

International Financial Reporting Standards: A Structured Analysis

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ABSTRACT

Financial Statements of any company or organization depicts the financial status of the company and the recording of financial transaction as per accounting standards issued by ICAI played a very key role in the preparation of financial statements. Accounting standards provides the detailed guidelines for the presentation of financial transactions occurred during a financial year. An international financial reporting standard defines the set guidelines for the reporting of financial transactions of the company. India is one of the rapidly growing global economies in the world and is moving towards the converging with International Financial Reporting Standards (IFRS). The Ministry of Corporate Affairs in its press release dated 25.2.2011 has notified 35 Indian Accounting Standards converged with International Financial Reporting Standards called Draft Ind AS. On 2 January 2015, the Press Information Bureau, Government of India, Ministry of Corporate Affairs (MCA) issued a note outlining the various phases in which Indian Accounting Standards converged with IFRS (Ind AS) is proposed to be implemented in India, for Companies other than Banking Companies, Insurance Companies and NBFCs. Consequently, the companies will need to convert their accounts from Indian GAAP to IFRS. The main objective of the study is used to find out the variation and compatibility between GAAP and IFRS. The present study seeks to analyze the factors that leads to harmonization of Indian accounting standards with IFRS. The study also attempts to figure out the impact of IFRS on accounting practices in india in terms of quality of recording of transactions and financial measures. The study aim is to provide useful information to the various stakeholders like shareholders, creditors, lenders, management, investors, suppliers, competitors, researchers, regulatory bodies and society at large.

Keywords: Accounting Standards, Financial Statements, Generally Accepted Accounting Principles, International Financial Reporting Standards, Accounting Practices, stakeholders

INTRODUCTION

Genesis of IFRS

IFRS stands for International Financial Reporting Standards. IFRS are set of accounting policies and rules developed by International Accounting Standard Board (IASB). In general terms, the IFRS includes with the followings:

- Recognition of items as assets, liabilities, income and expenses
- How to measure items recognized and its presentation in the financial statements and
- Disclosures related to such items.

The emergence of international accounting standards is the need of an hour in order to make accounting statements comparable with other countries in the world. The harmonization of Indian accounting standards with international accounting standards is essential for the purpose of analysis of financial statements and to form proper judgments about the financial position of the company. There should be synchronization between Indian accounting standards and international financial reporting standards that makes comparison possible.

Objectives of the Study

1. To compare the Indian accounting standards with IFRS.
2. To enumerate the factors that leads to harmonization of Indian accounting standards with IFRS.
3. To analyze the impact of IFRS on accounting practices in India
4. To work out the impact of globalization on Indian accounting system.
5. To identify the parameters for the purpose of assessment of Indian accounting standards.

Objective of International Financial Reporting Standards:

- 1) IFRS was introduced with an objective to bring consistency in the accounting practices and principles followed by companies of various nations while preparing financial statements.
- 2) Another objective was to provide framework for nations across the globe on how companies and entities should prepare and present their financial statements.

- 3) It also brings synchronization in accounting practices across various nations to facilitate comparison of financial statements.
- 4) It is of more significance for those companies which have dealings in several countries in order to promote foreign direct investment and to boost industrial growth.

Benefits of International Financial Reporting Standards:

IFRS consists of so many benefits, some of the benefits of IFRS are as follows :

- **Wider Acceptability:** IFRS standards are globally acceptable. It is applicable to almost 166 jurisdictions out of which approximately 144 jurisdictions have adopted IFRS. Thus, financial statements prepared as per IFRS are widely acceptable.
- **Comparison of Financial Statements:** IFRS follows global standards; companies of different nations following IFRS can easily compare their financial position with another company. IFRS makes distinction possible.
- **Detailed Guidance:** IFRS provides clarified guidance on how to apply principles given in standards in different situations.
- **Adjustable Standards:** Principles of IFRS can be easily revised and modified in case there is any major change in economic conditions of any country which requires alteration in standards.

International Financial Reporting Standards: International Financial Reporting Standards (IFRS) provides a set of accounting standards that defines how particular types of business transactions and events should be disclosed in the financial statements of an entity. IFRS were developed and are maintained by the International Accounting Standards Board (IASB).

IFRS 1- First-time Adoption of International Financial Reporting Standards



IFRS 1 sets out the procedure that a company must follow if it first time adopt the international financial reporting standards for the purpose of preparation of general purpose financial statements.

IFRS 2 - Share-Based Payment



IFRS 2 recognizes share based payment transactions in the financial statements of the company. It also comprises of transactions related with employees or other parties which is to be settled in cash, other assets, or equity instruments of the company. Specific requirements are to be incorporated for equity-settled and cash-settled share-based payment transactions.

IFRS 3 Business Combinations



IFRS 3 accounts for the recording of transactions of acquisitions and mergers by using acquisition method which generally requires the data of assets acquired and liabilities accepted to be measured at their fair values at the date of acquisition.

IFRS 4 Insurance Contracts



IFRS 4 is concerned about all insurance contracts with limited exceptions including reinsurance contracts that a company issues and to reinsurance contracts that it holds. In the context of the International Accounting Standard Board on insurance contracts, this set of standard provides a short term exemption from the requirements of some other IFRS including the requirement to consider International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors when selecting accounting policies for insurance contracts.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations



IFRS 5 defines how to account for non-current assets held for sale and for distribution to owners. In general terms, assets held for sale are not depreciated and measured at the lower of carrying amount and fair value fewer costs to sell and are presented separately in the financial statements. Specific disclosures are also required for discontinued operations and disposals of non-current assets.

IFRS 6 - Exploration for and Evaluation of Mineral Resources



IFRS 6 deals with the impact of authorizing companies to adopt the standard procedure for the first time to use accounting policies for exploration and evaluation assets that were applied before adopting IFRS. The standard is also introducing different impairment indicators for the purpose of exploration and evaluation of assets.

IFRS 7 - Financial Instruments Disclosures



IFRS 7 deals with disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are also required in relation to transferred financial assets and a number of other matters.

IFRS 8 - Operating Segments



IFRS 8 is about particular classes of entities especially those with publicly traded securities to disclose information about their operating segments, their products and services, the geographical dimensions of their areas in which they operate and functions, and about their customers. Information is based on internal management reports both in the identification of operating segments and measurement of disclosed segment informations.

IFRS 9 Financial Instruments



IFRS 9 is about the substitution of International Accounting Standard 39 Financial Instruments: Recognition and Measurement. It comprises of the standards for recognition and measurement, impairment, recognition and of general hedge accounting.

IFRS 10– Consolidated Financial Statements



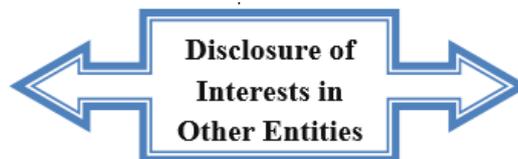
IFRS 10 is about the set of guidelines for the preparation and presentation of consolidated financial statements. It defines the standards for entities to consolidate their entities in order to control their functions and activities. It is requisite for exposure of rights to variable returns and to determine its capacity to control over the affairs of it's another firm.

IFRS 11– Joint Arrangements



IFRS 11 is set out the standards for entities that jointly control or manages the business of an entity either by engages in joint venture business. It is about representation of their accounts on financial statements by mentioning the specifically their rights, obligations in respect of assets and liabilities their joint control and arrangements.

IFRS 12- Disclosure of Interests in Other Entities



IFRS 12 is list out the set of standard for consolidated disclosure of entity interests in their subsidiaries, joint arrangements, associates and unconsolidated structured entities. Disclosures are represented in a manner of series of objectives with detailed description on objectives.

IFRS 13-Fair Value Measurement



IFRS 13 is list out the set of guidelines for fair value measurements or disclosures and it provides a detailed framework for measuring fair value and disclosures about fair value measurement. The Standard defines fair value on the basis of an exit price notion and uses a fair value hierarchy which results in a market-based rather than entity-specific measurement.

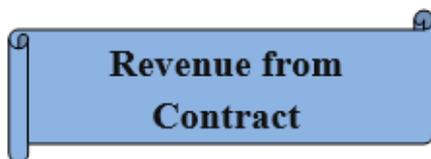
IFRS 14 Regulatory Deferral Accounts



IFRS 14 is about disclosure of regulatory deferral accounts in the financial statements of a company. If a company is first time following the guidelines of IFRS 14

it can do so with some limited changes in its accounts in accordance with GAAP, both on initial application of IFRS and on subsequent financial statements. Regulatory deferral account balances and movements in them are presented separately in the financial statement and profit or loss statement and other comprehensive income and specific disclosures are required to be disclosed.

IFRS 15 Revenue from Contract



IFRS 15 provides to users of financial statements with more informative and relevant disclosures of revenue from contract. This set of standard provides guidelines based on five step model to be applied to all contracts with customers. It applies to an annual reporting period beginning on or after 1 January 2018.

IFRS 16 Lease Accounting



IFRS16 specifies about recognition, measurement, presentation, and disclosure of leases. This set of standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance with IFRS 16 approach to lessor accounting substantially unchanged from its predecessor.

IFRS 17 Insurance Contract



IFRS 17 is applicable for yearly reporting periods starting from 1st January 2021. IFRS 17 incorporated with IFRS 9 and IFRS 15 from the list of IFRS standards. It includes the insurance contract comprises of both a service and a financial instrument contracts. Many such insurance contracts will generate cash flow with considerable variability in the long run.

The (IFRS) International Financial Reporting Standards issued by IASB and the International Accounting Standards (IAS) were issued by the predecessor body IASC between the years 1973 and 2001. In India Indian

Accounting Standards Ind AS are issued by the Accounting Standard Board in order to converge Indian GAAP with International Financial Accounting Standards (IFRS). Both IFRS and IAS are continued to form a force.

Indian Accounting Standards

The Indian Accounting Standards (Ind AS) as mentioned in section 133 of the Companies Act 2013 have been formed keeping in consideration the economic & legal environment of India and with an aim to converge with IFRS Standards as issued by the IFRS Foundation. The company which plans to open a branch in any other country has to follow the guidelines of that particular country for the purpose of preparation and presentation of financial statements. This generates a necessity to standardize the accounting standards. There is a need for the standardized guidelines for the preparation of financial statements which led to the formulation of International Accounting Standard. Financial statements describe the financial information with regard to financial performance and financial position of an organization with respect to particular period of time. Financial statements played a very vital role in order to inform about the financial position and performance of the company. Financial performance is reflected through the statement of profit and loss account and financial performance is reflected from the balance sheet. Financial statements prepared as per schedule III and section 133 of companies act 2013. (GOI(2018), Ministry of Corporate Affairs).

Implementation of IFRS:

An entity can applied IFRS as in its original form or can execute with convergence.

1. Application of IFRS:

Application of IFRS means an entity can implement IFRS in its original form without any alteration and all the companies or entities in that particular country to which IFRS is applicable will comply by these standards totally.

2. Convergence of IFRS:

Countries may deviate from IFRS issued by IASB to certain extent. Deviation can be change of terminology used, modifying principles for recognizing assets, liabilities, income or expense, addition or deletion of disclosures (considering the local law of the country applying IFRS), addition or deletion of examples. Logic of applying IFRS after applying convergence is that there can be many regulators of a country and in case the rules and regulations of any law or Act of are in conflict of IFRS, it will create chaos in corporate reporting. Hence, Ind AS is substantially similar to the IFRS but with some carve outs to ensure that these standards are suitable for application in the environment of the country opting for convergence.

Applicability of IFRS in India:

India has opted to apply IFRS after making certain deviations from the original IFRS (also known as carve outs). In India, IFRS in their converged form (after required modifications) are popularly known as Ind AS. Each individual Ind AS contains an Appendix that explains the modifications. These Ind AS are applicable to specified category of as discussed below: **In case of**

Companies: 1. Companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India; 2. Unlisted companies having net worth of Rs. 250 crore or more; and 3. Holding, subsidiary, joint venture or associate companies of companies covered in point (1) and (2) above. Voluntary applicability: Company may voluntarily apply Indian accounting standards (Ind AS). Companies on which Ind AS is not applicable will continue to follow existing Accounting Standards (AS) which will be upgraded by ICAI.

Banking Companies and Insurance Companies:

Banking Companies and Insurance Companies have their statues and they shall apply the Ind ASs as notified by the Reserve Bank of India (RBI) and Insurance Regulatory Development Authority (IRDA) respectively. However, for the purpose of consolidation, insurance company shall provide financial statements in compliance to AS for the purposes of preparation of consolidated financial statements by its parent, investor or venturer, as required by such parent or investor or venturer to comply with the requirements of these rules.

Challenges of convergence of Indian accounting standards with IFRS

- 1. Lack of education and awareness:** There is a need to provide education to the young graduates about the international financial reporting standards and its applicability in India. A proper training programme has to be organized for them in order to equip them with better knowledge and information.
- 2. Regulatory bodies:** The regulatory bodies like Ministry of Corporate Affairs, Govt. of India, SEBI, ICAI, and IFRS frame their regulations from time to time. This has an impact on convergence of accounting standards with IFRS.
- 3. Proper ICT Infrastructure:** The efficient and effective ICT infrastructure is essential for the timely reporting of financial transactions.
- 4. Costly for MSME:** It is an expensive task for the micro, small and medium enterprises, lack of adequate resources required for the proper

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maintenance of financial accounts as per the accounting standards and principles. This leads to inappropriate preparation of financial statements.

- 5. Divergence between Indian accounting standards and IFRS:** The Indian accounting system recognizes historical cost of valuation while IFRS considers fair valuation system. This makes comparison between financial statements impractical. Different measurement system provides different results hence evaluation is not attainable.

Concluding Remarks

The international financial reporting standards are a revolutionary step in the field of financial reporting in the world. Therefore there is a need arises to understand the dynamics of international financial reporting practices in an around the world. Set of standards for the analysis of financial statements is required due to globalization of financial markets, international trade and investments.

Financial reporting system with high quality standards is the key for the development of Indian economy. The investors should know where there money has been utilized by the company for which purpose it has been used for the proper utilization of limited resources. Stakeholders interest is invest in the company by examining the financial reports they get to know about the financial status of the company and form their decisions accordingly. The organizations must be prudent at the time of preparation of financial statements and follow the standard accounting practices in order to make the reports comparable.

Furthermore the steps should be taken by the ICAI and other regulatory bodies and institutions for promoting the smooth convergence to IFRS. This gives a very constructive idea about the urgency of implementing IFRS in India and it also shows the active participation of the government for its implementation. In order to make the convergence more effective, a systematic approach should be followed by the government so as to make the organizations and the investors ready for the change due to convergence

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