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Indian Gaap and IFRS : is Convergance Possible?

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ABSTRACT *Economic growth and increasing integration of Indian economy with global peers has led Indian corporate to raise capital globally . So it would be imperative for Indian corporate to adopt IFRS for their financial reporting. The first announcement of a plan to converge came in July 2007. While suffering various setbacks through delays in recent years, the current roadmap indicates that certain companies will have to mandatorily adopt Ind AS (Indian Accounting Standards) next year. The feasibility of international financial reporting standards (IFRS) in India needs serious attention when we are all set to upgrade the accounting standards to international financial reporting standards (IFRS) from 2016 as per the recommendation of international accounting standards board (IASB).So it is imperative to think of its feasibility and assessment of compatibility of domestic accounting standards with International Standards (IFRS).*

Introduction

"Multinational companies are increasingly looking at the Indian market to grow their business, as India continues to be committed to adopting highest standards of corporate governance and financial reporting. IFRS is once again back in the news with India looking at converging to this global financial reporting framework in the near future. Therefore, it is imperative that accountants, auditors, investors and other stakeholders are aware of the international standards in order to keep pace. I am confident that this publication by Grant Thornton India LLP, will serve as a concise ready reference for everyone to navigate through the significant differences and similarities between Indian GAAP, IFRS and US GAAP." Nabeel Ahmed, Partner, Grant Thornton India LLP

The purpose of this publication is to help readers identify the significant differences and similarities between Indian GAAP and IFRS as issued by the IASB. Indian GAAP considered in this publication comprises of Accounting Standards notified by the MCA, Schedule VI to the Companies Act, 1956 and selected Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI) applicable to companies

List of differences between Ind AS and IFRS

The point of this research paper is to headline the big, irreconcilable differences between Ind AS and IFRS so that one could look with added importance to these facets and try to solve them. It would be advisable at this point to separate the aforementioned differences into various subcategories based on their various degrees of irreconcilability. Therefore, the subcategories are the following:

possible irreconcilable differences,

repairable differences and

textual differences.

The focus is mostly on the possible **irreconcilable differences** between Ind AS and IFRS. These are :

- Ind AS 103: Business Combinations in contrast to IFRS 3: Business Combinations
- Ind AS 19: Employee Benefits in contrast to IAS 19: Employee Benefits
- Ind AS 32: Financial Instruments-Presentation in contrast to IAS 3

repairable differences **between Ind AS and IFRS:**

- *Ind AS 1 – Presentation of Financial Statements*: The repairable difference in this standard has to do with breaching certain covenants of long-term liabilities and whether it should be a current liability if the lender has not demanded payment as a consequence of the aforementioned breach. It is when the lender agrees after the reporting period but before the approval of financial statements where IFRS and Ind AS differ in their practicality. IFRS continues to classify the liability as current even if the lender has agreed in that time, whereas Ind AS does not
- *Ind AS 10 - Events after the Reporting Period*: The difference lies in what each set of standards does with lender permission after the reporting period but before the financial statements are due as aforementioned, thus making it practical by nature.
- *Ind AS 12 – Income Taxes:*. According to IFRS, any remaining deferred tax benefit is recognized in profit & loss whereas in Ind AS, it is recognized in OCI and subsequently accumulated either in equity as a capital reserve or recognized directly in capital reserve.
- **Ind AS 17 – Leases:** Property interests in operating leases are recognized in IFRS using the fair value model, not allowed in the Indian accounting environment
- *Ind AS 21 – The Effects of Changes in Foreign Exchange Rates*:. A repairable difference is that IFRS requires that all gains and losses arising on retranslation of monetary assets and liabilities denominated in a foreign currency to be recognized in profit or loss. "Ind AS adds an option for entities if the entity wants to recognize unrealized exchange differences arising on translation of long-term monetary items denominated in a foreign currency directly in equity, and accumulated as a separate component therein.
- *Ind AS 24 – Related Party Disclosures*: The repairable difference arising from Ind AS containing an option which eliminates the need for related party disclosures

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if they conflict with "the confidentiality requirements of statute, a regulator or similar competent authority, on the basis that accounting standards cannot override legal/regulatory requirements." IFRS requires that disclosures be made in any case.

- *Ind AS 28 – Investments in Associates and Joint Ventures*:. For IFRS, it is included in profit & loss during the same period it occurs in. For Ind AS, it is directly recognized as capital reserve in equity
- *Ind AS 38 – Intangible Assets* Ind AS allows some leeway when it comes to using the same amortization policy of intangible assets related to service concession arrangements when it comes to toll roads as it did in Indian GAAP. It allows the entity to incorporate the same policies used in Indian GAAP during the first new years of Ind AS convergence. This option is not seen in IFRS.
- *Ind AS 110 – Consolidated Financial Statements*: The difference in this has to do with investment property measurement, done in IFRS through fair value basis. The fair value model is not yet allowed in Ind AS.
- *Ind AS 7 – Statement of Cash Flows*: Ind AS contains stringent rules on what to do with interest and dividends, something that IFRS gives an entity leeway to, as long as there is consistency between period to period. Ind AS gives different rules for financial entities when compared to others, as interest paid and received as well as dividend received are operating activities. Furthermore, dividend paid is a financing activity. For all other entities in compliance with Ind AS, interest and dividend received are investing activities while interest and dividend paid are financing activities.
- *Ind AS 27 – Separate Financial Statements:* The difference involves accounting for the investments in subsidiaries in separate financial statements of the parent. IFRS either uses the cost method (IFRS 9) or equity method (IAS 28), whereas in Ind AS, an entity is only allowed to use the cost method.
- *Ind AS 40 – Investment Property*: The only difference in this standard involves which technique an entity measures investment property with. IFRS allows an option or either cost or fair value. For Ind AS, the fair value option is not allowed, therefore making investment property only at cost.

Possible Irreconcilable Differences

Using an analysis of all the differences between Ind AS compared to IFRS, it wouldn't be erroneous to state that there are three possible irreconcilable differences amongst the two sets of standards. These three differences are seen in the standards

Ind AS 19 – Employee Benefits: Employee Benefits The possible irreconcilable difference in this topic lies in the usage of the discount rate for post-employment benefit obligations

Ind AS 32 – Financial Instruments: Presentation : The possible irreconcilable difference in this section between Ind AS and IFRS arises when it comes to the definition of a financial liability. When it comes to the conversion option embedded in a foreign currency convertible bond (FCCB), IFRS only recognizes equity in the form of the entity's functional currency. Thus, IFRS users have to fair value this instrument at the end of every reporting period, with differences being 42 accounted for in profit & loss.

Ind AS 103 – Business Combinations.: Ind AS 103 acknowledges and gives guidance on what to do regarding accounting of assets under common control. It prescribes the pooling of interests method to account for this type of business combination.

Before concluding this thesis, it would be profitable to list out the advantages and disadvantages/challenges of convergence to IFRS when it specifically applies to the Indian economy.

- **Increased comparability**: Adoption or convergence of IFRS leads to increased comparability of financial statements with some of the biggest markets in the world. Even though the US still uses GAAP, it allows IFRS in its capital markets because of the volume of its worldwide usage (not to be confused with EUendorsed IFRS).
- **Increased transparency**: When compared to Indian GAAP, IFRS contains a lot of additional disclosures in various areas, adding more transparency to the Indian business environment. This gives added security to stakeholders and investors, who are subjected to much more information with Ind AS when compared to Indian GAAP. Increased transparency also leads to better communication between the entity's stakeholders and its management.
- **Convergence allows companies more leeway than adoption**: Convergence towards IFRS as opposed to direct adoption allows companies to smooth its financial statements from the previously used Indian GAAP better. This is at times favorable to direct adoption, which could be seen as adding heavy volatility due to the drastic nature of changes in the Indian business environment. The following contains some disadvantages or challenges seen from convergence to IFRS, the world's most prevalent accounting standard:
- **Still unable to achieve complete comparability**: Because India is converging to IFRS as opposed to directly adopting it, the level of acceptability of Ind AS financial statements will be less in other capital markets seeing as it is not IFRS in full. If an Indian company wants to place its financial statements on a prominent international capital market, it will once again have to provide different financial 50 statements in accordance to IFRS in order to enter and trade. While using Ind AS is preferable to using Indian GAAP when it comes to switching towards IFRS, it is still not as better off as direct adoption of IFRS.
- **High degree of difference between Indian GAAP and IFRS**: When considering Indian GAAP, the current accounting standard used by India today, the differences between it and IFRS are widely seen. Convergence to IFRS could lead to big changes in the financial statements of Indian entities, something which may negatively affect the current Indian business environment.

Until July 2007, there was no real attempt to try and converge to IFRS, the world's prevailing set of accounting standards. The ICAI's announcement of a convergence plan in July 2007 set the wheels in motion towards IFRS convergence. While several delays have occurred in the buildup to adoption of Ind AS, we believe the current roadmap will be followed to its completion, leading to Ind AS being introduced in practice from 1 April, 2016. Some Indian entities have already responded to these wholesale changes, with many of their faculty going through training procedures in order to grasp Ind AS

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