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TRANSITION TO INDIAN ACCOUNTING STANDARDS (Ind AS) FROM INDIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (IGAAP): A CRITICAL ANALYSIS

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ABSTRACT
In this present liberalizing and globalizing era, the earth has become a monetary village and this requires the harmonization and uniformity of procedures and practices. One such attempt is the introduction of International Financial Reporting Standards (IFRS) which aims at bringing uniformity in the reporting practices of corporate sector across the globe. India in its attempt to make its reporting practices competent with IFRS has made it mandatory for the listed companies to adopt converged form of IFRS (i.e. Ind AS) from 1st April, 2016 onwards. The adoption of Ind AS would bring about a change in the reported values of income, assets and liabilities which would further affect the financial performance and financial position of the companies. This paper makes an attempt to provide an overview of Ind AS and critically analyse the main differences between Ind AS and IGAAP.

KEYWORDS
Indian Generally Accepted Accounting Principles (IGAAP), Indian Accounting Standards, International Financial Reporting Standards, convergence.

JEL CODES
M40, M41, M42, M48, M49.

INTRODUCTION
Arthashasthra clearly describes India's tradition on accounts and the role of traditional accountants. Although India is one among the last countries for convergence of IFRS with local GAAP, it was one among the major countries which has realized the need for a global accounting standard much earlier. India stuck to its local accounting standard until it has entered the globalized economy in 1990's. When it started accessing global capital and products markets, the increased FDI in India has also made it an urgent need to adapt IFRS as early as possible.

OBJECTIVES OF THE STUDY
The present study has been undertaken with the following objectives.
1. To provide a detailed overview of Ind AS along with principles and rationale behind adopting Ind AS.
2. To identify the major differences between IGAAP and Ind AS.

METHODOLOGY
The present study is analytical in nature. For the study, secondary sources are used to collect the facts or information regarding IFRS, Ind AS and IGAAP. Official websites of ICAI, MCA, IASB have been visited to collect data and information for the study.

THE IGAAP
Generally Accepted Accounting Principles (GAAP) are a common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements (https://www.investopedia.com/terms/i/ifrs.asp). GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. Indian Generally Accepted Accounting Principles (IGAAP) are a set of accounting standards that are specifically designed for the Indian context. "Indian GAAP" is a combination of standards notified by the Central Government under the Companies (Accounting Standards) Rules, 2006 (applicable to all companies), as amended and the relevant requirements of the Companies Act, 2013 (Deloitte 2015).

THE IFRS
The standards and interpretations adopted by the International Accounting Standards Board is known as IFRS. IFRS is a particular set of best quality, clear and enforceable universal accounting standards. It is a "principles based" set of standards which are drafted logically and are easily understandable and applicable. They comprise of International Financial Reporting Standard, International Accounting Standards, and Interpretations issued by the IFRS Interpretations Committee or the former Standing Interpretations Committee (Deloitte 2015).

THE IND AS
IND-AS is one of the great revolutions in the field of accounting. Earlier India was following IGAAP, but due to globalization more and more foreign companies are expanding their branches in India and Indian companies are going abroad. It raises the need for globally acceptable accounting standards to prepare financial statements which can be compared with their global peers. For the very reason India opted for Ind AS, which is simply termed as "Indian Version of IFRS" or "Indian IFRS accounting standards". Ind AS is the convergence of IFRS with IGAAP after taking into consideration the peculiarities of Indian business environment and the requirements of Indian entities. Ind AS refers to those accounting standards which are specifically mentioned in the Annexure of the Companies (Indian Accounting Standards) Rules 2015 (Deloitte 2015).

RATIONALE BEHIND ADOPTING IFRS

Countries like The European Union, Australia, Malaysia, India, Pakistan, Russia, Turkey, South Africa, Hong Kong, Singapore etc. are focusing their attention towards the adoption of IFRS and in many countries, IFRS have already been adopted. From the review of the existing literature it is seen that more than 160 countries and over 12,000 companies have implemented IFRS either on the basis of adoption or convergence for preparation and presentation of financial statements. Companies that are involved in foreign activities are benefited from a switch to IFRS. The following reasons, try to put emphasis on the use of IFRS worldwide.

- **Global comparability:** Adopting IFRS enables the companies to compare their performance with other organization in the same field of the business in the foreign markets. Use of different reporting standards will discourage cross border merger and acquisition.
- **Benefits for concerned parties:** Concerned parties will highly be benefitted by IFRS while understanding various reporting regime and will better assure on the quality of their work on a global scale.
- **Free flow of international capital:** It would also permit for free flow of international capital, enabling the companies to develop consistent global practices on accounting problems.
- **Common accounting language:** IFRS can be regarded as the common language in the field of accounting/reporting practices which is accepted all over the world. Implementation of IFRS helps international organization or multinational companies with their respective branches to communicate over the globe in a common language of accounting/reporting.
- **Improved transparency of financial statements**: Transparency regarding preparation and presentation of financial statements would be possible due to the fact that IFRS has allowed firms with subsidiaries in the regional market to harmonize their training, auditing, operation and reporting standards. Thus, IFRS helps standardized presentation of financial statement whether the subsidiary is located within the country or abroad.

OVERVIEW OF IND AS (https://www.pwc.in/assets/pdfs/publications/2015/ind-as-pocket-guide-2015.pdf)

Generally, the entities 'general purpose financial statements' provide information about performance and position of the business along with cash flow which are useful to a range of users such as shareholders, creditors, employees and the general public in making financial decisions.

Ind AS includes the following complete set of financial statements:

- Statement of Profit and Loss for the period
- Balance sheet at the end of the period
- Balance sheet as at the beginning of the preceding period.
- Statement of changes in equity for the period.
- Statement of cash flows for the period.
- Comparative financial information in respect of the preceding period as specified.

India has not directly adopted the IFRS but it has chosen a path of IFRS convergence. Thus, though Ind AS is mainly based on the IFRS issued by the International Accounting Standards Boards (IASB) but there are definite carve-outs from the IFRS.

CHALLENGES FOR ADOPTION OF IND AS

India has to face several challenges regarding adoption and compliance with Ind AS. Adoption of Ind AS implies that the complete set of financial statements required to go through a harsh transformation. So it was needed to change some laws and regulations that are governed in financial reporting practices in India. The main problem in adoption of Ind AS is that the companies in India have to rely upon outsider advisors and auditors which are very costly as there is lack of adequate professionals with the experience of IFRS and Ind AS conversion. Following are some of the challenges faced while adopting Ind AS:

- **Lack of training and education facilities:** The concerned parties like the auditor's, tax authorities etc. to whom the financial statements are of concern should be well versed with the provision of Ind AS which requires training and it is time consuming. Training facilities and related programs are lacking in India. So it leads to delaying in adopting Ind AS in India and hence there is a necessity to provide instruction and training on Ind AS and its application.
- **Requires huge cost:** Ind AS requires huge cost to maintain books of accounts through dual reporting of financial statement. So, the corporates are not ready to execute it as they cannot afford that cost.
- **Fair value method:** Ind AS uses fair value to measure majority of transactions in financial statements. By using fair value accounting can lead lot of flexibility and subjectivity to the financial statements. The professionals have to work hard to arrive at the fair value and valuation experts have to be used.
- **Unwillingness:** Indian companies follow historical cost based accounting; so it is not so easy to shift from historical cost based accounting. It also requires huge cost. As a result Indian companies are not willing to implement Ind AS, which led to delay in adoption of Ind AS in India.

ADVANTAGES OF IND AS (https://abcaus.in/companiesact2013/download-indian-accounting-standards-indas-201...)

- It reduces diversity in accounting practices.
- It improves the quality and transparency of the financial reporting process.
- It increases the trust and reliance placed by investors, analysts and stakeholders in a company's financial statements.
- It reduces the cost of conversion of financial statements for local companies which makes investments, raising capital, listing abroad etc.
- It provides a drive to cross-border acquisitions, partnerships and alliances with foreign entities thereby business as well as economic growth expands globally.

IND AS IMPLEMENTATION IN INDIA

The Ministry of Corporate Affairs (MCA) issued a note (on 2 January 2015) outlining the various phases in which Ind AS is proposed to be implemented in India. Ind AS is applicable only on the basis of the listing status and net worth of a company (https://mca.gov.in/Ministry/pdf/Press_Release_18012016.pdf).

IND AS ROADMAP

Salient features of Ind AS Adoption Roadmap (https://puneicai.org/.../Introduction-and-roadmap-of-Ind-AS-for-1st-2nd-August-Pune-Bran.)

• Early adoption permitted from 1 April 2015, with one year comparatives. (https://www.ey.com/Publication/vwLUAssets/EY-step-up-to-ind-as/$FILE/EY-step-up...)

• Once adopted, cannot be revoked.

• Companies which are not covered by the roadmap are to continue with the existing standards.

• Phase I is applicable from 1st April 2016 onward to:

- Listed or unlisted companies whose net worth is more than INR 500 crores.
  - Holding companies, subsidiaries companies, joint ventures or associates of these companies.

• Phase 2 is applicable from 1st April 2017 onward to:

- Listed companies whose net worth is less than INR 500 crores.
- Unlisted companies whose net worth is more than INR 250 crores but less than INR 500 crores.
- Holding companies, subsidiaries companies, joint ventures or associates of these companies.

• Net worth for a company can be calculated in accordance with its stand-alone financial statements ended on 31 March 2014 or as per the first audited financial statements for accounting period which ends after that date. Accordingly, as of March 31, 2015 if net worth of any company is more than INR 500 crore then the company will be covered in Phase 1 itself.

• Subsidiary, associate, joint venture and other similar entity or entities of an Indian company in a foreign country may prepare its stand-alone financial statements based on the requirements of the specific jurisdiction. However, for the group reporting purpose, it will have to report to its Indian parent companies under Ind AS to enable its parent to present Cash Flow Statements in accordance with Ind AS (http://www.sjaykishan.com/wp-content/uploads/2016/06/Ind_AS_ Convergence_with_IFRS. pdf).
• As per exemption under Rule 5, companies like banking companies, Insurance companies, and NBFCs need not apply Ind AS for preparing their financial statements voluntarily or mandatorily, as specifically mentioned in the roadmap (sub-rule (1) of rule 4).

KEY DIFFERENCES BETWEEN Ind AS AND INDIAN GAAP

The differences between Ind AS and Indian GAAP are discussed below on some particular standards and some particular items of financial statements.

PRESENTING FINANCIAL STATEMENTS

Under IGAAP, presentation of financial statements is administered by Disclosure of Accounting Policies/Schedule III to the Companies Act, 2013 (AS 1) and Net Profit or Net Loss for the period, items relating to prior period and Changes in Accounting Policies (AS 5). Under Ind AS primary literature for presentation of financial statements is Presentation of Financial Statements (Ind AS 1). (https://www.iasplus.com/en/binary/asia/1103intrackingifrs9.pdf)

DISCLOSURE OF MATERIAL INFORMATION

Under IGAAP, financial statements should disclose all “material” items, i.e., items, knowledge of which might influence the decisions of the users of the financial statements. Under Ind AS 1, a specific disclosure required by an Ind AS is not provided if the information is not material apart from it is required by law.

REVENUE RECOGNITION

As per Indian GAAP, revenue recognition is dealt under Revenue Recognition (AS 9) and Construction Contracts (AS 7). Revenue from Contracts with Customers (Ind AS 115) is a single standard where revenue recognition is dealt in a comprehensive manner under the Ind AS regime.

FINANCIAL INSTRUMENTS

Indian GAAP generally deals with the financial instruments like Effects of Changes in Foreign Exchange Rates (AS 11), Accounting for Investments and the ICAI Announcement on Accounting for Derivatives (AS 13). Financial Instruments (Ind AS 109), Financial Instruments: Presentation (Ind AS 32), Financial Instruments: Disclosures (Ind AS 107) and Fair Value Measurement deal with presentation, recognition, measurement and disclosure aspects of financial and equity instruments (Ind AS 113) in a comprehensive manner.

INCOME TAXES

Under IGAAP Deferred taxes reflect the impact of current year timing differences between taxable income and the accounting income for the year and reversal of timing differences of earlier years i.e., Income Statement Approach. Under Ind AS Deferred taxes are recognised for future tax consequences of temporary differences between the forwarding value of assets and liabilities in the books with the respective tax base which is also called balance sheet approach.

PROPERTY, PLANT & EQUIPMENT (PPE)

As per Ind AS, the preliminary estimate of the value of dismantling and removing the item and restoring the site where it is located is required to be included in the “cost of the respective item of PPE” (known as Asset Retirement Obligation). Asset is to be depreciated throughout the span of life of that asset or lease period whichever is earlier and Interest is to be accrued for the amount payable. Under IGAAP, there is no concept of Decommissioning Liability.

EMPLOYEE BENEFITS

Under IGAAP, the interest cost on defined benefit liability and expected return on plan assets and Actuarial Gains/Losses is recognized as employee benefit expenses. Under Ind AS, Re-measurement of the net defined benefit liability/(asset) will be recognized in ‘Other Comprehensive Income’.

STATEMENT OF COMPREHENSIVE INCOME

Some items such as revaluation surplus which are treated as ‘other comprehensive income’ under Ind AS are recognised directly in equity under IGAAP.

DISCLOSURES OF CRITICAL JUDGEMENTS

Under IGAAP, AS 1 does not specifically require disclosure of judgements that management has made in the summary of significant accounting policies or other notes. Ind AS requires disclosure of critical managerial judgements in applying accounting policies.

DISCLOSURE OF INFORMATION REGARDING CAPITAL

As per IGAAP, AS 1 does not require an entity to disclose information that facilitates users of the financial statements to evaluate the objectives, policies and practices of managing capital of the entities. Ind AS requires disclosure of information about management of capital and compliance with externally imposed capital requirements, if any.

CONCLUSION

IFRS is considered as the need of the hour in this current era of glocal business environment. India has also adapted IFRS through convergence with Indian GAAP. And that Indian version of IFRS is termed as Indian Accounting Standards i.e. Ind AS. India did not go for adoption of IFRS, because there are some peculiarities in Indian business environment and requirements of Indian entities which could not be entertained by the global standards. The Ministry of Corporate Affairs, through its notification, has provided the roadmap for execution of Ind AS which stipulates the execution of Ind AS in a phased manner starting from the accounting period 2016-17. Though there are number of challenges regarding adoption and compliance of Ind AS, these are of one time effect. It is believed that adoption of Ind AS will provide better insights on companies and will facilitate the benchmarking of the financials of Indian companies with global companies and by this means Indian companies would be able to access into foreign funding.

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In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals