Convergence of Accounting Standards with International Financial Reporting Standards–Beginning of a new Era in Accounting.

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ABSTRACT

The lack of comparability of financial accounts throughout the country prompted the global harmonization of accounting standards. In recent years, International Financial Reporting Standards convergence has achieved momentum worldwide. As the capital markets become increasingly global, more and more investors see the need for a common set of accounting standards. As India is one of the global players, the transition to the IFRS will enable Indian firms to access international capital markets. The Ministry of Corporate Affairs (MCA) has notified the Companies (Indian Accounting Standards) Rules, 2015, vide its notification dated February 16, 2015. Accordingly, it has notified 39 Indian accounting standards (Ind ASs) and set the roadmap for implementing Ind ASs. The new Ind Ass, the converged version of international financial reporting standards (IFRS), is applicable to different dates for different companies in India. The changeover to the IFRS is a significant challenge, but it is also an opportunity for chartered accountants. This paper is intended to provide an insight into the background of Accounting Standards and IFRS and the road map which MCA notifies for Indian companies.

KeyWords: *Accounting Standards, Convergence, IFRS, Ind. As.*

INTRODUCTION

As we need a language to communicate with others, along the same lines, a business requires language to communicate with its management, society, owners, and other stakeholders. This language is called accounting language. Accounting is a language of business that helps communicate the financial results of an enterprise to its owners, managers, society, and other stakeholders with the help of financial statements. Financial statements are the end product of an accounting process. Accounting is a process; by following it, we get financial statements. Different users of accounting use this information for various decisions, so this process requires proper attention and regulation because if it is not correctly regulated then it can mislead its users. If the accounting process is not regulated correctly, financial statements are possibly misleading and provide a distorted picture rather than a true and fair state of affairs. In order to maintain transparency, reliability, adequacy, consistency, and comparability of financial reporting, it is necessary to set the accounting principles and practices. These principles and rules are known as GAAPS (Generally Accepted Accounting Principles).

GAAP are good accounting practices that have evolved in the accounting profession over a while. Financial statements prepared using GAAP are more readily comparable. Accounting Standards further elaborate on the

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GAAP. Accounting Standards are mandatory requirements to be followed while preparing financial statements. Business enterprises must follow certain principles or rules (Accounting Standards) as their statutory duty. Accounting standards provide a framework and standard accounting policies. Each Accounting Standard covers a specific accounting area and provides detailed guidelines for accounting and disclosure. For example, AS 2, issued by ICAI, deals with the Valuation of Inventories. The Institute of Chartered Accountants of India, a premier accounting body in the country, took a leadership role by constituting the Accounting standard Board in 1977. The Institute of Chartered Accountants of India, as the Accounting standard formulating body, has formulated high-quality accounting standards. The council of ICAI (The Institute of Chartered Accountants of India) has issued 32 Accounting Standards. However, AS -8 on "Accounting for Research and Development" has been withdrawn due to the issue of Accounting Standard 26 on "intangible Assets," and Accounting Standard 30, 31, and 32 has also been withdrawn due to the applicability of Ind. As 32, 107, and 109. The Accounting standards issued by Accounting Standard Board establish standards that have to comply with business entities so that financial statements are prepared according to the Generally Accepted Accounting Principles. ICAI has taken significant initiatives in the setting and issuing procedure of accounting standards in order to ensure that the standard-setting process is fully consultative and transparent. The ASB (Accounting Standard Board) considers the IAS (International Accounting Standards) /IFRS (International Financial Reporting Standards) while framing Accounting Standards and trying to integrate them in the light of applicable laws, customs and usage, and the business environment in the country. However, there are still many differences between the Accounting Standards and IAS/ IFRS.

RESEARCH OBJECTIVES AND METHODOLOGY

1) To capture the importance of GAAP and accounting standards in financial reporting
2) To study the international experience in accounting standards (IFRS), the need for IFRS in India, and the applicability of IFRS in India for Indian Companies.
3) To understand the benefits and opportunities of IFRS for Chartered Accountants / Accounting executives in India.
Secondary sources, such as journals, magazines, and books, were mined for data to meet the goals mentioned above.

Difference between Convergence and Adoption-

Adoption means fledged use of IFRS, in other words, copy-paste of IFRS, as issued by IASB (International Accounting standard Board)

Convergence means that the Accounting Standards (AS) shall be prepared on the same International Financial reporting standards (IFRS). However, there may be a modification that suits Indian conditions.

The convergence Journey (First step towards IFRS)

Indian companies adopted the International Financial Reporting Standards (IFRS) in 2006 to improve investor and stakeholder acceptance and transparency of Indian companies' financial information (IASB).

In consultation with the ICAI, the Indian government expressed its resolve to converge with the International Financial Reporting Standards (IFRS). India will 'converge' with IFRS rather than 'accept' IFRS, it has been agreed. Convergence is defined as "the establishment and maintenance of national accounting standards in such a way that financial statements prepared in line with national accounting standards draw an unqualified statement of compliance with the International Financial Reporting Standards." As a result, it is safe to say that Convergence is not a carbon replica of IFRS. It is adopting the International Financial Reporting Standards

(IFRS) in the Indian context. IFRS Converged Indian Accounting standards (Ind AS) were formulated to meet this objective. While keeping these Ind AS, as far as possible, in line with corresponding IFRS/ IAS, certain departures have been made where it is considered essential.

These adjustments were made in light of several issues, including some language-related changes to align with legal terminology.

E.g., Instead of 'Statement of Comprehensive Income,' use 'Statement of Profit and Loss,' and 'Balance Sheet,' instead of 'Statement of Financial Position.' The country's economic environment differs from the economic environment assumed by IFRS to exist, necessitating some adjustments.

Ind AS was supposed to be adopted starting in 2011. However, the Ministry of Corporate Affairs has chosen to postpone the implementation of Ind. AS due to specific problems. Since then, Parliament has passed the new Companies Act of 2013. The new Companies Act, 2013, added several new provisions, including the necessity to prepare consolidated financial statements, which will make the transition to Ind AS convergent with IFRS easier. In light of this, and the growing necessity to incorporate IFRS, Shri Arun Jaitley, Minister of Finance, kicked off the process with his budget speech on July 10, 2014, when he proposed: **"The current Indian accounting standards must be brought into line with the International Financial Reporting Standards as soon as possible" (IFRS). The new Indian Accounting Standards (Ind AS) should be adopted by Indian companies starting with the financial year 2015-16 voluntarily and then made mandatory for 2016-17.**

Based on the international consensus, the regulators will separately notify the date of implementation of AS Ind for the Banks, Insurance companies, etc....…………..”

Furthermore, the MCA released the Firms (Indian Accounting Standards) Rules, 2015, on February 16, 2015, which lays out the pathway for the implementation of Ind AS for specific classes of companies, with 39 Ind AS included as an annexure to these Rules. As an annexure to several Ind AS, various interpretations from SIC and IFRIC have been included. Thus, Ind ASs are basically in line with IFRS. This will be beneficial in the long run since it will ensure that financial statements issued by Indian enterprises are accepted globally.

Implementation of Ind. As in India – Roadmap

Voluntary Basis for all companies: April 1, 2015, or after.
(With Comparatives)
Phase 1: April 1, 2016, or after that: Mandatory Basis (With Comparatives)

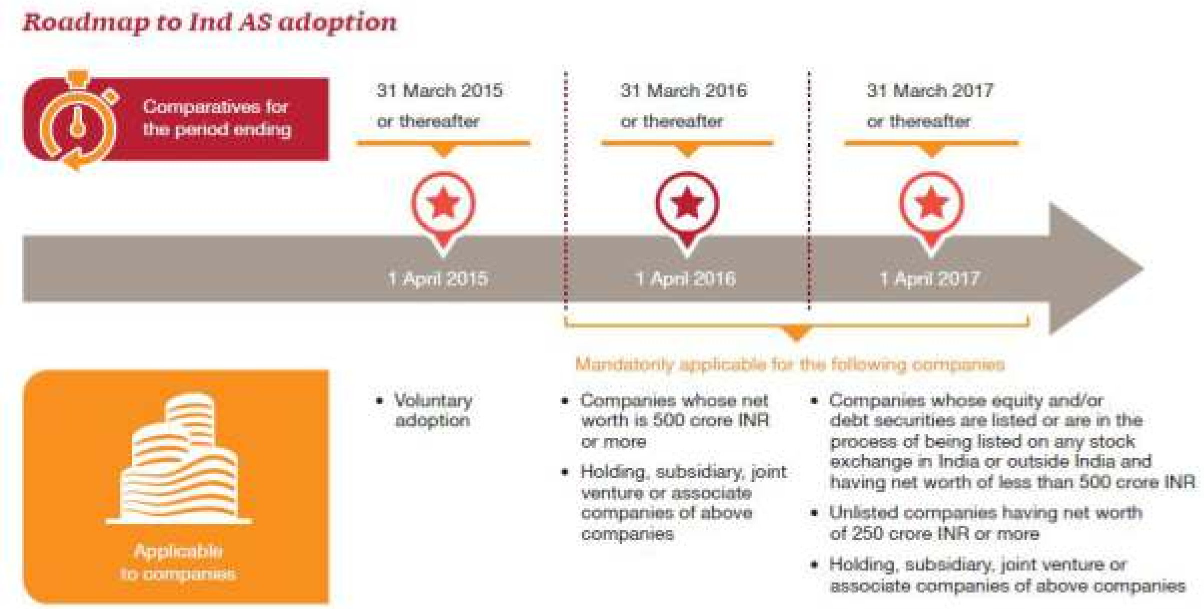
i) Companies having a net worth of 500 crores INR or more that are listed or in the process of being listed on stock exchanges in India or abroad.
ii) Unlisted Companies have a net worth of 500 crores or more.
iii) Holding, Subsidiary, Associate, and Joint Venture of companies mentioned above.

Phase 2: April 1, 2017, or after that: Mandatory Basis (With Comparatives)

i) All companies not included in Phase 1 are listed or in the process of being listed on Indian or international stock exchanges.
ii) Unlisted Companies have a net worth more than or equal to 250 Crore INR but less than 500 Crore INR.
iii) Holding, Subsidiary, Associate, and Joint Venture of companies mentioned above.

- In the case of those companies listed on SME exchange not required to apply Ind. As.
- Net worth will be checked for the first time on March 31, 2014, and then at the end of each financial year after that.
- Once Ind. As. has been applied, an organization must follow Ind. As. for all subsequent financial statements. It means there is no exit door once it becomes applicable.

- Companies not covered by the above road map must continue to follow the existing Accounting Standards as outlined in the Companies (Accounting Standards) Rules 2006.



Benefits Of Convergence with IFRS

The Economy: As we all know, markets expand globally; therefore, Convergence benefits the economy by boosting international business growth. It aids in the preservation of efficient capital markets and capital development and, as a result, economic growth. It promotes international investment, resulting in increased foreign capital inflows into the country.

Investors: Investors desire more relevant, reliable, timely, and comparable information across countries. Financial statements generated using a common set of accounting standards are more useful to investors than financial statements generated using a separate set of national accounting standards. Global investors must pay a higher price in terms of time and effort to transform financial statements so that they may confidently assess alternative opportunities. If the accounting standards are widely acknowledged, investors will have much faith in the company. Investors' knowledge and confidence in high-quality financial statements are aided by Convergence with IFRS.

The Industry: If the industry can convince overseas investors that its financial statements comply with internationally accepted accounting standards, it will raise financing from global markets at a cheaper cost. Because accounting standards fluctuate from country to country, businesses that operate in numerous countries must comply with various accounting rules. The Convergence of accounting standards minimizes the financial reporting burden by simplifying the process of preparing individual and group financial statements and thereby lowering the expenses of making financial statements using separate sets of accounting rules.

Accounting Professionals: Accounting professionals can sell their services as specialists in various locations throughout the world. It provides them with more significant opportunities in any part of the world where the same accounting practices are followed. As accounting professionals in industry and practice, their mobility to work in different parts of the world grows.

Indian Corporate: If a corporation follows IFRS, it may raise financing from other countries. When a company provides its financial statements under IFRS, it is easy to compare with foreign competition.

Transparency: IFRS will increase financial information and performance comparability with global peers and industry norms. Investors, consumers, and other key stakeholders in India and abroad will benefit from more transparent financial reporting of a company's actions as a result of this.

Reduction in Cost: Another possible benefit is the cost savings associated with international firms that must reconcile their accounting data with several accounting standards.

Benefits to Stock Exchange: Stock exchanges worldwide could profit from the harmonization of accounting standards; as more companies begin to adopt the international standards, they will become eligible for listing.

Harmonization with Global Financial Market: Some Indian companies have already gone public on foreign stock exchanges, with many more to follow. The language of communication for Indian companies will then be international accounting standards. Since the IFRS is now acknowledged as a financial reporting framework for companies looking to obtain funds from most capital markets worldwide, they have better access to and lower the cost of capital raised through global capital markets.

CONCLUSION:

The decision to converge with the IFRS will go a long way in the profession's history.
While it has its challenges, it is a golden opportunity for the profession to rise to the occasion and make a mark for itself. Finance professionals entering the field of IFRS and Ind AS will have an advantage over others because few accounting professionals have expert knowledge of IFRS and Ind AS. Having the right IFRS and Ind AS skill set will elevate the status of chartered accountants in the high-growth and demanding world of accounting professionals.

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