent Liabilities and Contingent
33	Ind AS 38	Intangible Assets
34	Ind AS 39	Financial Instruments
35	Ind AS 40	Investment Property

Table 3: List of International Financial Reporting Standards (IFRS)

S.No.	Standard No.	Title of Accounting Standard
1	IAS 1	Presentation of Financial Statements
2	IAS 2	Inventories
3	IAS 7	Statement of Cash Flows
4	IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
5	IAS 10	Events after the Reporting Period
6	IAS 12	Income Taxes
7	IAS 16	Property, Plant and Equipment
8	IAS 17	Leases
9	IAS 19	Employee Benefits
10	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
11	IAS 21	The Effects of Changes in Foreign Exchange Rates
12	IAS 23	Borrowing Costs
13	IAS 24	Related Party Disclosures
15	IAS 27	Separate Financial Statements
16	IAS 28	Investments in Associates and Joint Ventures
17	IAS 29	Financial Reporting in Hyperinflationary Economies
18	IAS 32	Financial Instruments: Presentation
19	IAS 33	Earnings per Share
20	IAS 34	Interim Financial Reporting
21	IAS 36	Impairment of Assets
22	IAS 37	Provisions, Contingent Liabilities and Contingent Assets

23	IAS 38	Intangible Assets
24	IAS 39	Financial Instruments: Recognition and Measurement
25	IAS 40	Investment Property
26	IAS 41	Agriculture
27	IFRS 1	First-time Adoption of International Financial Reporting Standards
28	IFRS 2	Share-based Payment
29	IFRS 3	Business Combinations
30	IFRS 4	Insurance Contracts
31	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
32	IFRS 6	Exploration for and Evaluation of Mineral Resources
33	IFRS 7	Financial Instruments: Disclosures
34	IFRS 8	Operating Segments
35	IFRS 9	Financial Instruments
36	IFRS 10	Consolidated Financial Statements
37	IFRS 11	Joint Arrangements
38	IFRS 12	Disclosure of Interests in Other Entities
39	IFRS 13	Fair Value Measurement
40	IFRS 14	Regulatory Deferral Accounts
41	IFRS 15	Revenue from Contracts with Customers

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