CHAPTER 4

THE HISTORICAL EVOLUTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN INDIA

Introduction

The previous chapter presented the concept of International Financial Reporting Standards (IFRS) as well as structure of the IFRS foundation. The aim of this chapter is to explore the evaluation of International Financial Reporting Standards in all over the world particularly in India.


The previous chapter presented the concept of International Financial Reporting Standards. The International Financial Reporting Standards concept is the result of accounting standard setting process by International Accounting Standards Committee (IASC) between 1973 to 2001 agreement to establish IASC has been signed by representatives of the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom the Republic of Ireland and the United States and after that International Accounting Standards Board (IASB) from 2001 till now in particular, the IASC was replaced by the International Accounting Standards Board (IASB) as the body in control of setting international accounting and financial reporting standards.

In today’s global economy, the rate of globalization and growth is ever increasing, developments in technology have increased the rate in which the world economy is inextricably linked together.
4.2. Use of IFRSs around the world

The International Accounting Standards Board (IASB) has published its standards in a series of pronouncements called International Financial Reporting Standards (IFRS) in an attempt to establish global GAAPs. The acceptance of IFRS has been gaining momentum across the world. Based on current research findings 123 IASB member countries are in different stages of implementation of IFRS.

“By 2005, convergence with IFRS included the European Union, Australia, Hong Kong and South Africa, while Japan and the United States continued to work closely with the IASB to converge their standards. New Zealand permitted adoption of IFRS from 2005, but more importantly required its domestic entities to comply with what it describes as “New Zealand converged IFRS” by 2007. In 2007, the Accounting Standards Board of Japan (ASBJ) agreed to work with the IASB to eliminate major differences between International Standards and Japanese GAAP by 2008. Any remaining differences at that time will be removed by the middle of 2011. The convergence goal is for all standards that are effective prior to 2011, and hence new standards currently being worked on by the IASB will not be within this remit. However, both boards have agreed to work closely with each other in order that the international approach will be acceptable to the ASBJ. The Council of the Institute of Chartered Accountants of India also agreed in mid 2007 to fully converge with IFRS for accounting periods commencing on or after 1 April 2011. China made a similar commitment to bring about convergence of Chinese accounting standards and IFRS. The first step towards convergence in China was the release of Chinese Accounting Standards for business enterprises and Auditing Standards for Certified Public Accountants in February 2006. This marked the establishment of an accounting system for business enterprises and introduced accounting principles that are familiar
to investors globally, hence encouraging investor confidence in China’s capital markets. In addition, the Government of the people’s republic of China announced that its domestic listed entities would apply a set of accounting standards that are substantially converged to IFRS in 2007.”(Accounting & Reporting, 2008)

Fig 4.1 IFRS WORLD ADOPTION MAP

Source: ERP, CRM and E-Commerce Blog (blog.ignify.com)

4.3. India and IFRS

In May 2006 the board of the Institute of Chartered Accountants of India (ICAI) conducts a meeting with the purpose of discussion about adoption and implementation of IFRS for large companies mainly those who are listed in stock market with a large amount of turnover. This meeting was 259th meeting of ICAI and scope of meeting was to consider some advantages of implementation of IFRS such as saving in cost of capital in Indian companies, advantages of investment in other countries and advantages of encouraging of foreign companies for investment in India with advantages of saving in cost and expenses by preparing only one common set of financial statements. In this meeting the board expects to represent better image of
Indian companies as well as to represent better image in finance and accounting profession in the world so it may create better opportunities for professional and expert Indian people in accounting area and also other jobs in foreign countries.

In this meeting the board of ICAI also discussed about problems, issues and challenges which India may face due to convergence with IFRS as well as issues regarding corresponding IFRSs and proposed Indian accounting standards.

The Accounting Standards Board (ASB), conducted meeting in the month of August 2006 and it was 127th meeting of (ASB). The scope meeting was to consider several advantages and also number of issues and challenges due to convergence with IFRS. Board has been discussed some of main issues was regarding to rules and regulatory problems to prepare financial statements another challenges due to convergence with IFRS in India is about situation of economic environment of the country.

A monetary reportage system supported by robust governance, top quality standards, and firm regulative framework is that the key to economic development. Indeed, sound accounting standards underline the trust that investors place in monetary reportage information and so play a very important role in tributary to the economic development of a country. The “Institute of Chartered Accountants of India” (ICAI) is the accounting standards-formulating body within the country, has continually created efforts to formulate high quality accounting standards and has been triple-crown in doing therefore most of the countries in all over the world moving towards International Financial Reporting Standards (IFRSs) instead of their national accounting standards.

Presently, the Accounting Standards Board (ASB) of the ICAI endeavors to formulate Indian Accounting Standards (ASs) on the premise of IFRSs because it has been flatly
recognised within the Preface to the Statements of Accounting Standards, issued by the ICAI, that “The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is anticipated, inter alia, to actively promote the International Accounting Standards Board’s (IASB) pronouncements within the country with a read to facilitate international harmonisation of accounting standards. consequently, whereas formulating the Accounting Standards, the ASB will offer due thought to International Accounting Standards (IASs) issued by the International Accounting Standards Committee (predecessor body to IASB) or International Financial Reporting Standards (IFRSs) issued by the IASB, because the case is also, and try to integrate them, to the extent potential, within the lightweight of the conditions and practices prevailing in India.” consequently, the Accounting Standards issued by the ICAI have supported the IFRSs. However, wherever departure from IFRS is secure, keeping visible the Indian conditions, the Indian Accounting Standards are changed to that extent.

4.3.1. Roadmap for convergence with IFRS in India

The Ministry of Corporate Affairs (MCA) for the first time announced a roadmap for IFRS convergence in India in three phase, the first phase was in first April 2011 with the companies and industries which are having huge turnover more with than INR 1,000 crore, the second phase was a first April 2012 with the companies and industries which are having huge turnover more than INR 500 crore and third phase was in first April 2014 for other companies but unfortunately it did not happen in given time.
After the approval of the Companies Law 2013 “ministry of corporate affairs” concentrate on implementation of IFRS in India, based on the draft plan, the ministry needs to implement IFRS in first April 2015 with the companies and industries which are having huge turnover more than INR 1,000 crore, the second phase was in first April 2016 with the companies and industries which are having huge turnover more than INR 500 crore and third and fourth phases will be in first April 2017 for other small and medium size companies and enterprises.
4.3.2. Problems of convergence with IFRS in India

Moving from national accounting standards to international level is not an easy task. In this process any country may face several issues and challenges. Broadly these issues and challenges can be classified into four main categories.

Fig 4.4 Problems of Convergence with IFRS in India
I. Legal problems influences over convergence with IFRS in India.

There are several legal and regulatory issues for preparation of books of account over convergence with IFRS in India. Today books of account is prepared based on Indian GAAP according to regulation of Indian companies act 1956 which is amended in 2013 and now it is called as Indian companies act 2013 how ever there is an option for companies and industries to prepare their financial statement based on IFRS as well and some companies like Infosys, Wipro, Noida toll bridge company and Dr.Reddy company are using IFRS for the preparation of their financial statements.

According to this research it is found out that there is legal problem due to convergence with IFRS in India. For example; problem in recognition, measurement and disclosure of elements of financial statements under IFRS which are included in companies Act 2013, Provisions measurement in Income Tax Act 1961 relating fair value and deferred tax under section 145 or Revenue recognition of dividend income under Section 124,125 and 126 of the Companies Act 2013,so regulatory bodies like, SEBI, ICAI, MCA, IRDA and RBI has to eliminate legal problems for the purpose of convergence with IFRS in India.

II. Social problems influences over convergence with IFRS in India.

Convergence with IFRS is not easy task it is require strong fundamental and one of the area which is directly affected by this phenomena is society over convergence with IFRS in India. Social problems influence over convergence with IFRS in India may have two face first one is before convergence with IFRS and second one is after convergence with IFRS, in first stage problem with high quality of accounting education help for convergence in India or lack of professional accountant close with IFRS could be mentioned and for second one the number of professional accountant
would be retired can be considered as a social problems influences over convergence with IFRS in India.

III. Institutional problems influences over convergence with IFRS in India.

Institutional problems refer to those problems which are involved with either academic institutions or regulatory institutions. For example problem with formation of Ind-AS as proposed accounting standards given by ICAI or problem with universities and higher educational institutions offering graduate and post graduate program in IFRS as well as problem in introduction of XBRL for financial reporting by MCA.

IV. Economic problems influences over convergence with IFRS in India.

Another important problem over convergence with IFRS is nothing but economic problem, economic problem consists of several aspect like problem of economic policies of the government for foreign direct investment (FDI), problem of liberalization policies of the government, problem of privatization policies of the government, problem of government policies for supporting SMEs and problem of Indian companies when they go abroad for listing in their stock market.
References: