

ACCOUNTING STANDARDS IN INDIA: ADOPTION OF IFRS

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Abstract *Adoption of IFRS means the use of the International Financial Reporting Standards as the primary GAAP by the domestic listed and unlisted companies in their consolidated Financial Statements for the external Financial Reporting. This means that the basis of the presentation note and auditor's report indicate that the Financial Statements are prepared on the basis of IFRSs. In this context, it becomes necessary to make an analysis of the adoption of IFRS in India. The Study is based on secondary data which include journals, websites, books and periodicals. The scope of the study includes phase-wise and sector-wise implementation of IFRS in India. For sector-wise analysis, BSE & NSE companies are taken. IFRS will provide a chance to India to integrate with the common Accounting International Standards which will save the cost which has to be incurred by MNC's and internationally listed corporate for maintaining dual accounting and reporting system.*

Keyword: IFRS, GAAP, NSE, BSE

INTRODUCTION

Accounting is the art of recording transactions in the best possible manner, so as to enable the reader to arrive at judgments and take decisions. In this regard, it is utmost necessary that there are a set of guidelines. These guidelines are generally called Accounting Policies. The intricacies of Accounting Policies permitted Companies to alter their accounting principles for their benefit. This made it impossible to make comparisons. In order to avoid confusion and to have a harmonized accounting principle, Standards needed to be set by the recognized Accounting Bodies. This paved the way for Accounting Standards to come into existence.

The Accounting Standards are set by the Regulating Bodies like the Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB). Accounting Standards are formulated with a view to harmonize different accounting policies and practices in use in a country. The objective of Accounting Standards is, therefore, to reduce the accounting alternatives in the preparation of the Financial Statements within the bounds of rationality, thereby ensuring comparability of the Financial Statements of different enterprises with a view to provide meaningful information to the various users of the Financial Statements to enable them to make informed economic decisions.

Adoption of IFRS means the use of the International Financial Reporting Standards as the primary GAAP by the domestic

listed and unlisted companies in their consolidated Financial Statements for the external Financial Reporting. This means that the basis of the presentation note and auditor's report indicate that the Financial Statements are prepared on the basis of IFRS.

As of 2010, Institute of Chartered Accountants of India (ICAI) has issued 32 Accounting Standards numbered AS-1 to AS-7 and AS-9 to AS-32 (AS-8 merged with AS-26). In G20, the idea of convergence of Indian GAAP with IFRS was made by the Prime Minister of India Dr. Manmohan Singh to align the Indian Accounting Standards with the IFRS for accounting periods commencing on or after 1st April 2011 in a phased manner as envisaged in the Roadmap to IFRS formulated by the Ministry of Corporate Affairs. The new set of standards which has been converged with IFRS is known as India Accounting Standards or Ind AS. The Ministry of Corporate Affairs has notified 35 Ind AS on 25 February 2011.

SIGNIFICANCE OF IFRS

By adopting IFRS, there will be growth in the international business which leads to the economic development of a country. It encourages International Investment which will lead to more foreign capital inflow into the country. Investors would be provided with the information that is more relevant, reliable, timely, and comparable across the jurisdictions. IFRS would enhance the comparability between the Financial Statements of various companies across the globe. The industry would be able to raise capital from the foreign

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markets at lower cost if it can create confidence in the minds of the foreign investors that its Financial Statements comply with the globally accepted Accounting Standards. It would reduce different accounting requirements prevailing in various countries thereby enabling the enterprises to reduce the cost of compliances. It serves international clients by providing professional opportunities. It would increase their mobility to work in different parts of the world either in industry or practice.

In this context, it becomes necessary to make an analysis of the adoption of IFRS in India.

REVIEW OF LITERATURE

1. Ms. Archana Patro and Dr. V.K. Gupta (2012) in their article "Adoption of International Financial Reporting Standards (IFRS) in Accounting Curriculum in India- An Empirical Study" investigated the perceptions of IFRS among the Indian management students and assessed the level of planning for adoption of the standards and stated that it would assist the management schools and universities with decision regarding adoption of IFRS in Indian Accounting curriculum.
2. Sarbapriya Ray (2012) in her article "Indian GAAP and its convergence to IFRS: Empirical Evidence from India" studied the rationale behind introducing IFRS, made a comparative analysis of the Indian Accounting Standards and IFRS, studied the challenges involved in IFRS while adopting it in India, and analyzed the impact and consequences on financial statements due to IFRS adoption in Wipro Ltd.
3. Titas Rudra and Dipanjan Bhattacharjee (2012) in their research paper "Does IFRS influence Earning Management? Evidence from India" focused on Earning Management in India and the influence of IFRS.
4. Dr. Bhuvender Choudhary, Rachit Gupta and Hemant Chauhan (2012) in their research article "Convergence of IFRS in India- Strategy, Benefits and Challenges for Infrastructure Industry" revealed that the adoption of IFRS will reflect more appropriately the revenues of Indian Real Estate developers and their ability to deliver projects. They also believe that IFRS deals with the market risks that are related to real estate projects more effectively than the percentage completion method.
5. Dr. U.V. Panchal (2012) in his article "IFRS – opportunities and challenges before India" focused on challenges in the convergence with IFRS faced by India.
6. Sankar Thappa (2012) in his article "IFRSs in Indian Banking Industry : Challenges Ahead" examine the impact of IFRS in Indian Banking Industries, the various phases of implementation of IFRS in the banking sector in India and he also highlights on the challenges ahead in the implementation of IFRS on Indian Banking Sector and the possible ways to address the challenges.
7. Shobana Swamynathan and Dr. Sindhu (2012) in their research paper "Financial Statements effects on convergent to IFRS – A case study in India" examined the financial statement effects on convergence to IFRS from the Indian GAAP and they concluded that the IFRS is a fair valuation approach and have more transparent disclosures and Indian GAAP is a conservative approach.
8. Sarbapriya Ray (2011) in her research article "Emergence of International Financial Reporting Standard in India's Accounting Scenario" examined the rationale behind adopting IFRS in Indian Accounting Scenario, the difference between IFRS and the Indian GAAP and the convergence procedure to be adopted to harmonize Indian Accounting Standards with IFRS and major divergence that existed between IFRS and Indian GAAP.
9. Pawan Jain (2011) in his research article "IFRS implementation in India: Opportunities and challenges" discuss the problems faced by the stakeholders in the process of adoption of IFRS in India.
10. C.A. Mohammad Firoz, Prof. A Aziz Ansari and Kahkashan Akhtar (2011) in their article "IFRS- impact on Banking Industry" analyze the impact of IFRS on Indian Banking Industry after implementation of IFRS standards and they shows the areas in which Indian Banking Industry is required to focus before and after the implementation of IFRS and their consequences on financial statements of the Banks.
11. Goswami Suvaran and Sarkar Aniruddha (2011) in their paper "IFRS and its adoption in India: A Study" an Endeavour has been made by the authors to ascertain the extent of implementation of IFRS in India.
12. Curtis E. Clements, John D. Neil and Scottstovall O (2010) in their article "Cultural Diversity, Country size and IFRS adoption decision" empirically examined the IFRS standards adoption decision of 61 countries in an attempt to determine why some countries have adopted IFRS while other, at least to this point in time, have chosen not to adopt.
13. Thomas Jeanjean and Herve Stolowy (2008) in their article "Do accounting standards matter? An exploratory analysis of earnings management before and after IFRS adoption" analyzes the effect of the mandatory introduction of IFRS Standards on earning quality and more precisely on earning management. They suggested that the IASB, the SEC and the

Table 1: IFRS Reporting in India–Phase-wise

Phases	Companies Covered	Opening Balance Sheet
Phase 1	<ul style="list-style-type: none"> • Companies that are part of NSE - Nifty 50 index. • Companies that are part of BSE - Sensex 30 index. • Companies that have shares or other securities listed in Overseas Stock Exchanges and • Listed and Unlisted Companies with net worth in excess of Rs.1,000 Crores. 	1st April 2011
Phase 2	Listed and Unlisted Companies with net worth in excess of Rs.500 Crores but not more than Rs.1,000 Crores.	1st April 2013
Phase 3	Listed entities with net worth of Rs.500 Crores or less	1st April 2014

Source: Ministry of Corporate Affairs website

European Commission should now devote their efforts to harmonizing incentives and institutional factors rather than harmonizing accounting standards.

14. Tanaji G. Rathod (2006) in his article “IFRS: Emerging opportunities and challenges for India” investigates the rationale behind the IFRS and its impact on the financial and accounting world.

The review of literature reveals that various studies have been made on convergence of IFRS. However, a detailed analysis on adoption of IFRS in India has not been done. Hence, the study is undertaken to fill this research gap.

RESEARCH METHODOLOGY

The study is based on secondary data which include journals, websites, books, and periodicals.

The scope of the study includes phase-wise and sector-wise implementation of IFRS in India. For sector-wise analysis, all the phase I companies are taken.

OBJECTIVES OF THE STUDY

The objectives of the study are to

- Present Phase-wise implementation of IFRS in India.
- Analysis the Sector-wise implementation of IFRS in India.

IFRS REPORTING IN INDIA: PHASE-WISE

IFRS Reporting is made mandatory in three phases by the Ministry of Corporate Affairs and the same is presented in Table 1.

IFRS Reporting in India is divided into Phases by the Ministry of Corporate Affairs. According to the Ministry, NSE-Nifty 50, BSE Sensex 30, companies listed in Overseas Stock Exchanges and listed and unlisted companies with net

worth in excess of Rs. 1,000 crores fall into Phase-1 and have to prepare their opening balance sheet on 1st April 2011 as per IFRS. Phase-2 covers listed and unlisted companies with net worth in excess of Rs.500 crores but not more than Rs.1,000 crores and these companies should prepare their opening balance sheet on 1st April 2013 as per IFRS. In the third and final Phase, listed entities with net worth of Rs.500 crores or less will be covered which have to prepare their Balance Sheet on 1st April 2014 as per IFRS.

However, the companies in India have opposed implementation of IFRS on the grounds that IFRS which is based on Fair Value or Market Value Accounting would lead to a lot of volatility in Financial Reporting; Amendments to be made under Companies Act 1956 and Accounting Practices have to be evolved slowly as sudden change disturbs the whole system.

The Government has created general awareness about IFRS and the ground is prepared to bring necessary changes in the accounting practices. The Ministry of Corporate Affairs is constrained delaying the adoption of IFRS. It is made optional to the companies to either report their Financial Statements based on the existing Indian AS or adopt IFRS. A decision may be taken to make the application of IFRS mandatory from the year 2016.

The applicability of IFRS to Public Interest Entities would ensure that Financial Reporting in India is of an international quality.

IMPLEMENTATION OF IFRS: FIRST PHASE COMPANIES

The companies that were supposed to implement IFRS in the 1st phase belonging to various sectors are mentioned in Table 2.

Total 438 companies were supposed to follow IFRS of which 52 are NSE Nifty & BSE Sensex companies, 217 Other Companies and 169 belong to various sectors viz., insurance, mutual fund and banking. Other companies include Air India

Table 2: Implementation of IFRS: Sector-wise

S.No.	Sector	No. of Companies
1	Insurance Companies	44
2	Mutual Fund Companies	46
3	Indian Banks with presence only in India	37
4	Foreign Banks with presence in India	30
5	Indian Banks with overseas branches	08
6	Indian Bank with representative office abroad	04
7	NSE Nifty 50 & BSE Sensex 30	52
	Other Companies	217
	Total	438

Source: Ministry of Corporate Affairs website

Table 3: Implementation of IFRS: NSE vs. BSE

S.No	Name of The Company	Nifty 50	Sensex 30	Following IFRS before 1 st April 2011
	Automotive			
1	Bajaj Auto		X	X
2	Hero Moto Corp			X
3	Mahindra & Mahindra			(2009)
4	Maruti Suzuki			X
5	Tata Motors			(2009)
	Total	5	4	
	Banking			
6	Axis Bank		X	X
7	Bank of Baroda		X	X
8	HDFC			X
9	HDFC Bank			X
10	ICICI Bank			X
11	Kotak Mahindra Bank		X	X
12	PNB		X	X
13	SBI			X
	Total	8	4	
	Bio tech & Parma			
14	Cipla			X
15	Dr.Reddy Lab		X	(2008)
16	Hindustan Unilever			X
17	Lupin		X	X
18	Ranbaxy Labs		X	X
19	Sun Parma Inds.		X	X
	Total	6	2	
	Building Material			
20	Grasim Industries		X	X
	Total	1	0	X
	Cement Industries			
21	ACC			X
22	Ambuja Cement		X	X
23	Ultratech Cement		X	X
	Total	3	1	
	Chemicals			
24	Asian Paints		X	X
	Total	1	0	
	Conglomerate			
25	ITC			X

S.No	Name of The Company	Nifty 50	Sensex 30	Following IFRS before 1 st April 2011
26	JP Associates			X
27	Larsen and Toubro			X
28	Reliance Industries			X
29	Siemens		X	X
	Total	5	4	
	Crude Oil			
30	BPCL		X	X
31	Cairn India		X	X
32	GAIL India		X	X
33	ONGC			X
	Total	4	1	
	Electric Utility & Electrical			
34	BHEL			X
35	NTPC			X
36	Power Grid Corp.		X	X
37	Reliance Infra			X
38	Tata Power			X
	Total	5	4	
	IT			
39	HCL Tech.		X	X
40	Infosys			(2011)
41	TCS			X
42	Wipro			(2008)
	Total	4	3	
	Infrastructure			
43	IDFC		X	X
	Total	1	0	
	Metal & Mining			
44	Coal India		X	X
45	Hindalco			X
46	Sesa Goa		X	X
47	STER	X		(2010)
	Total	3	2	
	Real Estate			
48	DLF			X
	Total	1	1	
	Steel & Energy			
49	Jindal Steel & Power			X
50	Tata Steel			X
	Total	2	2	
	Tele Communications			
51	Bharti Airtel			X
52	RCOM	X		X
	Total	1	2	
	Grand Total	50	30	6

Source: websites of NSE & BSE

Charter, Indian Railway Finance Corporation, Reliance Ports & Terminals, Jet Lite, Educomp Solution, Exim Bank, TVS Motor, GMR Energy, GVK Power & Infrastructure, Godrej Industries, NHPC, RNRL, Videocon and Wockhardt.

IMPLEMENTATION OF IFRS: NSE VS BSE

Some of the companies listed in BSE and NSE were implementing IFRS even much before April 2011- the supposed date of convergence of IFRS.

All BSE Sensex 30 companies have been listed in Nifty 50 also, except two companies viz., RCOM and STER. Thus, Nifty 50 companies and additional two BSE companies which have not listed in NSE (thus totaling 52) were supposed to follow IFRS with effect from 1st April 2011 as per the Ministry of Corporation Affairs. Some of the companies listed on NSE or BSE have followed IFRS even much before 1st April 2011. Six of the total 52 companies have been following IFRS of which Mahindra & Mahindra, Tata Motors, Infosys and Wipro are listed on both the stock exchanges while Dr. Reddy Lab is listed in NSE and STER is listed on BSE. All the six companies have been following IFRS as they are listed on US Stock exchange and have trading contract with European countries.

CONCLUSION

IFRS is a globalization theme and many countries in the world like Hong Kong, Australia, Pakistan, Russia, South Africa, Singapore, Turkey, and European Union were following. Approximately, 150 Countries across the world are following IFRS. Adoption of IFRS means the use of the International Financial Reporting Standards as the primary GAAP by the domestic listed and unlisted companies in their consolidated Financial Statements for the external Financial Reporting. This means that the basis of the presentation note and auditor's report indicate that the Financial Statements are prepared on the basis of IFRSs.

It will provide a chance for India to integrate with the common Accounting International Standards which will save the cost which has to be incurred by MNC's and internationally listed corporate for maintaining dual accounting and reporting system. IFRS would enhance the comparability between the Financial Statements of various companies across the globe. The industry would be able to raise capital from the foreign markets at lower cost if it can create confidence in the minds of the foreign investors that its Financial Statements comply with the globally accepted Accounting Standards. It would reduce different accounting requirements prevailing in various countries thereby enabling the enterprises to reduce the cost of compliances. It serves international clients by providing professional opportunities. It would increase their mobility to work in different parts of the world either in industry or practice.

The Government has created general awareness about IFRS and the ground is prepared to bring necessary changes in the accounting practices. The Ministry of Corporate Affairs is constrained delaying the adoption of IFRS. It is made optional to the companies to either report their Financial Statements based on the existing Indian AS or adopt IFRS. A decision may be taken to make the application of IFRS mandatory from the year 2016. Though the time line for

convergence of Indian GAAP with IFRS is April 2011, many large listed companies have already adopted new standards and those who are in transition will be actively incorporating the change in the coming years.

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