INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	INTERNATIONALIZATION STRATEGIES FOLLOWED BY THREE MEXICAN PIONEER COMPANIES GRUPO MODELO, GRUPO BIMBO AND CEMEX: ISSUES AND CHALLENGES *JOSE G. VARGAS-HERNANDEZ & MOHAMMAD REZA NORUZI*	1
2.	DELIVERY OF EFFICIENT AND EFFECTIVE PRIMARY EDUCATION AND HEALTHCARE SERVICES BY LOCAL GOVERNMENTS OF OYO STATE IN NIGERIA *DR. SAMIHAH KHALIL @ HALIM & DR. SALIHU, ABDULWAHEED ADELABU*	8
3.	THE FOUNDATIONS OF RELATIONSHIP MARKETING *SYED HABIB ANWAR PASHA, IMRANUL ISLAM SABBIR & SYED OHIDUR RAHMAN*	13
4.	EMPLOYEES RETENTION STRATEGIES: A STUDY OF SELECTED ORGANIZED RETAILER IN LUCKNOW CITY, UTTAR PRADESH *PRIYA & DR. VIKRAM BISEN*	21
5.	COSTING EMPLOYEE TURNOVER BASED ON EMPLOYEE PERFORMANCE LEVEL - A STUDY ON FIVE STAR HOTELS IN BANGALORE *PRASANNAKUMAR.J.P & DR. SHAJI THOMAS*	30
6.	ORGANISED RURAL RETAILING IN INDIA THROUGH 'RPSO' (RURAL PROCUREMENT AND SUPPLY OUTLET) MODEL *DR. N. RAMANJANEYALU & DR. M. S. SUBHAS*	41
7.	SIX SIGMA - ORIENTAL INDIAN MANAGEMENT CONCEPTS: MODERN JAPANESE INDUSTRIAL QUALITY CONTROL STANDARD – (AN INQUIRY THROUGH HISTORICAL & PHILOSOPHICAL PERSPECTIVE) *DR. S. P. RATH, DR. BISWAJIT DAS, ARCHANA CHAUDHARY & PRIYA PUTHAN*	46
8.	A STUDY ON IMPULSIVE BUYING BEHAVIOUR AND SATISFACTION TOWARDS RETAIL OUTLET IN BIG BAZAAR COIMBATORE *A. PUGHAZHENDI & DR. D. SUDHARANI RAVINDRAN*	51
9.	A STUDY ON BRAND PERCEPTION OF FMCG GOODS *DR. S. JEEVANANDA*	55
10.	ENVIRONMENTAL MANAGEMENT ACCOUNTING PRACTICES IN SELECT ISO 14001 COMPANIES IN INDIA *DR. HEENA SUNIL OZA & DR. MINAL CHIRAG PATEL*	59
11.	ORGANIZED RETAILING IN SMALLER CITIES - THE NEXT MOVE *DR. C. S. DALVI & SAYALI PATASKAR*	64
12.	MANAGERIAL CREATIVITY AND WORK MOTIVATION OF SECONDARY SCHOOL TRIBAL TEACHERS IN RELATION TO THEIR OCCUPATIONAL SELF EFFICACY *DR PRAKASH CHANDRA JENA*	67
13.	ENHANCING BRAND VALUE THROUGH CSR *DR. SARITA BAHL*	72
14.	FACTORS EFFECTING PURCHASE DECISION OF BRANDED SPORTS ACCESSORIES WITH SPECIAL REFERENCE TO REEBOK *DR. PREETI MK. SHARMA & RUBINA PATHAN*	79
15.	ADVERTISING AND CONSUMER BUYING BEHAVIOUR: A STUDY WITH SPECIAL REFERENCE TO NESTLE LTD. *DR. NAVEEN KUMAR, DR. VIJAY KUMAR GANGAL & KIRTI SINGH*	83
16.	FACTORS INFLUENCING CAREER CHOICE AMONG ADOLESCENTS *ZARINE IMMANUEL & DR. KALYANI KENNETH*	88
17.	DIVERGENCES BETWEEN INDIAN ACCOUNTING STANDARDS (ASs) AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) *DR. ATUL VORA & AJEET KUMAR SAHOO*	92
18.	A CRITICAL STUDY OF CONSUMER PREFERENCES TOWARDS ORGANIZED RETAIL IN JAIPUR *DR. SUSMIT JAIN*	99
19.	A STUDY ON ATTITUDE OF WOMEN TOWARDS FITNESS CENTRE IN RAMANATHAPURAM, TAMILNADU *DR. A. MARTIN DAVID, R. KALYAN KUMAR & G. DHARAKESWARI*	116
20.	FACTORS AFFECTING EQUITY INVESTORS' BEHAVIOR *DIVYANG J JOSHI, AGA KHUSHBOO & RAHI DESAI*	120
21.	CELEBRITY ENDORSEMENT: A STUDY OF INDIAN FMCG SECTOR *SUNILDRO L.S. AKOIJAM*	127
22.	STOCK MARKET BEHAVIOUR: EVIDENCE FROM ASIAN STOCK MARKETS *DR. SANJEET SHARMA*	131
23.	FINANCIAL INCLUSION - THE QUESTION UNANSWERED *SMITA RAO & VAISHALI RAHATE*	136
24.	SIGNIFICANCE OF FLEXIBLE WORK TIMING IN WORK-LIFE BALANCE *PREETHI VIJAIMADHAVAN & DR. D. VENKATRAMA RAJU*	142
25.	QUALITY OF LIFE OF FEMALE PROFESSIONALS: A COMPARATIVE STUDY OF MALE VS. FEMALE *PRATIBHA BARIK*	148
	REQUEST FOR FEEDBACK	152

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DIVERGENCES BETWEEN INDIAN ACCOUNTING STANDARDS (ASs) AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

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ABSTRACT
The forces of globalization prompt more and more countries to open their doors to foreign investment; and as businesses expand across borders the need arises to recognise the benefits of having commonly accepted and understood financial reporting standards. The sound financial reporting standards underline the trust that investors place in financial reporting information; and thus play an important role in contributing to the economic development of a country The International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) are increasingly being recognized as Global Reporting Standards. More than 100 countries such as countries of European Union, Australia, New Zealand, and Russia currently require or permit the use of IFRSs in their countries. Now, as the world globalises, it has become imperative for India also to make a formal strategy for convergence with IFRSs with the objective to harmonise with globally accepted accounting standards. Such converged accounting standards also aim at bringing more transparency in financial matters, thus seek to protect the interests of investors and improve standards of good corporate governance. They would also enhance the global competitiveness of Indian Industry. This conceptual paper examines various divergences between Indian Accounting Standards (ASs) and International Financial Reporting Standards (IFRs) and discusses the relevance of convergence of Indian Accounting Standards (ASs) with International Financial Reporting Standards (IFRSs).

KEYWORDS
Indian Accounting Standards (ASs), International Financial Reporting Standards (IFRSs), Convergence, Segment Reporting, Party Disclosures.

INTRODUCTION
A financial reporting system supported by strong governance, high quality standards, and firm regulatory framework is the key to economic development. Indeed, sound financial reporting standards underline the trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. The accounting standards-formulating body in the country has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. Indian Accounting Standards have withstood the test of time. As the world continues to globalise, discussion on convergence of national accounting standards with International Financial Reporting Standards (IFRSs) 1 has increased significantly.

The forces of globalisation prompt more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognise the benefits of having commonly accepted and understood financial reporting standards. In this scenario of globalisation, India cannot insulate itself from the developments taking place worldwide. In India, so far as the ICAI and the Governmental authorities such as the National Advisory Committee on Accounting Standards established under the Companies Act, 1956, and various regulators such as Securities and Exchange Board of India and Reserve Bank of India are concerned, the aim has always been to comply with the IFRSs to the extent possible with the objective to formulate sound financial reporting standards. The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRSs and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. The Preface to the Statements of Accounting Standards, issued by the ICAI, categorically recognises the same. Although, the focus has always been on developing high quality standards, resulting in transparent and comparable financial statements, deviations from IFRSs were made where it was considered that these were not consistent with the laws and business environment prevailing within the country. Now, as the world globalises, it has become imperative for India also to make a formal strategy for convergence with IFRSs with the objective to harmonise with globally accepted accounting standards.

The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalisation of capital markets call for a single set of high quality accounting standards. High standards of financial reporting underpin the trust investors place in financial and non-financial information. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRSs.

The International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) are increasingly being recognised as Global reporting Standards. More than 100 countries such as countries of European Union, Australia, New Zealand, and Russia currently require or permit the use of IFRSs in their countries. Countries such as China and Canada have announced their intention to adopt FRSs. Presently, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards (ASs) based on the IFRSs. Keeping in view the local conditions including legal and economic environment, which have recently been notified by the Central Government under the Companies Act, 1956.

Accordingly, the ASs departs from the corresponding IFRSs to maintain consistency with legal, regulatory and economic environment, and keeping in view the level of preparedness of the industry and the accounting professionals. In some cases, departures re made on account of conceptual differences with the treatments prescribed in the IFRSs. keeping in view the complex nature of IFRSs and the extent of differences between the existing ASs and the corresponding IFRSs and the reasons therefore, the ICAI is of the view that IFRSs should be adopted for the public interest entities such as listed entities, banks and insurance entities and large-sized entities from the accounting periods beginning on or after 1st April, 2011. The countries which have adopted IFRSs have done so for similar types of Entities

The format of IFRSs to be adopted for public interest entities should be the same as that of IFRSs, including their numbers. The numbers of the existing Accounting Standards may be given in brackets for the purpose of easier identification. Wherever required, a section may be added at the end of the adopted IFRS indicating the Indian legal and regulatory position.. The IFRSs when adopted will also take into account the International Financial Reporting Interpretations

issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. Only in rare circumstances of public interest carve out from an IFRS may be made.

LITERATURE REVIEW

Enforcement of globalization is continuously changing the global business environment in recent years. The financial reporting system of the individual country obviously has to be accordance with. Therefore, a number of researches have been done in this sphere to make efforts to develop the symmetry in local and international standards.

As per 'Blueprint for Tax Implications' issued by Australian International Financial Reporting Standards (2005), "As AIFRS has to be adopted by Australian taxpayers in reporting their financial accounts, where the tax system has a direct or indirect link to accounting standards, we need to acknowledge changes to avoid any unintended tax consequences. The administration is aligned with the Government's intent of enabling more effective comparable corporate reporting and governance processes, reducing the cost of capital in Australia and improving access to foreign capital for Australian entities resulting in a stronger economy. The arguments in favour of international convergence of accounting standards are compelling and include facilitation of cross border listings, financial statement comparability for investors, reducing the cost of capital in Australia and improving access to foreign capital for Australian entities. Generally, Australian income tax law has evolved relatively independently from Australian accounting standards, however, in recent years; there has been a convergence of accounting standards and income tax law particularly in consolidation. There are a number of provisions in Australian income tax law that either directly or indirectly rely on accounting standards and accounting principles for the purposes of determining a taxpayers' income tax liability. As a result, any change in the established accounting framework and standards has the potential to impact on income tax, non-income tax and transfer liability at the individual entity level, and ultimately revenue collections/transfer at the aggregate level.

Christopher S. Armstrong et al. (2008) commenting on adoption of IFRS say, "We find an incremental positive reaction for banks with lower pre-adoption information quality, which is consistent with investors expecting improvements in information quality – including any associated with adoption of the controversial IAS 39 – for these firms. We also find that investors react less positively for firms domiciled in code law countries, which are likely to have weaker enforcement of accounting standards. Regarding expected convergence benefits, we find a positive reaction to IFRS adoption events even for firms with high quality pre-adoption information environments. To the extent investors expect IFRS adoption to only minimally affect the information environments of these firms, this finding is consistent with investors expecting net benefits associated with convergence from IFRS adoption."

Holger Daske et al. (2008) write, "We analyze the effects on market liquidity, cost of capital and Tobin's q in 26 countries using a large sample of firms that are mandated to adopt IFRS. We find that, on average, market liquidity increases around the time of the introduction of IFRS. We also document a decrease in firms' cost of capital and an increase in equity valuations, but only if we account for the possibility that the effects occur prior to the official adoption date. Partitioning our sample, we find that the capital-market benefits occur only in countries where firms have incentives to be transparent and where legal enforcement is strong, underscoring the central importance of firms' reporting incentives and countries' enforcement regimes for the quality of financial reporting. Comparing mandatory and voluntary adopters, we find that the capital market effects are most pronounced for firms that voluntarily switch to IFRS, both in the year when they switch and again later, when IFRS become mandatory. While the former result is likely due to self-selection, the latter result cautions us to attribute the capital-market effects for mandatory adopters solely or even primarily to the IFRS mandate. Many adopting countries have made concurrent efforts to improve enforcement and governance regimes, which likely play into our findings. Consistent with this interpretation, the estimated liquidity improvements are smaller in magnitude when we analyze them on a monthly basis, which is more likely to isolate IFRS reporting effects."

Studying the suitability of proposed IFRS for SMEs to Micro-Entities through focus group interviews of users, Helene Kennedy (2008) concludes, "Focus group participants indicated that the current exposure draft of the IFRS for SMEs appears to be too complex for micro-entities - defined as entities with fewer than 10 employees - and suggested that relatively minor changes to the current draft might not be sufficient to address this concern. Participants who supported the development of a separate set of accounting guidance for micro-entities generally felt that two levels should be developed: a concise version that would be easy for business owners to follow and understand and a more technical version for preparers of financial statements. In addition, there was general support for some form of attestation, such as a statement made by the professional accountant, to be attached to the financial reports of micro-entities."

In the view of Ernst & Young (2009), "It is not surprising that many people who follow the development of worldwide accounting standards today might be confused. Convergence is a high priority on the agendas of both the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) — and "convergence" is a term that suggests elimination or coming together of differences. Yet much is still made of the many differences that exist between US GAAP as promulgated by the FASB and International Financial Reporting Standards (IFRS) as promulgated by the IASB, suggesting that the two GAAPs continue to speak languages that are worlds apart. This apparent contradiction has prompted many to ask just how different are the two sets of standards? And where differences exist, why do they exist, and when, if ever, will they be eliminated? we take a top level look into these questions and provide an overview, by accounting area, both of where the standards are similar and also where they diverge. While the US and international standards do contain differences, the general principles, conceptual framework, and accounting results between them are often the same or similar, even though the areas of divergence seem to have disproportionately overshadowed these similarities. We believe that any discussion of this topic should not lose sight of the fact that the two sets of standards are generally more alike than different for most commonly encountered transactions, with IFRS being largely, but not entirely, grounded in the same basic principles as US GAAP"

According to Shyam Sunder (2011), "The links among better financial reporting, better markets, and better economy and society are arguable, but they remain poorly understood. The addition of IFRS to the set of available alternatives may improve these linkages, but granting them monopoly status does not. Claims that the universal adoption of IFRS as a single set of high-quality principles-based standards will yield global comparability are overblown. Accounting standards operate less like a uniform system of weights and measures and more like a single currency, in that both play multiple roles in modern economies. An IFRS monopoly is evolutionarily disadvantageous in that it eliminates the opportunity to compare alternative practices and learn from them. It also disallows the tailoring of financial reporting to local variations in economic, business, commercial, legal, auditing, regulatory, and governance conditions across the globe. Empirical studies of statistical co-variation across financial reports produced by IFRS have yielded mixed results and, in any case, provide little insight as to the merits of granting IFRS a world monopoly. The vociferous campaign in support of IFRS monopoly is reminiscent of the 1990s campaign in support of the now-discredited "Washington Consensus." Then, as now, it was a case of promoting theoretical benefits while obscuring potential costs and risks. This is the familiar story of the pied piper leading his trusting victims to their doom."

MAJOR DIFFERENCES IN INDIAN ACCOUNTING STANDARDS (AS$_S$) FROM THE CORRESPONDING INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS$_S$)

1. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-1 VERSUS INDIAN ACCOUNTING STANDARDS AS-1

International Financial Reporting Standards	IAS-1	Presentation of Financial Statements
Indian Accounting Standards	AS-1	Disclosure of Accounting Policies

AS-1 is based on the pre-revised IAS 1. AS-1 is presently under revision to bring it in line with the current IAS 1. The Exposure Draft of the revised AS 1 is being finalised on the basis of the comments received on its limited exposure amongst the specified outside bodies. The major differences between IAS 1 and the draft revised AS-1 are discussed hereinafter.

- **DIFFERENCES DUE TO REMOVAL OF ALTERNATIVES:**

1) Unlike IAS 1, the draft of revised AS 1 does not provide any option with regard to the presentation of 'Statement of Changes in Equity'. It requires statement showing all changes in the equity to be presented. The IASB has recently issued an Exposure Draft of the proposed Amendments to IAS 1. The Exposure Draft proposes to remove the option given in IAS 1 and to require the presentation of statement showing all changes in the equity which is in line with the decisions taken by the ASB of the ICAI.
2) Unlike IAS 1, the draft of revised AS 1 does not provide any option with regard to additional disclosures regarding share capital, e.g., number of shares authorised, issued, fully paid, etc. and regarding nature and purpose of reserves, etc., to be made on the face of the balance sheet or in the notes. Considering the information overload, the draft of revised AS-1 requires this information to be presented only in the notes and schedules and not on the face of the balance sheet.

- **DIFFERENCES DUE TO LEGAL AND REGULATORY ENVIRONMENT:**

1) In India, the laws governing the companies, banking enterprises and insurance enterprises prescribe detailed formats for the financial statements to be followed by respective enterprises. To make the revised AS 1 acceptable to the law makers/ regulators, the ASB has decided to give detailed formats for financial statements for companies in an Appendix. In the Appendix, mainly additional disclosures as compared to IAS 1 are proposed to be given.

- **CONCEPTUAL DIFFERENCES:**

2) IAS 1 requires that if different measurement bases are used for different classes of assets, they should be presented as separate line items on the face of the balance sheet. It is felt that requiring bifurcation of assets on the basis of different measurement bases on the face of the balance sheet itself would result in information overload. Keeping this in view, the draft of the proposed revised AS 1 does not require separate presentation of such assets on the face of the balance sheet; rather, it requires separate presentation of such assets to be made in the schedules and notes.

1. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-2 VERSUS INDIAN ACCOUNTING STANDARDS AS-2

International Financial Reporting Standards	IAS-2	Inventories
Indian Accounting Standards	AS-2	Valuation of Inventories

AS 2 is based on IAS 2 (revised 1993). IAS 2 has been revised in 2003 as a part of the IASB's improvement project. Major differences between AS 2 and IAS 2 (revised 2003) are as follows:

- **DIFFERENCES DUE TO LEVEL OF PREPAREDNESS:**

1) IAS 2 specifically deals with costs of inventories of an enterprise providing services. However, keeping in view the level of understanding that was prevailing in the country regarding the treatment of inventories of an enterprise providing services at the time of last revision of AS 2, the same are excluded from the scope of AS 2
2) Keeping in view the level of preparedness in the country at the time of last revision of AS 2, AS 2 requires lesser disclosures as compared to IAS 2.
3) IAS 2 specifically provides that the measurement requirements of the Standard do not apply to the measurement of inventories held by commodity broker/traders who measure their inventories at fair value less costs to sell. AS 2 does not contain any exclusion or separate provisions relating to inventories held by commodity broker-traders. (Broker-traders are those who buy or sell commodities for others or on their own account. The inventories are principally acquired by a broker-trader with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin.) By implication, the measurement basis laid down in the standard, viz., lower of cost and net realisable value, applies to inventories of commodity trader-brokers.

- **CONCEPTUAL DIFFERENCE:**

4) AS 2 specifically excludes "selling and distribution costs" from the cost of Inventories and provides that it is appropriate to recognise them as expenses in the period in which they are incurred. However IAS 2 excludes only "Selling Costs" and not "Distribution Costs".
5) AS 2 does not deal with the issues relating to recognition of inventories as an expense including the write down of inventories to net realisable value and any reversal of such write down.
6) AS 2 provides that the cost of inventories of items other than those which are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by using the first-in, first-out (FIFO), or weighted average cost formula. It is specifically required by AS 2 that the formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. However IAS 2 does not require the same for the choice of the formula to be used, rather it requires that same cost formula should be used for all inventories having a similar nature and use to the entity.

2. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-7 VERSUS INDIAN ACCOUNTING STANDARDS AS-3

International Financial Reporting Standards	IAS-7	Cash Flow Statements
Indian Accounting Standards	AS-3	Cash Flow Statements

AS 3 is based on the current IAS 7. The major differences between IAS 7 and AS 3 are as below:

- **DIFFERENCES DUE TO REMOVAL OF ALTERNATIVES**

1) In case of enterprises other than financial enterprises, unlike IAS 7, AS 3 does not provide any option with regard to classification of interest paid. It requires interest paid to be classified as financing cash flows.
2) In case of enterprises other than financial enterprises, AS 3 does not provide any option with regard to classification of interest and dividend received. It requires interest and dividend received to be classified as investing cash flows.
3) AS 3 also does not provide any option regarding classification of dividend paid. It requires dividend paid to be classified as financing cash flows.

3. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-10 VERSUS INDIAN ACCOUNTING STANDARDS AS-4

International Financial Reporting Standards	IAS-10	Events After the Balance Sheet Date
Indian Accounting Standards	AS-4	Contingencies and Events Occurring after the Balance Sheet Date

AS 4 is based on the pre-revised IAS 10 which dealt with the Contingencies as well as the Events Occurring after the Balance Sheet Date. Recently, on the lines of IAS 37, the ICAI has issued AS 29. Pursuant to the issuance of AS 29,the portion of AS 4 dealing with the Contingencies, except to the extent of impairment of assets not covered by other 40 accounting standards, stands superseded. AS 4 now deals with the Events after the Balance Sheet Date. AS 4 is presently under revision to bring it in line with the corresponding IAS 10. The major differences between IAS 10 and AS 4 are as below:

- **DIFFERENCE DUE TO LEGAL AND REGULATORY ENVIRONMENT**

1) As per IAS 10, proposed dividend is a non-adjusting event. However, as per the Indian law governing companies, provision for proposed dividend is required to be made, probably as a measure of greater accountability of the company concerned towards investors in respect of payment of dividend. While attempts are made, from time to time, at various levels, to persuade the Government for changes in law; it is a time-consuming process.
2) As per IAS 10, non-adjusting events, which are material, are required to be disclosed in the financial statements. However as per AS 4, such disclosures are required to be made in the report of the approving authority and not in the financial statements.

4. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-14 VERSUS INDIAN ACCOUNTING STANDARDS AS-17

International Financial Reporting Standards	IAS-14	Segment Reporting
Indian Accounting Standards	AS-17	Segment Reporting

AS 17 is based on the current IAS 14. The major differences between IAS 14 and AS 17 are described hereinafter.

- **DIFFERENCES DUE TO REMOVAL OF ALTERNATIVES**

1) IAS 14 encourages, but does not require, the reporting of vertically integrated activities as separate segments. However, under AS 17, in case a vertically integrated segment meets the quantitative norms for being a reportable segment, the relevant disclosures are required to be made.
2) As per IAS 14, a segment identified as a reportable segment in the immediately preceding period on satisfying the relevant 10% threshold, shall be reportable segment in the current period also if the management judges it to be of continuing significance. However as per AS 17, this reporting is mandatory without considering the management's judgment.

- **DIFFERENCES DUE TO LEVEL OF PREPAREDNESS**

3) IAS 14 prescribes certain additional disclosure requirements regarding enterprise's share of profit or loss of associates and joint ventures and regarding restatement of prior year information, etc. At the time of issuance of AS 17, there were no Accounting Standards in India dealing with accounting for investments in associates and joint ventures, etc. Accordingly, these disclosures are not specifically covered in AS 17.
4) As per IAS 14, for a segment to qualify as a reportable segment, it is required for it to earn the majority of its revenue from external customers in addition to meeting the 10% threshold criteria of revenue, operating results or total assets required in AS 17.

5. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-16 VERSUS INDIAN ACCOUNTING STANDARDS AS-10

International Financial Reporting Standards	IAS-16	Property, Plant and Equipment
Indian Accounting Standards	AS-10	Accounting for Fixed Assets

AS 10 is based on the earlier IAS 16. AS 10 is being revised to bring it in line with the current IAS 16. The draft revised AS 10 has been approved by the Council and the same has also been considered by the NACAS at its last meeting. The NACAS made certain suggestions and the views of the Accounting Standards Board on such suggestions will be placed before the NACAS at its next meeting. The following is the major difference between IAS 16 and draft revised AS 10

- **DIFFERENCES DUE TO LEGAL AND REGULATORY ENVIRONMENT**

1) In India, the law governing the companies prescribes minimum rates of depreciation. Keeping this in view, the revised AS 10 recognises that depreciation rates prescribed by the statute would be the minimum rates of depreciation.

6. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-17 VERSUS INDIAN ACCOUNTING STANDARDS AS-19

International Financial Reporting Standards	IAS-17	Leases
Indian Accounting Standards	AS-19	Leases

AS 19 is based on IAS 17 (revised 1997). IAS 17 has been revised in 2004. The major differences between IAS 17 and AS 19(revised 2004) are described hereinafter.

- **CONCEPTUAL DIFFERENCES**

1) Keeping in view the peculiar land lease practices in the country, lease agreements to use lands are specifically excluded from the scope of AS 19 whereas IAS 17 does not contain this exclusion.
2) IAS 17 specifically provides that the Standard shall not be applied as the basis of measurement for:

(a) property held by lessees that are accounted for as investment property;
(b) investment property provided by lessors under operating leases;
(c) biological assets held by lessees under finance leases; or
(d) biological assets provided by lessors under operating leases

However, AS 19 does not exclude the above from its scope.

3) AS 19 specifically prohibits upward revision in estimate of unguaranteed residual value during the lease term. However IAS 17 does not prohibit the same.
4) As per IAS 17 initial direct costs incurred by a lessor other than a manufacturer or dealer lessor have to be included in amount of lease receivable in the case of finance lease resulting in reduced amount of income to be recognised over lease term and in the carrying amount of the asset in the case of operating lease as to expense it over the lease term on the same basis as the lease income. However, as per AS 19, these can be either charged off at the time of incurrence in the statement of profit and loss or can be amortised over the lease period.

7. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-19 VERSUS INDIAN ACCOUNTING STANDARDS AS-15

International Financial Reporting Standards	IAS-19	Employee Benefits
Indian Accounting Standards	AS-15	Employee Benefits

AS 15 is based on the current IAS 19. The major differences between IAS 19 and AS 15 are described hereinafter.

- **DIFFERENCE DUE TO REMOVAL OF ALTERNATIVES**

1) Unlike IAS 19, AS 15 does not provide any option with regard to recognition of actuarial gains and losses. It requires such gains and losses to be recognized immediately in the statement of profit and loss.

- **CONCEPTUAL DIFFERENCE**

2) Regarding recognition of termination benefits as a liability, it is felt that merely on the basis of a detailed formal plan, it would not be appropriate to recognise a provision since a liability cannot be considered to be crystallised at this stage. Accordingly, AS 15 provides criteria for recognition of a provision for liability in respect of termination benefits on the basis of the general criteria for recognition of provision as per AS 29, Provisions, Contingent Liabilities and Contingent Assets (corresponding to IAS 37). It may be noted that the IASB has recently issued an Exposure Draft of the proposed Amendments to IAS 19 whereby the criteria regarding recognition of termination benefits as a liability are proposed to be amended. The Exposure Draft proposes that voluntary termination benefits should be recognised when employees accept the entity's offer of those benefits. We, in our comments on the Exposure Draft, have pointed out that in a country such as India, such a requirement would give erroneous results since the schemes generally have the following characteristics in terms of the steps involved in implementing the scheme:

(i) Announcement of the scheme by an employer, which is considered as an 'invitation to offer' to the employees rather than the offer to the employees for voluntary termination of their services.
(ii) Employees tender their applications under the scheme. This does not confer any right to the employees under the scheme to claim termination benefits. In other words, tendering of application by an employee is considered as an 'offer' in response to 'invitation to offer', rather than acceptance of the offer by the employee.
(iii) The acceptance of the offer made by the employees as per (ii) above by the management.

Keeping in view the above, we have suggested that as per the above scheme, liabilities with regard to voluntary termination benefits should be recognized at the time when the management accepts the offer of the employees rather than at the time the employees tender their applications in response to the 'invitation to offer' made by the management. If our comments on the Exposure Draft are accepted, the amended criteria in IAS 19 would result into recognition of the liability broadly at the same time as under the criteria prescribed in AS 15. Incidentally, it may be mentioned that the treatment prescribed in AS 15 is also in consonance with the legal position in India.

8. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-21 VERSUS INDIAN ACCOUNTING STANDARDS AS-11

International Financial Reporting Standards	IAS-21	The Effects of Changes in Foreign Exchange Rates
Indian Accounting Standards	AS-11	The Effects of Changes in Foreign Exchange Rates

- **DIFFERENCE DUE TO LEVEL OF PREPAREDNESS**

1) AS 11 is based on the integral and non-integral foreign operations approach, i.e., the approach which was followed in the earlier IAS 21 (revised 1993).

2) The current IAS 21, which is based on 'Functional Currency' approach, gives similar results as that under pre-revised IAS 21, which was based on integral /non-integral foreign operations approach. Accordingly, there are no significant differences between IAS 21 and AS 11.
3) The current AS 11 has recently become effective, i.e., from 1-4-2004. It is felt that some experience should be gained before shifting to the current IAS 21.

9. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-24 VERSUS INDIAN ACCOUNTING STANDARDS AS-18

International Financial Reporting Standards	IAS-24	Related Party Disclosures
Indian Accounting Standards	AS-18	Related Party Disclosures

AS 18 is based on IAS 24 (reformatted 1994) and following are the major differences between the two.

- **CONCEPTUAL DIFFERENCES**

1) According to AS 18, as notified by the Government, a non-executive director of a company should not be considered as a key management person by virtue of merely his being a director unless he has the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. However, IAS 24 provides for including non-executive director in key management personnel.
2) In AS 18 the term 'relative' is defined as "the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise" whereas the comparable concept in IAS 36 is that of 'close members of the family of an individual' who are "those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

(a) the individual's domestic partner and children;
(b) children of the individual's domestic partner; and
(c) Dependants of the individual or the individual's domestic partner."

10. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-27 VERSUS INDIAN ACCOUNTING STANDARDS AS-21

International Financial Reporting Standards	IAS-27	Consolidated and Separate Financial Statements
Indian Accounting Standards	AS-21	Consolidated Financial Statements

AS 21 is based on IAS 27 (revised 2000). Revisions made to IAS 27 are being looked into by the ASB of the ICAI.

- **DIFFERENCE DUE TO LEGAL AND REGULATORY ENVIRONMENT**

Keeping in view the requirements of the law governing the companies, AS 21 defines control as ownership of more than one-half of the voting power of an enterprise or as control over the composition of the governing body of an enterprise so as to obtain economic benefits. This definition is different from IAS 27, which defines control as "the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities".

- **CONCEPTUAL DIFFERENCES**

Goodwill/Capital reserve is calculated by computing the difference between the cost to the parent of its investment in the subsidiary and the parent's portion of equity in the subsidiary in AS 21 whereas in IAS 27 fair value approach is followed.

11. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-31 VERSUS INDIAN ACCOUNTING STANDARDS AS-27

International Financial Reporting Standards	IAS-31	Interests in Joint Ventures
Indian Accounting Standards	AS-27	Financial Reporting of Interests in Joint Ventures

AS 27 is based on the IAS 31 (revised 2000). Revisions made to IAS 31 are being looked into by the ASB of the ICAI.

- **DIFFERENCE DUE TO REMOVAL OF ALTERNATIVES**

1) Unlike IAS 31, AS 27 does not provide any option for accounting of interests in jointly controlled entities in the consolidated financial statements of the venturer. It requires proportionate consolidation to be followed and venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity to be reported as separate line items.50

- **CONCEPTUAL DIFFERENCES**

2) The conceptual differences, explained in relation to IAS 27, are relevant in this case also.

12. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-33 VERSUS INDIAN ACCOUNTING STANDARDS AS-20

International Financial Reporting Standards	IAS-33	Earnings Per Share
Indian Accounting Standards	AS-20	Earnings Per Share

AS 20 is based on the IAS 33 (issued 1997). Revisions made to IAS 33 are being looked into by the ASB of the ICAI.

- **DIFFERENCES DUE TO LEVEL OF PREPAREDNESS**

1) As per IAS 33 revised, basic and diluted amounts per share for the discontinued operation are required to be disclosed. However AS 20 does not require such disclosures.
2) IAS 33 revised requires the disclosure of anti-dilutive instruments also which is not required by AS 20.

13. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-34 INTERIM FINANCIAL REPORTING VERSUS INDIAN ACCOUNTING STANDARDS AS-25 INTERIM FINANCIAL REPORTING

International Financial Reporting Standards	IAS-34	Interim Financial Reporting
Indian Accounting Standards	AS-25	Interim Financial Reporting

AS 25 is based on the current IAS 34. The major differences between IAS 34 and AS 25 are described hereinafter.

- **DIFFERENCES DUE TO LEGAL AND REGULATORY ENVIRONMENT**

1) In India, at present, the statement of changes in equity is not presented in the annual financial statements since, as per the law, this information is required to be disclosed partly in the profit and loss account below the line and partly in the balance sheet and schedules thereto. Keeping this in view, unlike IAS 34, AS 25 presently does not require presentation of the condensed statement of changes in equity. However as a result of proposed revision to AS 1, limited revision to AS 25 has also been proposed, which requires to present the condensed statement of changes in equity as part of condensed financial statements and limited exposure for the same has been made.
2) Keeping in view the legal and regulatory requirements prevailing in India, AS 25 provides that in case a statute or a regulator requires an enterprise to prepare and present interim information in a different form and/or contents, then that format has to be followed. However, the recognition and measurement principles as laid down in AS 25 have to be applied in respect of such information.

14. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-37 VERSUS INDIAN ACCOUNTING STANDARDS AS-29

International Financial Reporting Standards	IAS-37	Provisions, Contingent Liabilities and Contingent Assets
Indian Accounting Standards	AS-29	Provisions, Contingent Liabilities and Contingent Assets

AS 29 is based on the current IAS 37. The major differences between IAS 37 and AS 29 are described hereinafter.

- **DIFFERENCE DUE TO LEVEL OF PREPAREDNESS**

1) AS 29 requires that the amount of a provision should not be discounted to its present value since financial statements in India are prepared generally on historical cost basis and not on present value basis. However a limited revision is being proposed to bring it in line with IAS 39 insofar as this aspect is concerned.

- **CONCEPTUAL DIFFERENCES**

2) IAS 37 deals with 'constructive obligation' in the context of creation of a provision. The effect of recognizing provision on the basis of constructive obligation is that, in some cases, provision will be required to be recognised at an early stage. For example, in case of a restructuring, a constructive obligation arises when an enterprise has a detailed formal plan for the restructuring and the enterprise has raised a valid expectation in those affected that

it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. It is felt that merely on the basis of a detailed formal plan and announcement thereof, it would not be appropriate to recognise a provision since a liability cannot be considered to be crystalised at this stage. Further, the judgment whether the management has raised valid expectations in those affected may be a matter of considerable argument. In view of the above, AS 29 does not specifically deal with 'constructive obligation'. AS 29, however, requires a provision to be created in respect of obligations arising from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. In such cases, general criteria for recognition of provision are required to be applied.

Incidentally, it may be mentioned that the treatment prescribed in AS 29 is also in consonance with the legal position in India.

3) Unlike IAS 37, as a measure of prudence, AS 29 does not require contingent assets to be disclosed in the financial statements.

15. INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS-38 VERSUS INDIAN ACCOUNTING STANDARDS AS-26

International Financial Reporting Standards	IAS-38	Intangible Assets
Indian Accounting Standards	AS-26	Intangible Assets

AS 26 is based on IAS 38 (issued 1998). IASB, as a part of its project on Business Combinations, has revised IAS 38.These revisions to IAS 38 would be looked into by the ASB with the issuance of the Accounting Standard on Business Combinations. Following are the major differences between AS 26 and IAS 38:

- **CONCEPTUAL DIFFERENCES**

1) An intangible asset is defined as an identifiable nonmonetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes whereas IAS 38 defines an intangible asset 'as an identifiable non-monetary asset without physical substance'.
2) AS 26 is based on the assumption that the useful life of the intangible asset is always definite. In regard to assets with definite life also there is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Whereas IAS 36 recognises that an intangible asset may have an indefinite life. In respect of intangible assets having a definite life, the Standard does not contain rebuttable presumption about their useful life. As per AS 26 if control over the future economic benefits from an intangible asset is achieved through legal rights that have been granted for a finite period, it is required that the useful life of the intangible asset should not exceed the period of the legal rights unless:

(a) the legal rights are renewable; and
(b) renewal is virtually certain.

However, IAS 38 requires evidence to support renewal instead of virtual certainty for renewal.

REASONS FOR DIFFERENCE FROM IFRS$_S$

1) ECONOMIC ENVIRONMENT

The economic environment of a country plays an important role in prescribing the accounting requirements applicable to various enterprises. For instance, while various IFRSs have been based on the fair value approach, there has been reluctance in India to adopt this approach in view of the fact that various markets in the country have not been considered to possess necessary depth and breadth providing reliable fair values on measurement of various assets and liabilities. For example, Accounting Standard (AS) 13, Accounting for Investments, requires current investments to be valued at the lower of cost and fair value whereas the corresponding IAS 39, Financial Instruments: Recognition and Measurement, requires measurement of similar investments at fair value. It may, however, be mentioned that the ICAI, with changing economic environment in the country, is now proposing measurement of financial assets of trading nature at fair value in the Exposure Draft corresponding to IAS 39.

2) LEVEL OF PREPAREDNESS

In a few stray cases, the Indian Accounting standards deviate from IFRSs because adoption of IFRSs verbatim may cause hardship to the industry and, to avoid the same, modifications are made in Accounting Standards until the industry is prepared for the IFRSs. For example, AS 15 (revised), Employee Benefits, permits deferment of expenditure incurred on account of termination of services arising in a voluntary retirement scheme for a transitional period, in view of the fact that the Indian industry was undergoing a structural change at the time when the standard was introduced, whereas the corresponding IAS 19, Employee Benefits, does not allow the deferment of such expenditure even as a transitional measure.

3) CONCEPTUAL DIFFERENCES

Apart from the above differences, there are a few conceptual differences between the Indian Accounting Standards and the IFRSs. For example, IAS 37 deals with constructive obligation in the context of creation of a provision. The effect of recognising provision on the basis of constructive obligation is that, in some cases, provision will be required to be recognised at an early stage. For instance, in case of a restructuring, a constructive obligation arises when an enterprise has a detailed formal plan for the restructuring and the enterprise has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. It is felt that merely on the basis of a detailed formal plan and announcement thereof, it would not be appropriate to recognise a provision since a liability cannot be considered to be crystallized at this stage. Further, the judgment whether the management has raised valid expectations in those affected may be a matter of considerable argument. In view of this, the corresponding Indian accounting standard, viz., AS 29, does not specifically deal with 'constructive obligation'. AS 29, however, requires a provision to be created in respect of obligations arising from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. In such cases, general criteria for recognition of provision are required to be applied.

NEED FOR CONVERGENCE WITH IFRSs

In the present era of globalization and liberalization, the World has become an economic village. The globalization of the business world and the attendant structures and the regulations, which support it, as well as the development of e-commerce make it imperative to have a single globally accepted financial reporting system. A number of multi-national companies are establishing their businesses in various countries with emerging economies and *vice versa*. The entities in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated consistent with this World-wide trend. The stock exchanges in different countries indicating the extent of foreign entities listed on these stock exchanges. More and more Indian companies are also being listed on overseas stock exchanges. Sound financial reporting structure is imperative for economic well-being and effective functioning of capital markets.

The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalization of capital markets call for a single set of high quality accounting standards. High standards of financial reporting underpin the trust investors place in financial and non-financial information.

Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRSs. Amongst others, countries of the European Union, Australia, New Zealand and Russia have already adopted IFRSs for listed enterprises. China has decided to adopt IFRS from 2008 and Canada from 2011. Insofar as US is concerned, Financial Accounting Standards Board (FASB) of USA and IASB are also working towards convergence of the US GAAPs and the IFRSs. The Securities & Exchange Commission (SEC) has mooted a proposal to permit filing of IFRS-compliant financial statements without requiring presentation of a reconciliation statement between US GAAPs and IFRS in near future.

BENEFITS OF ACHIEVING CONVERGENCE WITH IFRSs

There are many beneficiaries of convergence with IFRSs such as the economy, investors, and industry.

1) THE ECONOMY

As the markets expand globally the need for convergence increases. The convergence benefits the economy by increasing growth of its international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby economic growth. It encourages international investing and thereby leads to more foreign capital flows to the country.

2) INVESTORS

A strong case for convergence can be made from the viewpoint of the investors who wish to invest outside their own country. Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions. Financial statements prepared using a common set of accounting standards help investors better understand 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 cost in terms of the time and efforts to convert the financial statements so that they can confidently compare opportunities. Investors' confidence would be strong if accounting standards used are globally accepted. Convergence with IFRSs contributes to investors' understanding and confidence in high quality financial statements.

3) THE INDUSTRY

A major force in the movement towards convergence has been the interest of the industry. The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. With the diversity in accounting standards from country to country, enterprises which operate in different countries face a multitude of accounting requirements prevailing in the countries. 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 costs of preparing the financial statements using different sets of accounting standards.

CONCLUSION

India's commitment to the policy of 'convergence' of Indian Accounting Standards with IFRS would allow it to consider local economic conditions and environment while preparing converged accounting standards, thus duly and adequately safeguarding the interests of Indian companies/enterprises. The convergence with IFRS would provide reliable and comparable financial information to investors globally. Such converged accounting standards also aim at bringing more transparency in financial matters, thus seek to protect the interests of investors and improve standards of good corporate governance. They would also enhance the global competitiveness of Indian Industry.

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