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A comparative study of Financial Statements Reporting under IFRS And IND – AS with respect to innovations and best practices to cater global challenges in Covid times

Mrs.Byshi Panikar

Patuck gala College of Commerce& Management, Mumbai, Maharashtra, India

Abstract

The study focuses on the concept of Ind AS a converged with IFRS and applicability of the same in India. As stated by MCA it has been made mandatory to all the sectors of business. A critical analysis of the concepts Indian GAAP, IFRS and Ind AS are studied. Few references are taken into consideration for drawing out the below findings and conclusions. This will help in throwing out light on the standards introduced in the country and will create base to the future framework to be add on to the related concept.

IFRS and GAAP being concepts acceptable and practiced globally are to be converged and applied in the framework of Ind AS. This study is basically a approach towards enlightens based upon the key aspects of the newly formed standards.

Keywords: ***IFRS, Ind.AS, Convergence, Adoption, India.***

Introduction

What is IFRS ?

IFRS is short for International Financial Reporting Standards. IFRS is the international accounting framework within which to properly organize and report financial information. It is derived from the pronouncements of the London-based International Accounting Standards Board (IASB). It is currently the required accounting framework in more than 120 countries. IFRS requires businesses to report their financial results and financial position using the same rules; this means that, barring any fraudulent manipulation, there is considerable uniformity in the financial reporting of all businesses using IFRS, which makes it easier to compare and contrast their financial results.

IFRS is used primarily by businesses reporting their financial results anywhere in the world except the United States. Generally Accepted Accounting Principles, or GAAP, is the accounting framework used in the United States. GAAP is much more rules-based than IFRS. IFRS focuses more on general principles than GAAP, which makes the IFRS body of work much smaller, cleaner, and easier to understand than GAAP.

IFRS covers a broad array of topics, including:

- Presentation of financial statements
- Revenue recognition
- Employee benefits
- Borrowing costs
- Income taxes
- Investment in associates
- Inventories
- Fixed assets
- Intangible assets
- Leases
- Retirement benefit plans
- Business combinations
- Foreign exchange rates
- Operating segments
- Subsequent events
- Industry-specific accounting, such as mineral resources and agriculture

There are several working groups that are gradually reducing the differences between the GAAP and IFRS accounting frameworks, so eventually there should be minor differences in the reported results of a business if it switches between the two frameworks. There is a stated intent to eventually merge GAAP into IFRS, but this has not yet occurred.

There will be a reduced cost for companies once the two accounting frameworks are more closely aligned, since they will not have to pay to have their financial statements restated to show results under the other framework in cases where they need to report their results in locations where the other framework is required.

<u>What is Ind AS ?</u>

Indian Accounting Standard (abbreviated as Ind-AS) is the Accounting standard adopted by companies in India and issued under the supervision and control of Accounting Standards Board (ASB), which was constituted as a body in the year 1977. ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, and other professional bodies'. ICAI, representatives from ASSOCHAM, CII, FICCI, etc.

The Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS). National Advisory Committee on Accounting Standards (NACAS) recommends these standards to the Ministry of Corporate Affairs (MCA). MCA has to spell out the accounting standards applicable for companies in India. As on date MCA has notified 39 Ind AS. This has been applied to the companies of financial year 2015-16 voluntarily and from 2016-17 on a mandatory basis.

Literature And Hypothesis Development

The question of how accounting practices and standards have harmonised across the globe has been topical in accounting research for many years. As such authors have used different methods in examining harmonisation between and among countries. However, these studies are quite old and did not cover India. Studies before the inception of IFRS in 2003 focused on harmonisation among countries whereas current trend looks at how local standards are comparable with IFRS.

Rahman et al. (1996) study on the disclosure and measurement requirements between Australia and New Zealand highlighted the high level of harmonisation between the two countries before the adoption of IFRS. In Europe, Herrmann and Thomas (1995) examined the harmonisation of accounting measurement across countries. They found that countries were similar in foreign currency translation of assets and liabilities recognition, but different in translation on revenue and expenses. They also found that inventory valuation was the same across the sample countries.

Garrido et al. (2002) longitudinal study using Euclidean distance approach indicated that IASB had improved harmonisation through the issuances of IAS. Fontes et al. (2005) used both Jaccard's coefficient and Spearman's coefficient to assess the harmonisation of Portuguese accounting standards towards IFRS. Their measure involves 3 phases, Euclidean distances used by Garrido et al. (2002), Jaccard's coefficients and Spearman's coefficient. Their study provides evidence of positive progress between Portuguese accounting standards and IFRS. Using fuzzy clustering analysis, Qu and Zhang (2010) reported that Chinese accounting standards (CAS) are significantly similar to IFRS. However, they caution that there are differences between IFRS and CAS, which can result in differences in accounting values.

In Africa, Boolaky (2006) used content analysis to compare IFRS with local reporting standards of South Africa, Mauritius and Tanzania. The study compared the definition of terms, accounting treatment and disclosures of these country's local standards with IFRS. Boolaky (2006) reported that there were similarities between the three countries. In ranking the countries local standards with IFRS, the study concluded that South African standards are more harmonised with IFRS, followed by Mauritius and Tanzania been the least harmonised country. Boolaky (2006) used a Wilcoxon matched paired test to run the statistical significance of the harmonisation score.

Joshi (2012) claim that the benefits of convergence to IFRS in India is not likely to lead to global harmonisation because of subjective and judgemental measurement. The author argues that management will use discretion to their advantage, given the weak financial market of the country. Similarly, Patro and Gupta found that management students' in India have less knowledge of IFRS and low interest in accounting harmonisation. Hence as future accounting professionals, these students are less likely to ensure effective harmonisation that comes with the adoption of Ind.AS. Parvathy (2017) also argues that the convergence to IFRS in India is likely to be a mere formality as there is limited awareness among stakeholders.

Sharma, Joshi and Kansal (2017) found that accounting professionals and bankers in India acknowledge the efforts of ICA in training people; however, these professions admitted that convergence to IFRS might not lead to harmonisation due to difficulty in interpreting the standards.

Although there is evidence of challenges in effective implementation of Ind.AS in achieving global harmonisation, I follow from prior studies that suggest convergence is an attempt to bridge the gap between local accounting standards and IFRS. For instance, Jones and Finley's (2011) investigation on the harmonisation of IFRS between Australian and EU indicated that accounting practices variability reduced after the adoption of IFRS. Consistently, Bayerlien and Al-Farooque (2012) also provided evidence that deferred tax and goodwill accounting has harmonised between Australian, Hong-Kong and the UK after the adoption of IFRS. Catuogno and Allini (2011) also found that the level of harmonisation increased in Italian and Spanish companies after the implementation of IFRS. Nobes (2011) opines that convergence is a modification of IFRS to meet the specific needs of a country, resulting in no significant difference between IFRS and converged local standards. Further, the MCA (2015) and ICAI (2007) of India claim that the carve-ins and -outs in Ind.AS is not intended to bring any significant difference from IFRS, but rather to give options to suit the Indian business environment. Given these, it is hypothesised:

Research Gap/ Statement of Problem

DIMENSIONS AND AREAS

Due to globalization and liberation, more and more countries are opening their doors to foreign investment and as businesses expand across borders, there is a need for common accounting standards in order to interact globally. Today, more than 12000 companies in 150 countries have already adopted IFRS and India has already converged with IFRS through IND AS from 2017 in all the sectors including SMEs.

NEED OF THE STUDY

IFRS provides the solution as it is single set of high quality accounting standards which offer transparency, accuracy, comparability and globally accepted accounting standards which helps global investors and to all companies operating globally.

ANALYSIS OF THE STUDY

Limitations of the concept of Ind – AS in India with respect to its dimensions and areas covered. This study may give conclusive measures as to what practical approach Ind – AS has in today's scenario.

Objectives of the Study

The following are the objectives of the Research:

- To study the concept of Indian Accounting Standards (Ind - AS) and its implementation in India.
- To know the likely beneficiaries of IFRS convergence in India.
- To identify the opportunities and Challenges involved in implementing Ind – AS in India.
- To study the Comparison of IFRS and Ind – AS.
- To study the Limitations of Ind – AS.

Research Methodology of the Study

It specifies the research design, the sources of data, and the procedures adopted in data collection and analysis.

Research Design:

This study is exploratory research in nature. It adopts a quantitative approach in analyzing the research questions.

Sample Technique:

Convenience sampling method has been adopted in administering the responses.

Sources Of Data Collection:

Only Secondary data have been used in this study. It includes research articles, newspapers, and thesis and through online article reports etc.

Scope of the Study

The present study has been chosen in order to know the Opportunities and Challenges involved in implementing Ind - AS in India. References were taken from the previous research articles and papers available online. It caters to the perception, opinion and views of the researchers regarding the concept.

Significance of the Study

Research in this area will hopefully bring more brightening result and serve as a evident about the preparedness of the users of financial information and gives clear idea of real challenges, opportunities and risk involved in implementing Ind – AS. A comparative analysis of implementation of IFRS and Ind-AS can also be conceptualized and even beneficiaries related challenges can be clarified.

Limitation of the Study

The Research is limited to the following extend:

- Only few references have been taken to study Ind - AS implementation.
- Only few responses and opinion of the researchers are reviewed.
- Conclusions are drawn on the basis of the findings through above review of literature, still scope exist for modification and up gradation.

Findings of the Study: In this paper, the quantitative changes have been examined in financial reporting due to the changes in accounting standard. 5 listed Indian companies (companies) have been selected from the IT industry belonging to Nifty 50 Index to conduct this study. Before the period, financial year starting from 1 stApril, 2016, companies prepared their financial report in compliance with the Indian GAAP (IGAAP). The financial year starting from 1stApril, 2016 and onwards all the Indian companies either listed or unlisted having net worth of rupees five hundred crore or more need to prepare their financial report under the Indian Accounting Standards (Ind AS). So, the financial reports for the financial year ending on 31st March, 2016 are available under both IGAAP and Ind AS (since the financial year ending Atanu Pramanick 78 on 31st March, 2017 requires the previous year's figures for comparison purpose, the figures as on 31st March, 2016 need to be restated under Ind AS). The consolidated financial statements as per IGAAP are compared with the consolidated financial statements under Ind AS. The figures in the Balance Sheet and the Profit and Loss statements have been completely drawn from the annual reports of the company. All figures are related to the period ending 31st march 2016. Gray's Comparability Index (GCI) is applied to the key elements of financial statements such as assets, liabilities, equities and profit prepared under IGAAP and Ind AS. This is an Index which was proposed by Gray in 1980 to quantify the impact of different accounting practices by means of Conservatism Index. The following formulae are used. The Index is calculated as under: Total Comparability Index of Non-Current Assets (NCA) = 1− Total Comparability Index of Current Assets (CA) = 1− Total Comparability Index of Total Assets = 1− Total Comparability Index of Total Equity = 1− Total Comparability Index of Total Non-Current Liabilities (NCL) = 1− Total Comparability Index of Total Current Liabilities (CL) = 1− Total Comparability Index of Total Equity and Liabilities = 1− Total Comparability Index of Total Income = 1− Total Comparability Index of Total Expenses = 1− Total Comparability Index of Profit before tax (PBT) = 1− The benchmark used in the study is Ind AS for examining the accounting impact on the elements of the statements of financial positions of the transition from the Indian GAAP to Ind AS. The Total Non-Current assets, total current assets, total assets, total equities, Total Non-Current Liabilities, Total Current Liabilities, Total Equity and Liabilities, Total Income, Total Expenses, Profit before tax Business Studies--Volume--XXXIX, No. 1 & 2, January & July, 2018 79 reported under Ind AS are taken as denominators in order to assess the impact of Ind AS on

Conclusion

World becoming a global village and with liberalization & globalization of economy it is imperative the disclosures and reporting of companies are made in parallel to the International Regulations. The MCA (Ministry of Corporate Affairs) had come up with lots of efforts by introducing e-filing and XBCL filing of financial results. Introduction of Companies Act, 2013, have sweep changes brought into the system. Reporting under the Ind – AS makes the financial easily comparable with other countries in the global markets. After the financial year 2016-17 it has been mandate all kinds of organizations to applicative report as per guidelines of Ind – AS. Though the transition has serious implications on the financial reporting, it paves way for better standards and governance.

The impression towards the policies and framework included in Ind – AS may not fulfill the requirements globally. Suggestive opinion may recognize through implications and thereafter.

This study overall give some light to the newly formed standards in the country. To some extend it is a study to find more logical approach towards the framework of the country till date.

It can be concluded that introduction of Ind AS and making its application mandatory would help in more transparency and analytical data interpretation of the financial reporting system. As stated above few dimensions are still need to touch in the future aspects to get a complete approach towards accountability and global requirements.

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