CHAPTER - 1
INTRODUCTION
1.1 OVERVIEW ........................................................................................................... 2

1.1.1 FORMATION OF ACCOUNTING STANDARDS BOARD ......................... 2

1.1.2 OBJECTIVES AND FUNCTIONS OF THE ACCOUNTING STANDARDS BOARD ........................................................................................................... 3

1.1.3 CONVERGENCE VS. ADOPTION ......................................................... 4

1.1.4 CONCEPTS OF HARMONIZATION AND CONVERGENCE ............ 4

1.1.5 NEED FOR CONVERGENCE ............................................................. 5

1.2 RESEARCH PROBLEM .................................................................................... 7

1.3 PURPOSE AND RESEARCH QUESTIONS ...................................................... 8

1.4 POTENTIAL SIGNIFICANCE OF STUDY .................................................... 9

1.5 CONCEPTUAL FRAMEWORK ....................................................................... 10

1.6 OBJECTIVES OF STUDY ............................................................................ 11

1.7 RESEARCH METHODOLOGY ...................................................................... 12

1.8 LIMITATIONS ............................................................................................... 13
CHAPTER – 1 INTRODUCTION

“To improve is to change. To be perfect is to change often.” - Winston Churchill

1.1 OVERVIEW

1.1.1 FORMATION OF ACCOUNTING STANDARDS BOARD

The Institute of Chartered Accountants of India (ICAI), recognizing the need to harmonize the diverse accounting policies and practices in use in India, constituted the Accounting Standards Board (ASB) on 21st April, 1977. (ICAI, 2013) The composition of the ASB is fairly broad-based and ensures participation of all interest-groups in the standard-setting process. Apart from the elected members of the Council of the ICAI nominated on the ASB, the following are represented on the ASB:

I. Nominee of the Central Government representing the Department of Company Affairs on the Council of the ICAI

II. Nominee of the Central Government representing the Office of the Comptroller and Auditor General of India on the Council of the ICAI

III. Nominee of the Central Government representing the Central Board of Direct Taxes on the Council of the ICAI

IV. Representative of the Institute of Cost and Works Accountants of India

V. Representative of the Institute of Company Secretaries of India

VI. Representatives of Industry Associations (1 from Associated Chambers of Commerce and Industry (ASSOCHAM), 1 from Confederation of Indian Industry (CII) and 1 from Federation of Indian Chambers of Commerce and Industry (FICCI)

VII. Representative of Reserve Bank of India

VIII. Representative of Securities and Exchange Board of India

IX. Representative of Controller General of Accounts

X. Representative of Central Board of Excise and Customs

XI. Representatives of Academic Institutions (1 from Universities and 1 from Indian Institutes of Management)

XII. Representative of Financial Institutions

XIII. Eminent professionals co-opted by the ICAI (they may be in practice or in industry, government, education, etc.)
XIV. Chairman of the Research Committee and the Chairman of the Expert Advisory Committee of the ICAI, if they are not otherwise members of the Accounting Standards Board

XV. Representative(s) of any other body, as considered appropriate by the ICAI

1.1.2 OBJECTIVES AND FUNCTIONS OF THE ACCOUNTING STANDARDS BOARD

The following are the objectives of the Accounting Standards Board (ICAI, 2013):

- To conceive of and suggest areas in which Accounting Standards need to be developed.
- To formulate Accounting Standards with a view to assisting the Council of the ICAI in evolving and establishing Accounting Standards in India.
- To examine how far the relevant International Accounting Standard/International Financial Reporting Standard can be adapted while formulating the Accounting Standard and to adapt the same.
- To review, at regular intervals, the Accounting Standards from the point of view of acceptance or changed conditions, and, if necessary, revise the same.
- To provide, from time to time, interpretations and guidance on Accounting Standards.
- To send comments on various consultative papers such as Exposure Drafts, Discussion Papers etc., issued by International Accounting Standards Board and various other International bodies such as Asian-Oceanian Standard-Setters Group (AOSSG).
- To carry out such other functions relating to Accounting Standards.

The main function of the ASB is to formulate Accounting Standards so that such standards may be established by the ICAI in India. While formulating the Accounting Standards, the ASB will take into consideration the applicable laws, customs, usages and business environment prevailing in India.

The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, inter alia, to actively promote the International Accounting Standards Board’s (IASB) pronouncements in the country with a view to facilitate global harmonization of accounting standards. Accordingly, while formulating the
Accounting Standards, the ASB will give due consideration 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, as the case may be, and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.

The Accounting Standards are issued under the authority of the Council of the ICAI. The ASB has also been entrusted with the responsibility of propagating the Accounting Standards and of persuading the concerned parties to adopt them in the preparation and presentation of financial statements. The ASB will provide interpretations and guidance on issues arising from Accounting Standards. The ASB will also review the Accounting Standards at periodical intervals and, if necessary, revise the same.

1.1.3 CONVERGENCE VS. ADOPTION
(Van Der TAS, 1998) Adoption would mean full-fledged use of IFRS as issued by the IASB by the Indian public companies.

Convergence means that the Indian GAAP and the International Financial Reporting Standards would over time continue working together to develop high quality compatible accounting standards.

1.1.4 CONCEPTS OF HARMONIZATION AND CONVERGENCE
(Van Der TAS, 1998) Harmonization in accounting means the application of several methods for the accounting practices, for integration purposes among the accounting practices. In other words, harmonization means the identical accounting policies adopted by the enterprises all through the country. As the more rate of adoption of any of the policies used in the accountability increases, the harmonization of the accounting applications increases too accordingly. On the contrary, the harmonization level decreases. Harmonization can be analyzed in two parts; one is the legal harmonization the other one is the material harmonization.

If accounting practices are affected by the regulations, it is called legal harmonization if not, the material harmonization occurs. As it is seen, the concept of harmonization relates directly to the accounting policies. The framework of the accounting policies is drawn through the legal regulations and/or standards.

Therefore, the regulations that guide the applications in a country have great importance. Harmonization came into existence through the legal regulations forms the base of the legal harmonization. This can only be achieved through decreasing the number of accounting policies by taking into the care of the applications in other countries.
The other harmonization concept namely, material harmonization, is related to the adoption of the accounting policies determined within the frame of the legal regulations and/or standards, by the enterprises. Application of different accounting policies by the enterprises has an effect on harmonization process in an increasing way.

Nowadays the concept of harmonization is defined from a different point of view. According to this, there should be a leader or a follower standard setting bodies (country or organization) to mention about harmonization.

The harmonization processes depend on harmonization of the national accounting standards with the standards of the leader standard setting body. The follower standard setting body tries to harmonize its accounting standards to the standards of the leader standard setting body.

On the other hand, there is no leader standard setting body for the concept of convergence. Convergence means the formation of high quality and the best accounting standards by the two standards setting bodies. After the highest quality standards are determined standard setting bodies change the standards accordingly. If there is no high quality standard among the existing, a new standard is formed.

The similarity between the national and international standards is generally preferred. However, the principal is that the accounting standard makers should reach to an agreement for a single international standard in order to attain a quality standard set.

1.1.5 NEED FOR CONVERGENCE
Convergence with International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) (collectively referred to as IFRSs), issued by the International Accounting Standards Board (IASB) has gained momentum in recent years all over the World. More than 100 countries currently require or permit the use of or have a policy of convergence with IFRSs. Certain other countries have announced their intention to adopt IFRSs from a future date, e.g., Canada from the year 2011, and China from the year 2008. Financial Accounting Standards Board (FASB) of USA and IASB are also working towards the 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 IFRSs in near future. In this scenario, India being an important emerging economy in the World, is yet to adopt the IFRSs. Internationally, insofar as cross-border investments are concerned, a non - IFRSs compliant country is perceived as an additional risk factor. Within India also, in recent times, the issue of convergence with IFRSs has been raised time and again at various forums.

Recognizing the above scenario, the Council of the Institute of Chartered Accountants of India (ICAI), at its 259th meeting, held on May 2-4, 2006, expressed the view that the IFRSs may be adopted in toto at least for listed and large entities, also keeping in view the expected advantages such as saving in cost of capital for Indian entities raising capital abroad, saving in cost for such entities for not preparing separate set of financial statements, expected improvement in the image of Indian industry and the accounting profession in the eyes of the world, and increasing opportunities for Indian professionals abroad. In this context, the Council also noted that in respect of the recently issued Accounting Standards, there are hardly any divergence from the corresponding IFRSs and, accordingly, India is already progressing on the path of full convergence with IFRSs. To consider various issues involved in detail, the Council referred the matter to the Accounting Standards Board.

The Accounting Standards Board (ASB), at its 127th meeting, held on August 11, 2006, considered the matter and supported the Council’s view that there would be several advantages of converging with IFRSs. The Board was, however, of the view that there were various implications of converging with IFRSs and that certain issues were required to be addressed such as the conflicting legal and regulatory requirements related to financial statements, the technical preparedness of industry and accounting professionals, economic environment prevailing in the country, etc. The Board was also of the view that convergence with IFRSs would be an important policy decision as it would significantly affect not only the status of accounting discipline in the country but would also affect its economy. The Board was, therefore, of the view that before taking any decision on the matter, it would be useful to develop a Concept Paper which could be discussed with various interest – groups involved
including the government, the National Advisory Committee on Accounting Standards, regulators, and industry associations. The Board, accordingly, decided to constitute a Task Force to prepare the Concept Paper on Convergence with IFRSs with the objective of exploring:

(i) The approach for achieving convergence with IFRSs, and

(ii) Laying down a road map for achieving convergence with IFRSs with a view to make India IFRS - compliant.

1.2 RESEARCH PROBLEM
Difference in GAAP and IFRS: Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep rooted. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

Issue of GAAP Reconciliation: The Securities Exchange Commission(SEC) laid out two options in its proposal-one calling for the traditional IFRS first-time adoption reconciliation, the other requiring that step plus an on-going unaudited reconciliation of the financial statements from IFRS to U.S. GAAP which is clearly more costly approach for companies and for investors.

Training and Education: Lack of training facilities and academic courses on IFRS will also pose challenge in India. There is a need to impart education and training on IFRS and its application.

Legal and Regulatory considerations: Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.

Taxation: IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.
**Fair value Measurement:** IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of instability and prejudice to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.

**Re-negotiation of Contract:** The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP.

**Reporting systems:** Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc.

### 1.3 PURPOSE AND RESEARCH QUESTIONS

The main purpose of this research is to have a detailed study on issues related to converging Indian Accounting Standards into International Financial Reporting Standards. India has not adopted IFRS in Toto but has converged present Indian GAAP with International Financial Reporting Standards, which itself will be considered as a challenging task. For a country like India, to merge present standards on accounting with some new international standards will be considered as vital change in the business environment as Indian Economy is considered as 3rd largest economy in all over the world after China and USA. Moreover, the secondary purpose of this research is to make comparative analysis of three different accounting standards i.e. Indian GAAP, IFRS and IND AS (IFRS converged Indian GAAP). On the basis of above all considerations, Researcher has identified some research questions which needs to be answered at a later stage of this research study.

- How widespread is the adoption of IFRS around the world?
- What would be the advantages and disadvantages of Adoption and Convergence?
- Who are the key players in the India regarding the development and adoption of converged standards?
- Have corporate houses begun transitioning to IFRS?
Is the possible conversion to IFRS from Indian GAAP solely a financial reporting issue?

What will be the status of other prevailing laws such as Companies Act, 2013, Income Tax Act, 1961, etc.? Will they align with reporting requirements or not?

How IFRS will affect other areas of the profession?

If Government of India mandates IFRS converged INDIAN GAAP for publicly traded companies, will private companies and not-for-profit organizations be mandated to follow the same?

Will IFRS converged standards be incorporated into the Higher studies of Accountancy profession?

What will be the likely costs of converting to IFRS? Who will bear?

How professional bodies like ICAI, ICSI and ICMAI can play role in convergence process?

There are many research questions which needs to be answered at this stage. If not at this stage then never again. This research study aims to answer some of them.

1.4 POTENTIAL SIGNIFICANCE OF STUDY

This research aims for a study on issues regarding convergence process. Whenever there is a change, there is resistance to change. If we will accept change then we will be the master of that change and if we will fail to welcome change then we will be victimized by the same. In Accountancy, we will be always making COST-BENEFIT Analysis. Similarly in this study also, there are few future potentials lying which are to be uncovered by conducting proper process.

- This research involves a study of three different standards so by having that there will be new horizons in the same.
- This research involves a comparative analysis of all three standards which will be helpful to readers for their future references and study.
- This study is based on primary data and secondary data both, so it will be the perfect case of social science research.
The research study will be done on various parameters of IFRS within practicing as well servicing Chartered Accountant. The parameter like their presentation requirement recording as well as implication requirements.

The research gives the suggestion to other chartered accountant regarding the IFRS implication their fair treatment regarding the book of account and how to deal with converged IND-AS with reference to IFRS.

Through the research work improve the analytical power of the researcher and knowledge regarding various tools and techniques.

1.5 CONCEPTUAL FRAMEWORK

In 1949, Indian government to streamline accounting practices in the country established Institute of Chartered Accountants of India by passing ICAI Act, 1949. Accounting Standard Board was constituted by ICAI in 1977 with a view to harmonize the diverse accounting policies and practices in India. The other objectives of the Board are:

(i) Conceive of and suggest new areas in which Accounting Standards are needed,
(ii) Formulation of Accounting Standards,
(iii) Examine how far IAS and IFRS can be adapted while formulating the accounting standards and to adapt the same, and
(iv) Review the existing Accounting Standards and revise them regularly as and when necessary, among others. In 2006, a task force was set up by ICAI. The objective of the task force was to lay down a road map for convergence of IFRS in India.

Based on the recommendation made by the Task Force and on the basis of outcome of discussions and public opinions on IFRS adoption procedure, a three step process was laid down by the Accounting Professionals in India.

This three steps IFRS adoption procedure can be summarized as follows:

Step 1 – IFRS Impact Assessment

In this step, the firm will begin with the assessment of the impact of IFRS adoption on Accounting and Reporting Issues, on systems and processes, and on Business of the firm. The firm will then identify the key conversion dates and accordingly an IFRS training plan will be laid down. Once the training plan is in place, the firm will have to identify
the key Financial Reporting Standards that will apply to the firm and also the differences among current financial reporting standards being followed by the firm and IFRS. The firm will also identify the loopholes in the existing systems and processes.

**Step 2 – Preparations for IFRS Implementation**

This step will carry out the activities required for IFRS implementation process. It will begin with documentation of IFRS Accounting Manual. The firm will then revamp the internal reporting systems and processes. IFRS 1 which deals with the first time adoption of IFRS will be followed to guide through the first time IFRS adoption procedure. To make the convergence process smooth, some exemptions are available under IFRS 1. These exemptions are identified and applied. To ensure that the IFRS are applied correctly and consistently, control systems are designed and put in place.

**Step 3 – Implementation**

This step involves actual implementation of IFRS. The first activity carried out in this phase is to prepare an opening Balance Sheet at the date of transition to IFRS. A proper understanding of the impact of the transition from Indian Accounting Standards to IFRS is to be developed. This will follow the complete application of IFRS as and when required. First time implementation of IFRS requires lot of training and some difficulties may also be experienced. To ensure a smooth transition from Indian Accounting Standards to IFRS, Continuous training to staff and addressing all the difficulties that would be experienced while carrying out the implementation is also required.

**1.6 OBJECTIVES OF STUDY**

The objectives of a study are the ultimate goal which a researcher aspires to achieve. The real worth of any research depends on the objectives laid down for the same. In fact the objectives of the research are the goal which a researcher aspires to achieve. To carry out this study in scientific manner the researcher has considered the following objectives-

1. To study in details three different standards i.e. Indian GAAP, IFRS and Ind AS.
2. To make comparative study of Indian GAAP, IFRS and Ind AS.
3. To study the challenges and risks specific to India in adoption of IFRS and an insight about the global financial reporting language i.e. IFRS.
4. To compare profitability and liquidity of selected companies converging its accounts as per IFRS and accounts made on the basis of Indian GAAP.

5. To have insight on various issues related with converging Indian Accounting Standards into International Financial Reporting Standards.

6. To give suggestions and recommendations towards successful implementation of Ind AS.

In addition to above stated main objectives, researcher is interested to study present legal environment for Corporate Financial Reporting.

1.7 RESEARCH METHODOLOGY
Research Methodology is a scientific and systematic approach to solve research problems. The methodology adopted for different types of problems are different from one another. Depending upon objectives of study, researcher has identified and adopted following specific research methodology:

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<th>OBJECTIVES</th>
<th>METHODOLOGY</th>
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<tr>
<td>1. To study in details three different standards i.e. Indian GAAP, IFRS and Ind AS.</td>
<td>For attaining this objective, the researcher has incorporated separate chapter containing summary of Indian GAAP, IFRS and Ind AS.</td>
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<tr>
<td>2. To make comparative study of Indian GAAP, IFRS and Ind AS.</td>
<td>For attaining this objective, the researcher has incorporated separate chapter for making comparative study.</td>
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<tr>
<td>3. To study the challenges and risks specific to India in adoption of IFRS and an insight about the global financial reporting language i.e. IFRS.</td>
<td>For attaining this objective, the researcher has conducted survey and observe the risk and challenges on convergence of IFRS and give an overview of IFRS.</td>
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<td>4. To compare profitability and liquidity of selected companies converging its accounts as per IFRS and accounts made on the basis of Indian GAAP.</td>
<td>For attaining this objective, the researcher has compared and observed effects in terms of financial ratios as a measurement of profitability and liquidity as per IFRS</td>
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Chapter – 1 Introduction

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<td>5.</td>
<td>To have insight on various issues related with converging Indian Accounting Standards into International Financial Reporting Standards.</td>
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<td></td>
<td>For this purpose researcher has examined findings and observations from primary and secondary data analysis.</td>
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<tr>
<td>6.</td>
<td>To give suggestions and recommendations towards successful implementation of Ind AS.</td>
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<td>For this purpose researcher has examined feedbacks of Chartered accountants of ICAI given in survey.</td>
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1.8 LIMITATIONS
➢ In various practices of Accounting Reporting, this study is limited towards issues related to Convergence with IFRS only.
➢ Sample of Chartered Accountants who are familiar with IFRS was taken only from four big cities of Gujarat such as Ahmedabad, Baroda, Surat and Rajkot because of time and other resources constrains.
➢ When collecting data through questionnaire from the chartered accountants, it cannot be treated as totally free from errors. Every possible attempt was made to get the information as accurate as possible.
➢ Questionnaire respondents can’t be considered totally unbiased.
➢ This research discusses the selected companies, so it is limited those companies only.
➢ Research period consists limited time of 5 years beginning from 2010-2011 to 2014-2015 because of the availability of data, so it cannot use for a longer period.
➢ Only 4 companies from leading companies of India have been analysed to study the difference in profitability and liquidity ratios as per IFRS compare to Indian GAAP.

“What I stand for, is what I stand on”

- Wendell Berry