International Financial Reporting Standards (IFRS): Indian Experience

Dr. M .Venkateswara Rao, Assistant professor, and
Mr. T. Srinivasa Rao, Assistant professor,
P.B. Siddhartha College of Arts and Science, Vijayawada, AP, India

Abstract
Due to globalization, global financial systems, FDI (foreign direct investment), and economic liberalization, executives are called upon to make decisions on financial information originating from Different countries, which is a tedious task due to diverse financial reporting standards across the world. Therefore, common financial reporting standards are required; this led to the development of the new International Financial Reporting Standards (IFRS). This specific article provides the process of adaptation of International Financial Reporting Standards to Indian Scenario and also discusses Indian Experience.

1. Introduction

Accounting is called the language of business. It is through accounting business communicates to its status and health to stakeholders. Accounting provides basic source of information for business and for decision making. The information which is provided by accounting can be categorized into i) Operating Accounting Information, ii) Financial Accounting Information, iii) Management Accounting Information, and iv) Tax Accounting Information.

Providing above information is not a problem as long as business operates within its boundaries. But due to globalization, global financial systems, FDI (foreign direct investment), and economic liberalization, executives are called upon to make decisions on financial information originating from Different countries, which is a tedious task due to diverse financial reporting standards across the world. Therefore, a common financial reporting standards are the need of the hour; which has led to the development of the new International Financial Reporting Standards (IFRS). This specific article provides the process of adaptation of International Financial Reporting Standards to Indian Scenario and Indian Experience.

2. Complying to International Financial Reporting Standards

Compliance to International Financial Reporting Standards (IFRS) can be done in two ways:

1) Adopting the IFRS as stated by International Accounting Standards Board (IASB).
2) Preparing own standards in line with IFRS. This is converged IFRS. India has prepared its own standards in line with IFRS which is known as IND AS.

3.Objectives of Indian Accounting Standards (IND AS) inline with IFRS:

Following are the objectives of applying IFRS to Indian Accounting Standards:

i) To ensure companies in India adopt these standards to implement internationally recognized best practices.
ii) Ensure that compliance is maintained worldwide.
iii) Have a single framework for a single accounting system.
iv) Accounting systems used in India can be analyzed and understood by global companies. This will make the annual financial statements and company accounts transparent.

v) These standards are harmonized to ensure that companies comply with global specifications.

4. Implementation of IND AS in INDIA

Initially the adoption of IND AS by the organizations in India was voluntary for the financial year 2015–16. But later on, adoption of IND AS became mandatory in various phases. The following are the four different phases in which IND AS was implemented in India:

Phase-I: This phase is classified as mandatory according to the Indian accounting standards required by the companies. This phase is implemented starting April 01, 2016.

Phase-I applied to the Following Companies:

Listed Companies (companies whose securities are listed on a recognized stock exchanges) and unlisted companies whose net worth is greater than or equal to Rs. 500 crores.

(Note: For the application of net assets, the company's financial statements for the last three years are audited. Since this accounting standard was introduced in 2016-17, the previous fiscal years are taken into account, namely: 2013-14, 2014-15, and 2015-16).

Phase-II: At this point, all companies had to adopt Ind AS (Indian Accounting Standards) from 01 April 2017. Therefore, the next fiscal year is considered for the adoption of Indian Accounting Standards.

Phase-II applied to the Following Companies:

Listed companies (companies whose securities are listed on a recognized stock exchanges – as of March 31, 2016) whose net worth is less than Rs. 500 crores and all unlisted companies whose net worth is greater than or equal to Rs. 250 crores.

(Note: Since this accounting standard was introduced in 2016-17, previous fiscal years are taken into consideration: 2013-14, 2014-15 and 2015-16).

Phase-III: This stage is considered mandatory for the implementation of IND AS by all types of banks, NBFCs (Non-Banking Financial Corporations), SEBI (Securities and Exchange Board of India) regulated companies and insurance companies. This phase was effective from April 01, 2018.

Phase-III applied to the Following Companies:

Companies having net worth more than Rs. 500 crores. The net worth requirement will only apply to the company until April 01, 2018. The Insurance Regulatory and Development Authority of India (IRDAI) ensures by separate notification that the insurer meets the net asset requirements.

(Note: The net worth requirement of NBFC and other financial institutions is calculated taking into account the last three fiscal years namely: 2015-16, 2016-17 and 2017-18).

Phase IV: This phase will only apply to Non-Banking Financial Corporations (NBFCs).

Phase-IV applied to the Following Companies:

NBFCs whose net worth is more than Rs. 250 crores but less than Rs 500 crores. This implementation was be taken into account starting from April 01, 2019.

5. Applicability to Subsidiaries and Associate Companies

If accounting standards are adopted by Indian companies, it will apply to all forms of subsidiary i.e. subsidiary, joint ventures and associate companies. This means that subsidiary companies and associate companies need not satisfy the net worth requirements for applicability of IND-AS.

6. Lessons Learned

As on 2024, Ministry of Corporate Affairs (MCA) has informed around 40 Indian Accounting Standards (IND AS) to Indian Corporates for implementation purpose. There are certain challenges as well in incorporating the full-fledged adoptability to International Financial Reporting Standards in India. The lessons learned include:

1. Implementation of International Financial Reporting standards in India made financial markets more transparent, efficient and accountable.
2. However, the challenges include sufficient additional costs to organizations and some of the information systems were to be implemented.
3. Also adopting to change and change management was another typical aspect Organizations dealt with during the transition to international standards.

7. Conclusion

The adoptability of International Financial Reporting Standards in different countries of the world can strengthen the global trade, foreign direct investments by different world countries, and increases the ease of doing export/import business by the world countries.

8. References

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