

# Application of Ind-AS, AS and IFRS and Its Implication in Practical Approach

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## Abstract

The term international financial reporting standards comprises of international financial reporting standards(IFRS), international accounting standards(IAS), interpretations from the international financial reporting interpretation committee (IFRIC), interpretations from standing interpretation committee (SIC). Existing AS refers to existing accounting standards notified under companies (accounting standards) Rules, 2006. In India, the Ministry of Corporate Affairs laid down the roadmap for application of Ind AS which is convergence form of IFRS. Companies' rules, 2015 has also notified to implement Ind AS from 1st April, 2015 either voluntarily or following the 3 phrase released by MCA. This paper is an attempt to describe the initiatives taken by India for convergence to International financial reporting standards. In this paper difference between IFRS and Ind AS has been discussed for Carve out from IFRS in the relevant Ind AS's and other major changes as notified by Ministry of corporate affairs (MCA).

Ind AS (as commonly known in India), is essentially bringing in the global standards on accounting to India. Corporate entities have already started implementing Ind AS from April 1, 2016, in a phased manner, whereas banks and NBFCs started implementing it from April 1, 2018,

**Keywords:** International Financial Reporting Standards (IFRS), carves out, convergence.

## Introduction

With a view to increase acceptability and transparency of their financial statement, the ICAI initiated the process of moving towards the IFRS issued by IASB. The government of India subsequently accepted this move towards IFRS.

International Financial Reporting Standards (IFRS) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB).

The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting.

Having an international standard is especially important for large companies that have subsidiaries in different countries. Adopting a single set of world-wide standards will simplify accounting procedures by allowing a company to use one reporting language throughout. A single standard will also provide investors and auditors with a cohesive view of finances. IFRS requires businesses to report their financial results and financial position using the same rules; this means that, barring any fraudulent manipulation, there is considerable uniformity in the financial reporting of all businesses using IFRS, which makes it easier to compare and contrast their financial results.

IFRS is used primarily by businesses reporting their financial results anywhere in the world except the United States. Generally Accepted Accounting Principles, or GAAP, is the accounting framework used in the United States. GAAP is much more rules-based than IFRS.

Ind AS is a principle based standard, the Regulators could provide simplified guidelines for ease of implementation and bringing consistency in implementation.

## Review of Literature

The German philosopher and cultural critic Friedrich Nietzsche, on the power of a new system, once said: 'the reputation, name and appearance, the usual measure and weight of a thing, what it counts for – originally almost always wrong and arbitrary – grows from generations unto generations, merely because people believe in it, until it gradually grows to be a part of the things and turns into its very body'. New Accounting Standards (read IFRS) are also a type of new system which could make or shake up Indian banking system. Cai & Wong (2010) in their study of global capital markets summarized that the capital markets of the countries that have adopted IFRS have higher degree of integration among them after their IFRS adoption as compared to the period before the adoption. Paananen & Lin (2009) gave a contrary view to prior research that IFRS adoption ensures better quality of accounting information. Their analysis of German companies reporting showed that accounting information quality has worsened with the adoption of IFRS over time. They also suggested that this development is less likely to be driven by new adopters of IFRS but is driven by the changes of standards.

Kannan (2003) conducted a study regarding international standards with respect to banking operations and importance of corporate financial reporting in corporate governance and documentation of the changes occurred in corporate reporting practices.

He has given justifiable suggestions for their gradual introduction in the Indian Banking sector. Dangwal and Singh (2005) in his study observed some interesting issues with regard to the financial reporting of banking companies in India and finds that the quality of financial reporting enables the banks to capitalize their underlying strengths, disclosure practices and social viability. Epstein (2009) studied Economic effects of IFRS adoption by emphasizing on the fact that universal financial reporting standards will increase market liquidity, decreases transaction costs for investors, lower cost of capital and facilitate international capital flows.

*Ind AS: An Overview*

“There is an urgent need to converge the current Indian accounting standards with the International Financial Reporting Standards (IFRS). I propose for adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis. Based on the international consensus, the regulators will separately notify the date of implementation of Ind AS for the Banks, Insurance companies etc. Standards for the computation of tax would be notified separately”.

**Objectives**

1. To find out the mode of filling up the gap in application of accounting principles practices and economic conditions prevailing in India.
2. To present the difference between ind as an existing and
3. Challenges faced by bank in implementing Ind AS.

**Objective - 1**

The Ind AS have been prepared by National Advisory Committee on Accounting Standards (NACAS) along with MCA and ICAI the draft Ind AS after due deliberations on the comments and suggestions as given by industries representatives. The finally recommended Ind AS have the following carve outs w.r.t IFRS. These carve outs have been made to fill up the gap/differences in application of Accounting Principles Practices and economic conditions prevailing in India.

As per Ind AS 21-The effects of changes in Foreign Exchange rates, on translation of monetary items from foreign currency to functional currency if there is any difference arising then this difference is to be recognized directly in Profit or Loss Account. But as per the carve out it must be recognized directly in equity. The accumulated exchange differences to be amortized to Profit or Loss Account in an appropriate manner.

As per Ind AS 28 - Investment in Associates the difference between the reporting period of an associate and that of the investor should not be more than three months. But as per carve out if the associate accounting policies are different from those of investor, the investor should change the financial statements of the

associate by using same accounting policies.

As per Ind AS 39 changes in fair value of financial liabilities, the initial recognition must be done in Profit or Loss. IFRS recognizes it in 'other comprehensive income'. But as per carve out a provision is to be created upon initial recognition at fair value through profit or loss. Any change in fair value consequent to change in the entity's own credit risk shall be ignored.

As per Ind AS 103- Business Combinations IFRS 3 requires bargain purchase gain arising on business combination to be recognized in profit or loss. But as per carve out Ind AS 103 requires the same to be recognized in other comprehensive income and accumulated in equity as capital reserve. It shall be recognized directly in equity as capital reserve only if there is no clear evidence for the underlying reason for classification of business combination.

As per Ind AS 101, First-time of Indian Accounting standards corresponding to IFRS 1.

IFRS 1 defines transitional date as beginning of the earliest period for which an entity presents full comparative information under IFRS. It is this date which is the starting point for IFRS and it is on this date the cumulative impact of transition is recorded based on assessment of conditions at that date by applying the standards retrospectively except to the extent specifically provided in this standard as optional exemptions and mandatory exceptions. Accordingly, the comparatives, i.e., the previous year figures are also presented in the first financial statement prepared under IFRS. But as per carve out Ind AS 101 requires an entity to provide comparatives as per the existing notified accounting standards. It is provided that, in addition to aforesaid comparatives, an entity may also provide comparatives as per Ind AS on a memorandum basis.

To explain the transition to IFRS from previous GAAP, IFRS 1 requires reconciliation for opening equity, total comprehensive income, cash flow statement and closing equity for the comparative period. But as per Carve out it is provided on memorandum basis and it is optional. Those entities which do not exercise this option are expected to disclose significant differences pertaining to the total comprehensive income.

- (iii) Cost of Non-current Assets Held for Sale and Discontinued Operations on the date of transition on First-time Adoption of Indian Accounting Standards (Ind AS)

**Carve out**

Ind AS 101 provides transitional relief that while applying Ind AS 105 - Non-current Assets Held for Sale and Discontinued Operations, an entity may use the transitional date circumstances to measure such assets or operations at the lower of carrying value and fair value less cost to sell.

Foreign currency gains/losses on translation of long term monetary items.

**Carve out**

Ind AS 101 provides that on the date of transition, if there are long-term monetary assets or long-term monetary liabilities mentioned in paragraph 29A of Ind AS 21, an entity may exercise the option mentioned in that paragraph regarding spreading over the unrealized Gains/Losses over the life of Assets/Liabilities either retrospectively or prospectively. If this option is exercised prospectively, the accumulated exchange differences in respect of those items are deemed to be zero on the date of transition.

Financial instruments existing on transition date

**Carve out**

Ind AS 101 provides that the financial instruments carried at amortised cost should be measured in accordance with Ind AS 39 from the date of recognition of financial instruments unless it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements of Ind AS 39. If it is impracticable to do so then the fair value of the financial asset at the date of transition to Ind-ASs shall be the new amortised cost of that financial asset at the date of transition to Ind ASs. Ind AS 101 provides another exemption that financial instruments measured at fair value shall be measured at fair value as on the date of transition to Ind AS.

Definition of previous GAAP under Ind AS 101 First time Adoption of Indian Accounting Standards IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS.

**Carve out**

Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting Ind ASs for its reporting requirements in India. For instance, for companies preparing their financial statements in accordance with the existing Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 shall consider those financial statements as previous GAAP financial statements.

Cost of Property, Plant and Equipment (PPE), Intangible Assets, Investment Property, on the date of transition of First-time Adoption of Indian Accounting Standards.

Ind AS 101 provides an entity an option to use carrying values of all assets as on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

**Objective - 2**

*2. To present the difference between ind as an existing as Ind AS refers to Indian Accounting Standards as converged with IFRS*

Difference between IFRS adoption and IFRS convergence

IFRS adoption: A country adopting IFRS is

implementing IFRS into its legislation in exact form as issued by IASB. Most of the countries adopted IFRS, rather than converged.

IFRS convergence: A country converging to IFRS cooperates with IASB to mutually develop compatible accounting and financial reporting standards (so, no 100% mere adoptions occur). A typical example of IFRS convergence is India itself. In India we have the converged IFRS in the form of Ind AS as issued by ICAI.

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.

Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. These changes have been made considering various factors, such as, various terminology related changes have been made to make it consistent with the terminology used in law.

Various steps have been taken to facilitate the implementation of IFRS-converged Indian Accounting Standards (Ind AS). Moving in this direction, the Ministry of Corporate Affairs (MCA) has issued the Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 covering the revised roadmap of implementation of Ind AS for companies other than Banking companies, Insurance Companies and NBFCs. As per the Notification, Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) shall be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April, 2016. Further, the MCA on March 30, 2016, has also notified the Roadmap for implementation of Ind AS for Scheduled Commercial Banks, Insurance companies and NBFCs from 1st April, 2018 onwards and also amendments to Ind AS in line with the amendments made in IFRS/IAS vide Companies (Indian Accounting Standards) Amendment Rules, 2016. However, IRDAI vide press release dated June 28, 2017 has deferred the implementation of Ind AS for the Insurance Sector in India for a period of two years and the same shall now be implemented as effective from 1st April 2020.

The Central Government notified 28 Accounting Standards (AS 1 to 7 and AS 9 to 29) in December 2006 in the form of Companies (Accounting Standard) Rules, 2006, after receiving recommendations of NACAS. These Accounting Standards are to be applied with effect from company financial year 2007-08, the accounts with respect to which are to be finalised during 2008-09. In notifying the Accounting Standards, the Government has adopted a policy of enabling disclosure of company accounts in a transparent manner at par with widely accepted international practices,

through a process of convergence with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). In doing so, the requirements of the companies functioning in the country are being kept in view. The initiative for harmonization of the Indian accounting standards with IFRS, taken up by NACAS in 2001 and implemented through notification of accounting standards by the Central Government in 2006, would be continued by the Government with the intention of achieving convergence with IFRS by 2011.

## Applicability of Indian Accounting Standards

The Initial date of implementation of Indian AS was 2011 but due to certain issues, Ministry of Corporate Affairs postponed its implementation date. In July 2014, the Finance Minister announced to apply Ind AS urgently. In February 2015, the Ministry of Corporate Affairs had issued the Companies (Indian Accounting Standards) Rules. It, therefore, revised the roadmap of implementation of Ind AS for companies and excluded the Banking companies, Insurance companies, and NBFC'S from it

As per the notification, from 1st April 2015, Ind AS shall be implemented on a voluntary basis and will be mandatory from 1st April 2016. Later on, it issued the roadmap for implementation on NBFC's, Banking companies, and Insurance companies.

## Phases of Adoption of Indian Accounting Standards

Ministry of Corporate Affairs has notified phase-wise adoption of Ind AS. Specific classes of companies based on their Net worth and listing status helps in this notification.

### Phase I

From 1st April 2016, Indian AS became mandatorily applicable to all companies provided:

It is a listed or unlisted company

Its Net worth is  $\geq$  ₹ 500 crores

Calculate Net worth using figures for the previous three Financial Years (31.03.2014, 31.03.2015 and 31.03.2016).

### Phase II

From 1st April 2017, Indian AS mandatorily applicable to all companies provided:

It is a listed company or is in the process.

Its Net worth is  $\geq$  ₹ 250 crores but  $\leq$  ₹ 500 crores (on any of the above dates).

Calculate Net worth using figures for the previous four Financial Years (31.03.2014, 31.03.2015, 31.03.2016 and 31.03.2017).

### Phase III

Indian AS became mandatorily applicable to all Banks, NBFCs and Insurance companies with effect from 1st

April 2018, provided:

Net worth is  $\geq$  ₹ 500 crores with effect from 1st April 2018.

IRDA has notified a separate set of Ind AS for Banking and Insurance Companies with effect from 1st April 2018. Core investment companies, stockbrokers, venture capitalists, etc. are all included in NBFCS.

Calculate Net worth using figures for the previous three Financial Years (31.03.2016, 31.03.2017 and 31.03.2018)

### Phase IV

From 1st April 2019, Indian AS mandatorily applicable to all NBFCs provided:

Net worth is  $\geq$  ₹ 250 crores but  $\leq$  ₹ 500 crores

Companies can follow Ind AS either voluntarily or mandatorily. But, once a company starts following Ind AS, it cannot revert back to its old method of Accounting.

The main difference between Ind AS and existing AS are

1. Ind AS are Substance based whereas AS are Rule based.  
Rule based mean less flexible and substance based means more flexible. For example under Ind AS 110 the holding company has control over its subsidiary and the definition of control is substance based. But as per AS 21 consolidation is required if a company holds more than 50% of the voting rights or control the board of directors.
2. Ind AS will be applicable in phases to mainly large companies where as AS is applicable not only to company but also to other entities.
3. Ind AS is more strict as it uses the word "shall" in its guidance whereas AS generally uses the word "should" which is more advisory in nature
4. Ind AS provide guidance on various transactions like agriculture, business combinations etc. whereas under AS guidance does not exist.
5. Ind AS is comprehensive as it incorporated various interpretations which are a part of IFRS. Under AS various guidance notes and other publications are available.
6. Ind AS have specific guidance on various matters like depreciation or revenue recognition. AS contains subjectivity at quite a few places

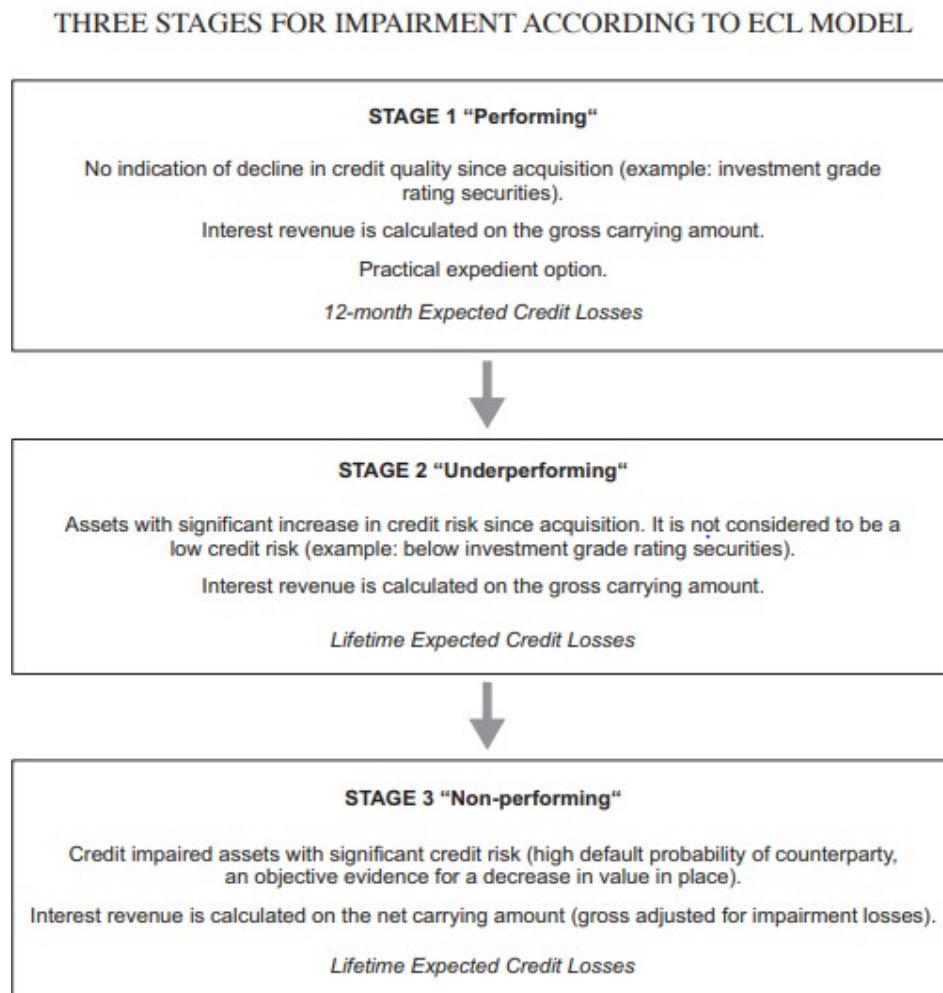
### Objective - 3.

3. Challenges faced by bank in implementing Ind AS.  
The new IFRS 9 impairment model is oriented more towards possible losses in future and therefore an entity should consider much more information in determination of such expectations of future credit losses. It involves anticipatory. Expected Credit Losses model that is expected to lead to the creation of much bigger risk provisions without fulfilling the objective impairment triggers of IAS 39. The new impairment model should be activated on the booking date 1 January 2018 in the transition process for the financial assets AT and FVOCI.

The new ECL impairment model consists of three stages for impairment based on changes in credit quality

(credit deterioration), that are shown in Figure 1.

Figure 1:



Source: Created by the authors according to the IFRS 9 - Financial Instruments.

Ind AS 109, an equivalent of IFRS 9 is the biggest impact of Ind AS, which impacts almost all line-items of bank's balance sheets. Ind AS 109 will lead to early recognition and higher provisions for loans and off-balance sheet exposures using expected credit loss (ECL) Model thereby impacting capital requirements. ECL model has its own unique complexities, it should be mapped to banks own risk management practices as it has similarities to BASEL computation. It involves use of

1. Bank specific data
2. Pooling homogeneous advances,
3. Appropriate staging of such advances
4. Determination of probability of default
5. Loss given default
6. Forward-looking adjustments.

This will differentiate and reflect real credit quality of individual banks' portfolios in their financial statements. The profitable and not so profitable portfolios of bank can be traced out as the estimated expected cash flows for non-performing loans on individual basis and provisioning for performing or underperforming loans at homogeneous pools levels will be made. As per the new provisions banks also need to reassess the price of their products especially in competitive and regulated environment.

To boost banks reserves and make them more volatile due to changes in market conditions, Ind AS 109 requires banks to present their investment portfolios based on their business model of holding those investment. Portfolios help for the sole purpose of yield will be carried at amortized cost, whereas portfolios

held for opportunistic sale or trading will be carried at fair value through other comprehensive income or P&L.

### Suggestions

- i. Provide adequate manpower to industry and fulfill the gap. It also helps in reduction of cost of preparedness.
- ii. Top management of companies should provide the IFRS training/workshops to their accounting staff to enable them familiar and competent.
- iii. By keep in mind the complexities of IFRS Companies should start conversion process within time frame with positive attitude.
- iv. Mandatory application should be enforced by ICAI and MCA for successfully and effective implementation of IFRS.
- v. IASB should publicize standards developed by it and get support from the accounting profession, member countries and corporate management all over the world.
- vi. Legislation should be passed to the effect that in case of any changes or amendments in IASB, the local standards, if any, should be brought in line with these.

### Conclusion

Looking at the present scenario of the world economy, implementation of Ind AS is a demand and need of the day in order to compete globally. Implementation of IFRS is global investors friendly; companies can expand their operation globally by following single set of standards. Therefore, convergence with IFRS can be strongly recommended, but at the same time it is not easy to converge with IFRS as we discuss there are many regulatory and other issues involved in convergence with IFRS.

Ind AS is based on They facilitate the cross-border flow of money, global listing and global comparability of the financial statements. This, in turn, facilitates global investment and benefit to capital market stakeholders. It enhances the investor's ability to compare the investments on a global basis. This, in turn, reduces the risk of misjudgments. It also eliminates the costly requirements of reinstatement of financial statements

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