BLOCK III:
REGULATORY FRAMEWORK AND NATIONAL DIFFERENCES

Unit 1 : Regulatory Framework for Preparation and Presentation of Financial Statements

Unit 2 : Relevant Provisions of Companies Act and Compliance With the Accounting Standards and SEBI Guidelines

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Unit-1
Regulatory Framework for Preparation and Presentation of Financial Statements

Unit Structure:

1.1 Introduction
1.2 Objectives
1.3 Meaning and Nature of the Financial Statements
1.4 Elements of the Financial Statements
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1.1 Introduction

The regulatory framework for the preparation and presentation of the financial statements has been issued by Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI). The framework is being governed in the context of Companies (Accounting Standard) Rules, 2021 (which has replaced Companies (Accounting Standard) Rules, 2006 as amended from time to time) notified by the Central Government through the Ministry of Corporate Affairs (MCA) and Accounting Standards issued by ICAI. ICAI has issued Indian Accounting Standard 1 commonly referred as Ind AS1: Presentation of Financial Statements for the said purpose.

The scope of the regulatory framework is about –

(i) the objectives of the financial statements.
(ii) the qualitative characteristics that determine the usefulness of information provided in financial statements;
(iii) definition, recognition and measurement of the elements from which financial statements are constructed; and
(iv) concepts of capital and capital maintenance.

Purpose of the framework

The Framework sets down the concepts that underlie the preparation and presentation of financial statements for external users. As per the *Framework for the Preparation and Presentation of Financial Statements,* July 2000;issued by ICAI, the purpose of the Framework is—

- assist preparers of financial statements in applying Accounting Standards and in dealing with topics that have yet to form the subject of an Accounting Standard;
- assist the Accounting Standards Board in the development of future Accounting Standards and in its review of existing Accounting Standards;
- assist the Accounting Standards Board in promoting harmonisation of regulations, accounting standards and procedures relating to the preparation and presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by Accounting Standards;
- assist auditors in forming an opinion as to whether financial statements are in conformity with Accounting Standards;
- assist users of financial statements in interpreting the information contained in financial statements prepared in conformity with Accounting Standards; and
- provide those who are interested in the work of the Accounting Standards Board with information about its approach to the formulation of Accounting Standards.

The Framework is not an Accounting Standard and therefore doesn't define standards for any particular measurement or disclosure issue. There is nothing in the Framework which overrides any specific Accounting Standard. If in any case, there is a conflict between the Framework and the Accounting Standards, the requirements of the Accounting Standards prevail over those of the Framework. However, the Accounting Standard Board (ASB) of ICAI will take into consideration the Framework in the development of future Accounting Standards and in its review of existing Standards. The Framework will also be revised from time to time on the basis of experience and working of the Accounting Standards Board with it.

1.2 Objectives

After going through this unit, you will be able to:

- understand the meaning, scope and purpose of the regulatory framework.

- understand the nature, objective and components of the financial statements.
- explain the contents and its preparation of the regulatory framework.

1.3 Meaning and Nature of the Financial Statements

The financial statements which are prepared for Companies are called as '*General purpose financial statements'* because it cater the common information needs of a wide range of users of accounting information and the regulatory framework deals with the General purpose financial statements. This framework doesn't deals with the special purpose reports such as tax and cost reports, audit reports or prospectus etc. The special purpose reports are meant to fulfill the information needs of limited or specific group of users. **The purpose of the financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a large number of users in taking economic decisions.** The different elements of financial statements which provide information about an entity is as follows:

- Assets
- Liabilities
- Equity
- Income and expenses (also including gains and losses)
- Contributions by and distributions to owners in their capacity as owners.
- Cash-flows

Financial statements form a significant part of the process of financial reporting. The framework is applicable to financial reporting of all kinds of business enterprises, whether industrial, commercial, other business activities and working in private sector or in public sector. **The financial statements comprises of the following-**

- Balance sheet (Statement showing financial position of an enterprise)
- Statement of Profit & Loss(also known as income statement).
- Cash flow Statement
- Statement of changes in Equity
- Notes to accounts

Underlying assumptions of Financial Statements

- **Accrual basis**

Financial Statements are prepared on accrual basis of accounting. Under this system, transactions and other events are recognized on the basis of the accounting period to which they relate to, irrespective of the fact cash is paid/received or not. This means credit sales and credit purchases will be recognized in the books of accounts in the year in which the transaction has occurred. Similarly because of the accrual concept, we also take into account accrued income and outstanding liabilities in the calculation of profit or loss incurred in a particular year.

- **Going Concern**

According to going-concern, the life of the business is indefinite and there is no intention to dissolve or close the business in the near future. The financial statements are prepared on the assumption of going-concern that it will continue its operation and business activities for the foreseeable future. If this assumption is defied in the preparation of financial statements of an enterprise, it must be given proper disclosure and reasons thereof in the financial statements.

- **Consistency**

The financial statements are prepared in assumption of the principle of consistency in its accounting policies and methods so that it fulfills the objective of comparability of financial statements of an enterprise over a period of time. The change in accounting policy is desirable if-

(a) it is required by law or Accounting Standard

(b) ifit is apparent that change would be more appropriate having regard to the criteria for the selection and application of accounting policies.

The change if any and its effects must be given proper disclosure in the financial statements.

Qualitative characteristics of financial Statements

Qualitative characteristics are the attributes of financial statements that makes the information provided useful to the users of the financial statements. The main attributes are understandability, relevance, reliability and comparability.

- **Understandability:** The financial statements must be prepared in such a manner that it is understandable to the users of accounting information. For this purpose, it is assumed that users have reasonable knowledge of business and economic activities and it will help them in its interpretation. On the other hand, complex

matters which are relevant for economic decision-making by the users should not be excluded on the ground that it would be too difficult for the users to understand it.

- **Relevance:** In order to make the financial statements more useful, it must be relevant in the sense that it affects the economic decision making of the users. Relevance is affected by*Materiality* dimension. Any material information must not be omitted or erroneous (material misstatement) in the preparation and presentation of the financial statements which affects the decision-making of the users of the accounting information.

- **Reliability:** The information contained in financial statements must be reliable to be useful for the users. Information is said to be reliable if it is free from material error and bias. The other dimensions which affects the reliability of financial statements are as follows:

  ~ *Faithful representation:*In order to be reliable, information must represent faithfully the transactions and other events which it purports to report or is reasonably be expected to represent. Thus, for example Balance sheet of an enterprise must faithfully represent its assets, liabilities and equity of business (financial position) at the reporting date which meet the recognition criteria.

  ~ *Substance over form:* The transactions and other events which are accounted and represented should be on the basis of its substance rather than mere legal form of the transaction.

  ~*Neutrality:* In order to be reliable, the information contained in financial statements should be neutral, that is free from bias. The financial statements are meant to be useful for a wide range of users and not specially directed towards the needs of a specific user to achieve a predetermined outcome or result.

  ~*Prudence:* The preparers of the financial statements must understand the uncertainties surrounding the business and its events and therefore it must exercise prudence in recording the transactions in books of accounts. According to the principle of prudence, business must make reasonable provision for any anticipated losses arising in future but should not take into account anticipated future gains. However, exercise of prudence does not allow for creation of hidden reserves or excessive provisions or deliberate

understatement of assets and income, or deliberate overstatement of its liabilities.

~*Completeness:* The information contained in financial statements must be complete in order to be reliable. The completeness should be within the constraints of materiality and cost. Any omission would make the information misleading and deficient in its nature thereby affecting the reliability of the financial statements.

Stop to Consider

- ❖ Name the group/arm of ICAI which frames Accounting Standards in India.
- ❖ Which principle of accounting is violated if there is excessive provisions made in a year?
- ❖ How materiality and relevance characteristics of financial statements is related to each other?
- ❖ Where is Income and expenses shown in Financial Statements?
- ❖ What does the Balance Sheet of an enterprise shows? What are its elements?
- ❖ Is the *'Framework for the Preparation and Presentation of Financial Statements'* an Accounting Standard?

1.4 Elements of the Financial Statements

Financial Statements portray the financial effects of the transactions and events happening in a business enterprise which can be grouped into broad classes according to their economic characteristics. These broad classes are called as elements of the financial statements. These elements are broadly classified as assets, liabilities, equity, expenses and losses, income and gains, and cash flows. The elements are further sub-classified according to their nature or function for better understanding and decision-making to the users of financial statements. The *financial position* of an enterprise is reflected in its Balance Sheet which shows the assets, liabilities and equity. Similarly, the *financial performance* of an enterprise is reflected in its Statement of Profit and Loss (also known as income statement) which shows the incomeearned and expenses incurred during the reporting period. The cash inflow and outflow of business during the period is being shown by Cash-flow Statement. Ind AS 7 sets out the requirements for the presentation and

disclosure of cash and cash equivalents (*cash flows*) during the period in an enterprise. Let us briefly discuss the elements of financial statements:

- **Assets:** Assets are resources which provides future economic benefits to the business. Assets are mainly employed by business for producing goods and services for satisfying the wants and needs of customers. There are certain assets which has physical form such as plant and machinery, and certain assets such as patents and copyrights which do not have physical form but still are called as assets because the firm will reap benefits from them in the future. Hence physical form of assets is not the criteria for definition of an asset.

  The future economic benefits derived out of assets can flow to the enterprise in a number of ways such as-

  - In the production of goods or services to be sold by the enterprise.
  - Exchanged for other assets
  - Used to settle a liability
  - Distributed to the owners of the business.

- **Liabilities:**Liabilities are the present obligations of the firm. An obligation is a duty or responsibility to act or perform in a certain way. Liabilities are enforceable in the court of law due to its binding contract or statutory requirement.

Assets and liabilities are classified as Current and Non-Current assets, and Current and Non-current liabilities in the Balance Sheet as per Ind AS 1. Ind AS 1 describes the framework for the presentation of general purpose financial statements. In many ways, Ind AS 1 tries to bridge the ways in presentation of financial statements as per Schedule III of the Companies Act, 2013. It also lays down the recognition, measurement and disclosure requirements for specific transactions and other events. Further, the standard prescribes the minimum disclosures that are to be made in the financial statements and explains the general features of the financial statements.

- **Equity:** Equity represents the contributions made by owners in an enterprise. It also includes reserves and surplus, appropriations of retained earnings, unappropriated profits etc. It is the residual interest in the assets of an entity after deducting all its liabilities.

The creation of reserves is sometimes mandated by law for certain tax benefits in the form of reduced tax liabilities or tax-exemptions. The existence and size of such reserves is an information for decision making to some users. Sometimes transfers to reserves are made to add extra measure of protection to the creditors and suppliers of funds. Transfers to such reserves are examples of appropriations of retained earnings rather than treating as expenses.

- **Income:** Income includes both revenue and gains. Revenue arises in the normal or ordinary course of business activities from the sale of goods and services provided. It is refereed by different names as sales, royalty, fees, interest, dividend, rent etc.

  Gain is also a kind of income which may or may not arise out of ordinary activities of business enterprise. For example, profit on sale of building or machinery is income in the nature of gain to business.

- **Expenses:** The definition of expenses include both expenses and losses. Expenses are incurred in the course of ordinary business activities of an enterprise. For example, cost of goods sold, salaries, depreciation etc.

  Losses are other items which result in decrease in economic benefits to the business and therefore are very much part of expenses. For examples, goods lost in fire or theft is a loss to the business. Loss on disposal of fixed assets is categorized as losses.

1.5 Recognition of the elements of Financial Statements

Recognition means incorporating in the Balance sheet or in the Statement of profit and loss that meets the definition of an element and its recognition criteria. An item that meets the definition of an element should be recognised in the financial statements if-

(a) it is possible that any future economic benefits associated with the item will flow to or from the enterprise. The concept of probability is used in the recognition criteria to refer to the degree of uncertainty attached to the flow of future economic benefits.

(b) the item has a cost or value that can be measured reliably. In many cases, cost or value must be estimated; the use of reasonable

estimates is an essential part of the preparation of financial statements and therefore it doesn't undermine reliability of financial statements.However, if a reasonable estimate cannot be made, the item is not recognised in the Balance sheet or Statement of profit and loss.

Recognition of Assets: An asset is recognised in the Balance sheet when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably.

Recognition of liabilities: A liability is recognised in the Balance sheet when it is probable that there is an outflow of resources representing economic benefits that will result from the settlement of present obligation and the amount of settlement can be measured reliably.

Recognition of income: Income is recognised in the statement of profit and loss when there is an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.

Recognition of expenses: Expenses are recognised in the statement of profit and loss when there is a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Concepts of Capital and Capital maintenance

The concept of capital maintenance is concerned with how an enterprise defines capital that it wants to maintain. Broadly there are two concepts of capital maintenance:

(a) Financial Capital Maintenance: Under this concept, profit is earned only if the financial (money) amount of the net assets at the end of the period exceeds the financial (money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from owners during the period.(Framework for the Preparation and Presentation of Financial Statements, July 2000). It means capital is defined in terms of nominal monetary units and therefore profit represents the increase in *nominal money capital* over the period.

(b) Physical capital maintenance: Under this concept, profit is earned only if the physical productive capacity (or operating capability) of the enterprise at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from owners during the period.(Framework for the Preparation and Presentation of Financial Statements, July 2000). It means capital is defined in terms of *physical productive capacity* and profit represents an increase in that capital over the period.

Check Your Progress

1. Define current and non-current assets as per Schedule III of the Companies Act, 2013 with examples.
2. Is there an overriding effect of Schedule III of the Companies Act, 2013 with respect to Accounting Standards?
3. What does the Statement of changes in equity shows? How is it prepared?
4. Discuss the recognition of assets and liabilities in the financial statements with relevant examples.
5. Explain the meaning and nature of *Income* and *Expenses* as per the regulatory framework.

1.6 Summing Up

- The regulatory framework for the preparation and presentation of the financial statements is prepared by Institute of Chartered Accountants of India (ICAI) as being the statutory body for regulation and development of Accounting and the profession of Chartered Accountants in India.
- Ind AS1 is an Indian Accounting Standard which states, 'Presentation of Financial Statements'.
- The Balance Sheet of an enterprise shows its *financial position* as on a particular date while the Statement of profit and loss shows the *financial performance* over the period. The *cash flows* is being understood by preparation of Cash-flow Statement as per Ind AS7.
- The underlying assumptions of financial statements are accrual concept, going-concern and consistency.

- The qualitative characteristics of financial statements are understandability, relevance, reliability and comparability.
- The elements of financial statements are assets, liabilities, equity, income (including gains), and expenses (including losses).
- Recognition of the elements of financial statement means the process incorporating in the Balance sheet and Statement of profit and loss. Each element of financial statements has a definition and criteria for recognition in the financial statements.
- There are broadly two concepts of Capital Maintenance in financial statements- *Financial capital maintenance* and *Physical capital maintenance.*
- Under a *financial concept of capital*, such as invested money, capital is identical with the net assets or equity of the enterprise. Under a *physical concept of capital,* such as operating capability, capital is regarded as the productive capacity of the enterprise based on, for example, units of output per day.

1.7 Model Questions

1. Describe the scope and purpose of the Framework for the preparation and presentation of Financial Statements**.**
2. Discuss the elements of the Financial Statements.
3. What are the underlying assumptions of the Financial Statements?
4. What are General purpose Financial Statements? What are its objectives?
5. Elaborate the reliability characteristic of the Financial Statement.
6. What is meant by recognition of the elements in the financial statements? What is the condition for recognition?
7. Describe the qualitative characteristics of the financial statements?

1.8 References and Suggested Readings

- *Framework for the Preparation and Presentation of Financial Statements,* July 2000, The Institute of Chartered Accountants of India (ICAI)

- *Study material on Financial Reporting, Ind AS1: Presentation of Financial Statements;* The Institute of Chartered Accountants of India (ICAI)
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Unit-2
Relevant Provisions of Companies Act and Compliance With the Accounting Standards and SEBI Guidelines

Unit Structure:

2.1 Introduction
2.2 Objectives
2.3 Legal Requirements Related to Financial Statements as Provided U/S 129 of the Companies Act, 2013
2.4 General Instructions/ Rules for Preparation of Financial Statements
2.5 SEBI Regulations with Respect to Financial Results of Listed Entities.
2.6 Summing Up
2.7 Model Questions
2.8 References and Suggested Readings

2.1 Introduction

The financial statements prepared by Companies have to follow different provisions of Companies Act, 2013 read with different Accounting Standards and Rules framed by the government from time to time. It takes into account recent changes in accounting policies and accounting practices followed in India and other countries. Accounting is the language of business and therefore accounting information is communicated to different users by way of preparation and presentation of financial statements. Further, a company is an artificial person existing in the eyes of law and it is required to follow the relevant rules and regulations governing the company. By virtue of law and its nature, the company enjoys many benefits of working as a large corporation and fulfilling the needs and wants of the society by providing goods and services to its consumers. With this the role of regulators, the government, professional bodies etc. becomes pertinent in the smooth functioning of the company in the interest of the common good and public at large.

Companies get funds by issuing securities for the first time in the primary market and the secondary market (stock-exchange) provides a platform for the purchase and sale of already issued securities which are traded and listed in the stock-exchange. Hence stock-exchange provides liquidity and marketability of the securities issued in the primary market. Here the role

of the capital market regulator, Securities Exchange Board of India (SEBI) plays an important part in the functioning, monitoring and protection of interests of the investors. SEBI is also responsible for the growth and development of the capital markets in India.

2.2 Objectives

After going through this unit, you will be able to:

- understand the relevant provisions of the Companies Act, 2013 for the preparation and presentation of the financial statements,
- understand the general instruction for preparation of financial statements.

2.3 Legal Requirements Related to Financial Statements as Provided U/S 129 of the Companies Act, 2013

- Sec 129(1) of the Companies Act, 2013 provides that the financial statements shall give a true and fair view of the state of affairs of the company. True and fair in respect of financial statements means—
  - ≈ the financial statements and the items contained in shall be in conformity with the Accounting Standards notified u/s 133.
  - ≈ be in the form or forms as may be provided for different class or classes of companies in Schedule III of the Companies Act, 2013.
  - ≈ However, the aforesaid provisions of sec 129(1) shall not apply to any insurance or banking company or any company engaged in the generation or supply of electricity, or to any other class of companies for which form of financial statements have been specified in or under the Act governing such class of company.
- Sec 129(2) states that financial Statements shall be placed before the Board of Directors in every annual general meeting (AGM) of a company.
- Sec 129(3) provides that where a Company has one or more subsidiaries or associate companies, in addition to standalone financial statements it shall also prepare Consolidated Financial Statements in accordance with accounting standards, as applicable

and the same shall be laid before the Board in the AGM of a company.

- Sec 129(4) states that the provisions of the Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, with all necessary changes made, apply to the consolidated financial statements as referred in sec 129(3).
- Sec 129(5) states that where financial statements do not comply with the applicable accounting standards referred to in sec 129(1), the company shall disclose the following:
  - ≈ the deviation from the accounting standards.
  - ≈ the reason for such deviation.
  - ≈ the financial effects arising out of such deviation.
- Sec 129(6) empowers the Central government to exempt any class or classes of companies from complying any of the provisions of sec 129 or rules there under, either conditionally or unconditionally if it is necessary in the public interest.
- Financial statements shall include any notes annexed to or forming part of the statements.
- **Person responsible for compliance:** The persons responsible for compliance of the financial statements as per sec 129(7)are Managing Director, Whole-time director, Chief Financial Officer (CFO), other person of the Board entrusted with the duty of complying with requirements of sec 129. If the aforesaid persons are absent, all the directors shall be held responsible and punishable.
- **Penalty for non-compliance:** In case the persons referred to u/s 129(7) fails to take reasonable steps regarding the compliance of the financial statements, they shall in respect of each offence be punishable with imprisonment for a term which may extend to 1 year or with fine from Rs. 50,000 to uptoRs. 5,00,000 lakhs or both.

2.4 General Instructions/ Rules for Preparation of Financial Statements:

Schedule III of the Companies Act, 2013 prescribes format of financial statements for the following three categories—(Goyal, 2020)

(a)Division I: It is applicable to a Company whose financial statements are not required to comply with Ind AS. They are required to comply with the Companies (Accounting Standards) Rules, 2006.

(b)Division II: It is applicable to a company whose financial statements are required to comply with Ind AS. Financial statements are prepared in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

(c) Division III: It is applicable for a Non-Banking Finance Company whose financial statements are prepared in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

Some of the general instructions for preparation of Financial Statements are as follows:

(i) The requirements of the Accounting Standards and other provisions of the Companies Act, 2013 would prevail over the Schedule III. In other words, Schedule III gives an overriding status to other provisions of the Companies Act, 2013 and the Accounting Standards wherever applicable.

(ii) The disclosure requirements in Schedule III are in addition to and not in substitution of disclosure requirements of the Accounting Standards. Additional disclosures specified in Accounting Standards shall be made by way of 'Notes to Accounts' or by additional statement unless required to be disclosed on the face of the Financial Statements. Similarly all other disclosures as required by the Companies Act shall be made in the Notes to Accounts in addition to the requirements laid out in the Schedule.

(iii) Notes to Accounts shall provide reference and detail information for the items presented on the face of the Balance Sheet and Statement of profit and loss.The manner of cross-reference has been changed to 'Note No' as compared to 'Schedule No'. It shall provide narrative descriptions or disaggregation of items recognized in those statements. It shall also include items that are not recognised in the financial statements such as contingent liabilities and commitments which are not shown on the face of the Balance sheet.

(iv) Figures for immediately preceding reporting period for all items shown in the financial statements including notes shall also be given except for the first Financial Statements prepared by the Company (after its incorporation).

(v) Depending upon the turnover of the company, the figures appearing in the financial statements shall be rounded off as follows:

i. If the turnover is less than one hundred crore rupees — Rounded off to the nearest hundreds, thousands, lakhs, millions, or decimals thereof.

ii. If the turnover is one hundred crore rupees or more – Rounded off to the nearest lakhs, millions or crores, or decimals thereof.

Once a unit of measurement is used, it should be used uniformly in the financial statements.

(vi) The Schedule III of the Companies Act, 2013 sets out the minimum requirements for disclosure on the face of the Balance Sheet & Statement of profit and loss (Financial Statements) whereas Line items, sub-line items, Notes and sub-totals shall be presented as an addition or substitution on the face of the financial statements. Such presentation is relevant for understanding of the company's financial position or performance or it might cater to needs of industry-specific disclosure requirements or required for compliance to accounting standards or any amendments under the Companies Act.

(vii) **Current and Non-Current classification:** Schedule III of the Companies Act, 2013 prescribes the bifurcation of all items of assets and liabilities in the Balance Sheet as "Current and Non-current Assets" and "Current and Non-current liabilities". This is to be shown separately on the face of the Balance Sheet.

Current & Non-Current Assets: An asset shall be classified as current if it satisfies any of the following criteria:-

- It is expected to realize, or is intended for sale or consumption in the company's normal operating cycle.
- It is held primarily for the purpose of being traded.
- It is expected to realize within twelve months after the reporting date; or
- It is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for atleast twelve months after the reporting date.

All other assets will be classified as Non-Current. The following items shall be disclosed on the face of the balance sheet under the heading **'non-current' assets:**

(a) Property, plant and equipment (tangible assets)
(b) Intangible assets
(c) Capital work in progress
(d) Intangible assets under development
(e) Non-current investments
(f) Deferred tax assets (net)
(g) Long-term loans and advances
(h) Other non-current assets

Operating cycle: An operating cycle is the time period between acquiring of assets and its realization in cash or cash equivalents. Operating cycle may be a period of 12 months or lesser/more than 12 months. Where the normal operating cycle of a company cannot be identified, it is assumed to be a period of 12 months.

Current and Non-Current Liabilities: A liability shall be classified as current if it satisfies any of the following criteria-

- it is expected to settle in the company's normal operating cycle.
- It is held primarily for the purpose of being traded.
- It is due to be settled within twelve months after the reporting date; or
- The company does not have an unconditional right to defer settlement of the liability for atleast twelve months after the reporting date.

All other liabilities shall be classified as Non-Current. The following items shall be disclosed on the face of the balance sheet under the heading **'non-current' liabilities:**

(a) Long-term borrowings
(b) Deferred tax liabilities (net)
(c) Other long-term liabilities
(d) Long-term provisions

(viii) Schedule III has prescribed a format for presentation of 'Statement of profit and loss'. This format does not provide any appropriation items on the face of Statement of profit and loss. The line items has been shown under the heading 'Reserves and Surplus' in the Balance Sheet. It is to be noted that the Old Schedule VI of the Companies Act, 1956 has not prescribed any format for presentation of profit and loss account.

(ix) There has been a change in the nomenclature of the income statement which has been changed to "Statement of Profit and Loss" in place of "Profit and Loss Account".

2.5 SEBI Regulations with Respect to Financial Results of Listed Entities

- In enabling investors to make well-informed decisions, preparation and presentation of financial statements in a timely, adequate and accurate disclosure is very much essential on periodical basis. At the same time, to ensure comparability, uniformity and parity in disclosures made by listed entities across stock-exchanges is necessary. For this, Regulations 33 of the SEBI LODR (Listing Obligations and Disclosure requirements) Regulations, 2015 (referred to as Listing Regulations, 2015) has prescribed various disclosures and formats to be followed under different provisions by Listed Companies.Financial Statements are prepared on annual basis; once in a financial year. However, Quarterly Financial Statements are prepared by listed companies as per SEBI requirements.

  The listed entities has to follow certain guidelines while publishing financial results under SEBI which are as follows:

- **Following accounting principles:**The financial statements are to be prepared on the basis of accrual accounting policy and adoption of uniform accounting practices for all periods. Financial statements are to be prepared in accordance with Generally Accepted Accounting Principles (GAAP) in India.
- **Interim Financial Reporting:**The quarterly and half-yearly financial results shall be in accordance with the recognition and measurement principles laid down in Accounting Standards, as applicable dealing with Interim Financial Reporting (AS 25/ Ind AS34) read with relevant rules framed as specified by ICAI, whichever is applicable.
- **Submission of Consolidated Financial Statements:**The listed entities with subsidiaries, associate or joint venture companies have to submit Consolidated Financial Statements along with standalone financial statements of the Company. The consolidated financial

statements have to be prepared as per the applicable accounting standards. (AS 21/Ind AS 110).

- **Certification of Financial Statements:** The approval and authentication of the financial results by listed entities are to be done in the following manner:

  (a)The quarterly financial results submitted shall be approved by the Board of Directors. It is to be noted that while placing the financial statements before the Board, the chief executive officer (CEO) and chief financial officer (CFO) of the listed entity shall certify that the financial results do not contain any material misstatements or figures and do not omit any material information relevant for the purpose of decision making.

  (b) The financial results submitted to the stock exchange shall be signed by the Chairperson or Managing Director, or a whole-time director or in the absence of all of them, it shall be signed by any other director of the listed entity authorized by the Board to sign the financial results.

  (c) The limited review report along with financial results shall also be placed before the Board of Directors, in its meeting before being submitted to the stock exchange(s).

  (d) The annual audited financial results shall be approved by the Board of Directors in a manner as specified in clause (a) and (b) above.

- **Timelines for submitting financial statements by listed entities:**

  (a) Quarterly and year-to-date standalone/consolidated financial statements- within 45 days of end of each quarter, other than the last quarter.

  If the company opts for submitting unaudited financial results, it shall be subject to limited review by statutory auditors of the listed entity and shall be accompanied by Limited Review Report.

  If the company opts for submitting audited financial results, it shall be accompanied by an audit report.

  (b) Annual audited standalone/consolidated financial statements- within 60 days from the end of the financial year along with the audit report.

- **Limited review report:** The listed entities shall ensure that Limited Review audit reports submitted to the stock exchange on a quarterly or annual basis are to be given only by an auditor who has subjected himself/herself to the peer review process of ICAI and holds a valid certificate issued by the Peer Review Board of the ICAI. The review is in accordance with the Standard on Review Engagement (SRE) 2400, Engagements to Review Financial Statements issued by the Institute of Chartered Accountants of India. This standard requires to plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. It is lesser than an audit and therefore no audit opinion is to be provided.
- **Other reports:**The listed entities shall also submit as part of its standalone/consolidated financial results for the half year, by way of a note, a 'statement of assets and liabilities' and 'statement of cash flows' for the half-year.
- The listed entity shall ensure that for the purpose of quarterly consolidated financial results, atleast 80% of each of the consolidated revenue, assets and profits respectively, shall have been subject to audit or in case of unaudited financial results, subjected to limited review.
- **Newspaper advertisements:** The financial results of the listed entities are to be published in newspaper advertisements in the following manner:

(a) The notice of the meetings convened for publishing financial results of the listed companies can be published in the newspaper.

(b) The Company must publish its financial results as per SEBI regulations in a national newspaper in English daily and also in a regional language where the listed company has its head office or registered office located.

(c) The information related to financial results must be published after 48 hours of approval in the Board meeting.

(d) A company listed in the stock exchange must submit the financial information in the newspaper and the stock-exchange simultaneously.

(e) The company publishing financial results in the newspaper must provide reference link of the company website in the newspaper which has to be an operating website of the listed company.

(f) Regulation 29 of the SEBI Listing Regulations, 2015 requires that the listed entity must intimate the stock exchange about the Board publishing financial results and it must be five clear working days excluding the dayof the Board meeting and the date of intimation. (Guidance note on Meetings of the Board of Directors, 2017)

(g) Resolutions and outcomes of the Board meeting must be communicated to the stock-exchange within 30 minutes from the closure of the Board meeting. (Guidance note on Meetings of the Board of Directors, 2017)

(h) **Annual Report:**The listed entity must submit the Annual Report to the stock-exchange within 21 working days of it being approved in the Annual General Meeting (AGM) of the Company. The soft copies of full annual report shall be sent to the shareholders whose email address are registered with the company. Hard copy of the annual report containing salient features of all the documents as provided in sec 136 of the Companies Act, 2013 or rules made there under to those shareholders who have not registered their email id. Shareholders can also request the hard copy of the annual report of the company. The Annual Report of the listed entity must be sent to the shareholders atleast 21 working days before the Annual General Meeting (AGM). (Disclosures in Annual Report, 2018)

The Annual Report of the Company shall contain-

≈ Audited standalone and consolidated financial statements, that is, Balance Sheet& Statement of Profit and Loss, Statement of changes in equity, Notes to Accounts.

≈ Cash flow Statement prepared only under indirect method in accordance with AS 3 or Ind AS7.

≈ Directors Report including Auditor's Report and Declaration from Independent Directors.

≈ Management Discussion & Analysis (MD &A) Report.

≈ Corporate Social Responsibility Policy

≈ Business Responsibility Report (BRR) as part of Company's environmental, social and governance (ESG) initiatives.

≈ The Annual Report shall contain any other disclosures as specified in Companies Act, 2013 along with SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015.

Stop to Consider

In case of private and unlisted public companies, Sec 134 and other applicable provisions of the Companies Act, 2013 are applicable read with relevant Rules. In other words, SEBI Listing Regulations, 2015 is not applicable for private and unlisted public companies.

Check Your Progress

1. What is Limited Review Report? Is it same or different from an Audit report?
2. What is the purpose of SEBI Listing Regulations, 2015?
3. Why there is a need for enhanced disclosure requirements in the financial statements of a company?
4. Who are the persons responsible for compliance of the financial statements of a company?
5. What are Consolidated Financial Statements?
6. Does Accounting Standards gives an over-riding effect to the provisions of Schedule III of the Companies Act, 2013?

2.6 Summing Up

Sec 128 to 138 deals with the financial statements requirements of the Company as per Companies Act, 2013. The Schedule III of the Companies Act, 2013 provides the manner in which every company registered under the act shall prepare its Balance Sheet, Statement of Profit and Loss, and Notes to Accounts. There was also the need for enhancing the disclosure requirements and henceforth, many changes have been incorporated in the presentation of the financial statements. Each item appearing on the face of the Balance Sheet and Statement of profit and loss can be cross-referenced in the 'Notes to Accounts' by providing Note No in the statements. In addition, listed entities whose shares are actively traded and listed on the stock-exchange has to follow the SEBI Listing Regulations, 2015 to ensure uniformity and comparability of the disclosures made by listed entities across

stock-exchanges. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 requires for the compliance of financial results submitted by the Company to the stock-exchange.

Check Your Progress

1. Explain the meaning of current assets and current liabilities as per Schedule III of the Companies Act, 2013.
2. Describe the salient features of SEBI Listing Regulations, 2015 for listed entities.
3. Give the legal requirements related to financial statements as provided u/s 129 of the Companies Act, 2013.
4. Write a short note on 'Notes to Accounts' describing its meaning and significance.
5. What is an Annual Report and state the main contents of an annual report of a company?

2.7 Model Questions

1. What are divisible profits? Give some examples.
2. What are the statutory provisions regarding transfer of profits to reserves?
3. Describe the Ind AS16 related to 'Property, plant and equipment'.
4. Write a short note on Interim Dividend and Final Dividend.
5. Give the format of Balance Sheet & Statement of Profit and Loss as per Division I-Non Ind AS Schedule III.
6. Give the format of Balance Sheet & Statement of Profit and Loss as per Division IIInd AS.
7. Give the meaning and features of financial reporting.
8. Analyse an Annual Report of a Company of your choice describing its main contents and a brief summary of the main points covered.

9. Outline the major changes related to the Balance Sheet & Statement of Profit and Loss of the Schedule III of the Companies Act, 2013 as compared to old Schedule VI of the Companies Act, 1956.

2.8 References and Suggested Readings

- Circular on Formats for Publishing Financial results, dated Nov 30, 2015,*Securities and Exchange Board of India (SEBI)*
- Compendium of Accounting Standards, dated July 1, 2019 , *The Institute of Chartered Accountants in India (ICAI), New Delhi*
- Guidance note on Meetings of the Board of Directors, dated October 2017, *The Institute of Company Secretaries of India (ICSI)*
- Disclosures in Annual Report, dated May 2018, *The Institute of Company Secretaries of India (ICSI)*
- Accounts of Companies Report, *The Institute of Company Secretaries of India (ICSI),* Retrieved on 27th Sept, 2023
- Financial results under SEBI Regulations, *https://enterslice.com/learning/financial-results-under-sebi-regulations-for-listed-entities/#:~:text=Financial%20statements%20and%20results%20have,be%20followed%20by%20the%20company.* Retrieved on 26th Sept, 2023.
- Bhushan Kumar Goyal,*Corporate Accounting,*Taxmann Publications, New Delhi

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Unit-3
Comparison of Indian Accounting Standards and IFRS

Unit Structure:

3.1 Introduction
3.2 Objectives
3.3 Accounting Standards
3.4 Indian Accounting Standards and IFRS
3.5 Comparison of Indian Accounting Standards and IFRS
3.6 Deviation of Accounting Standards from IFRS
3.7 Differences between Indian GAAP and IFRS
3.8 Similarities between Indian GAAP and IFRS
3.9 Summing Up
3.10 Model Questions
3.11 References and Suggested Readings

3.1 Introduction

The international accounting standards setting process began decades ago as an effort by the industrialized nations to create standards that could be used by developing and smaller nations, unable to develop their own standards. But over the recent decades, the expansion of global trade resulted into the globalization of capital markets. A company in one country is borrowing in the capital markets of several other countries. Therefore, the financial statements prepared in one country are being used in other countries more and more frequently. As such, the need of the business houses to communicate successfully to the investors and other stakeholders across the national borders has become critical to their global competitiveness. However, the issuers willing to raise capital in a foreign country are faced with increased compliance costs and inefficiencies of preparing multiple sets of financial statements to comply with different jurisdictional accounting requirements. Thus, the government, market regulators, corporate accounting authorities and investors at large began to realize the need for having a common set of accounting standards. In an effect to converge with International Financial Reporting Standards (IFRS), the Ministry of Corporate Affair (MCA), Government of India released 35 India accounting standards (known as "Ind AS") on February, 25, 2011

3.2 Objectives

After going through this unit, you will be able to-

- Compare Indian Accounting Standards with IFRS
- Analyse the deviation of Accounting Standards from IFRS
- Understand the similarities between Indian GAAP and IFRS

3.3 Accounting Standards

The government, market regulators, corporate accounting authorities and investors at large began to realize the need for having a common set of accounting standards. India, the emerging economic giant, has been consistent during the past decade through planning discussion to harmonize its accounting practices with the global accounting frame work. Finally, The Union Finance Minister, Mr. Arun Jaitley, as a part of his Budget Speech on 10th July, 2014, proposed to make Ind AS the set of Indian Accounting Standards closely aligned with International Financial Reporting Standards (IFRS) mandatory for Indian companies from the financial year 2016-17. He also mentioned that the companies could opt to adopt Ind AS Voluntarily from financial year 2015-16. Later on February 16, 2015, Ministry of Corporate Affairs (MCA), Government of India, issued a notification announcing Companies (Indian Accounting Standards) Rules, 2015, mandating the application 39 new Ind ASs. Accounting to the notification, Ind AS will first apply to companies with a net worth equal to or exceeding 500 crores INR-the Phase 1 companies, beginning April 1, 2016. This will also require comparative Ind AS information for the period from April, 1, 2015 to March 31, 2016. However, given the complexity of interrelated laws and regulations prevalent in the country, it is perceived that the process of transition to the new standards while maintaining the quality of corporate disclosure would be anything but smooth and hassle free. This unit attempts to bring to light certain issues relating to the process of implementation of Ind As which, as a matter of fact, has presently engulfed the Phase 1 companies in an uncertain position with respect to reporting procedure, conflicting regulatory norms, tax implications and some other related issues.

3.4 Indian Accounting Standards and IFRS

With the whole world having become a global village, the businesses are increasingly going glocal= global +local, as these businesses speak the

language of accounting, there was a compelling need that they spoke a universally common accounting language for better comparability and unambiguous understanding of financial statements across all companies and jurisdictions. The IFRS not only fulfills of benefits to the economics. India too has rightly kept pace with the global accounting revolution encompassing more than 140 countries, having largely converged with IFRS with only a few carve-outs, overcoming a range of challenges. The Ind AS converged with IFRS has put India at the centre stage of high quality and transparent financial reporting whose benefits for sure outweigh the challenges. There is an urgent need to converge current Indian standards with international accounting standards (IAS) announced by finance minister in the 2014 budget speech, acknowledging the immense underlying benefits and using India in a new era of path breaking accounting reform. Since then the process of convergence in India has come a long way, with the MCA announcing a firm roadmap for adoption of Ind AS converged with IFRS on 16th February, 2015 and notified 39 Ind AS.Later on 30 March 2016, the MCA also issued the companies (Indian Accounting Standards) (Amendment) Rules, 2016 replacing 2 Ind AS for the earlier notified Ind AS 115, Revenue from contracts with customers.

The roadmap in its first phase, requires companies with a net worth of Rs. 500 crore or more (along with their holding, subsidiary, joint venture and associate companies) to mandatorily adopt Ind AS from or after 1st April, 2016. All the remaining listed companies, and unlisted companies with a network of Rs. 250 core or more will have to adopt Ind AS from 1st April, 2017.

According companies in the first phase, have to comply with Ind AS and most of them have already come out with their first quarterly financials based on Ind AS. Meanwhile, as series of announcements by MCA and then by RBI have set the ball rolling for the adoption of Ind AS on the reporting language for banks, NBFCs and insurance companies in the near future. The banks are required not only required to prepare the half yearly preformed Ind AS financial statement (Fs) as on 30th Sept. 2016, but also to disclose the strategy for Ind AS implementation in their Annual Report for FY 2016-17 and FY 2017-18.

Ind AS is a business imperative for Indian companies today. This is because it will not only greatly help in boosting foreign investment and making our capital market more robust, but will also benefit investors and other users of Financial Statement by refining the quality of reported information. It will

also facilitate cross border acquisitions, partnership and alliances with foreign entities, thereby boosting overall economic growth. There are some challenge to come in the way forward. The Ind AS implementation in likely to have a wide ranging impact on Indian companies, including its financial results, Accounting for mergers, acquisition, consolidation, share based payment, financial instruments, revenue recognition, taxes and increased use of fair value are some of the areas that may be pose interpretation and implementation challenges under Ind AS. One of the key challenges, which may also be relevant for Indian companies is that IFRS or Ind AS are principles based standards which require transactions to be accounted for based on their economic substance. Implementing Ind AS is likely to impact key performance matrix. It has wide application on a company's processes, its systems, internal financial controls, income tax pay rate, remuneration policies and also contractual arrangement. Change in reporting brings lots of changes in the areas of provisioning, capitalization, depreciation etc which may widely affect the profitability and worth of the organisation. (Ref Editorial Board, ICAI, October, 2016). New Delhi

Stop to Consider

Ind AS convergence with IFRS and its implementation in likely to have a wide range of impact on Indian companies. The Ind AS converged with IFRS has put India at the centre stage of high quality and transparent financial reporting whose benefits for sure outweigh the challenges."

3.5 Comparison of Indian Accounting Standards and IFRS

The following table will highlight the differences between the IFRS and Ind AS in treatment of various elements.

Topic	IFRS Treatment	Ind AS Treatment
IFRS 3, Business Combinations	IFRS 3 excludes from its scope business combinations of entities under common control. In practice, such transactions are accounted for either at book values (with the difference adjusted in reserves) or by applying the acquisition method following for other business combinations.	Ind AS 103 (Appendix C) gives guidance in this regard. Use of the acquisition method (based on fair values) is not permitted under Ind AS for common control transactions. Conversely, recognition of good will, while otherwise using the book value approach, would not be permitted under IFRS.
	IFRS requires that the excess of the fair value of identifiable net assets over the consideration paid should be recognized in the profit and loss account.	Ind AS 103 requires the same to be recognized in other comprehensive income and accumulated in equity as capital reserve. In cash the business combination cannot be conclusively classified as a bargain purchase. It shall be recognized directly in equity as capital reserve.
IAS 1, Presentation of Financial Statements	IFRS provides an option either to follow the single statement approach or to follow the two statement approach, all items of income and expense are recognized in the statement of profit and loss, in the two statement approach, two statements are prepared, one displaying components of profit or loss (separate income statement) and the other beginning with profit or loss and displaying components of other comprehensive income	Ind AS allows only the one-statement approach.
	IAS I requires preparation of a statement of changes in equity as a separate statement	Ind AS 1 requires the statement of changes in equity to be shown as a part of the balance sheet.
	Paragraph 37 of IAS 1 permits the usage of a period other than one year (e.g. of 52 weeks for preparation of financial statement)	Ind AS 1 does not permit it.
	IFRS requires a company to present expenses recognized in the profit and loss account using a classification based on either their nature or their function within the company.	Ind AS requires such classification by nature.
	In the case of companies other than financial companies. IFRS gives and option to classify the interest and divident paid and interest and devident received as items of operating cash flows.	In AS does not provide such an option and requires these items to be classified as items of financing activity and investing activity, respectively.

Topic	IFRS Treatment	Ind AS Treatment
	IAS 1 contains implementation guidance	Ind AS 1 does not include implementation guidance because various enactments have prescribed formats (e.g. schedule VI to the companies Act, 1956)
IAS 2, Inventories	IAS 2 requires recognition of inventories as an expense based on function-wise classification.	The paragraph has been deleted because of the removal of the option provided in IAS 1 to present as analysis of expenses recognized in profit or loss using a classification based on their function within the equity.
IAS 7, Statement of Cash Flows	In case of other than financial entities, IAS 7 gives an option to classify the interest paid and interest and dividends received as items of operating cash flows. IAS 7 gives an option to classify the dividend paid as an items of operating activity.	Ind AS 7 does not provide such an option and requires these items to be classified as items of financing activity and investing activity, respectively.
IAS 11, Construction Contracts IFRIC 12, Service Concession Arrangements SIC 29, Service Concession Arrangements : Disclosures	IAS 11 does not deal with accounting for construction contracts in respect to real estate developers.	This has been dealt with under Ind AS 11, since it has been kept out of the scope of Ind AS 18, Revenue.
IAS 12, Income Taxes	IFRS requires presentation of tax expense (income) in the separate income statement, where a separate income statement is presented.	Ind AS 1 requires that components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.
IAS 17, Leases	IAS 17 classifies property interest held under an operating lease as an investment property, if the definition of investment property is otherwise met and the fair value model is applied.	In AS 40, Invetment property, prohibits the use of fair value model.
	Under IFRS, accounting prescribed for embedded leases is mandatory for all companies in transition to IFRS.	Under Ind AS, the applicability of guidance on embedded leases has been deferred. This guidance may become applicable commencing a date that may be later than the transition date to Ind AS.

Topic	IFRS Treatment	Ind AS Treatment
IAS 18, Revenue	On the basis of principles of the IAS 18, IFRIC 15, Agreement for construction of Real Estate, prescribes that construction of real estate should be treated as sale of goods and revenue should be recognized when the entity has transferred significant risks and rewards of ownership and retained neither continuing managerial involvement nor effective control	Provisions of IFRIC 15 do not affect INd AS 18, Revenue, and have been included in Ind AS 11, Construction Contracts.
IAS 19, Employee Benefits	IAS 19 permits various options for treatment of actuarial gains and losses for postemployment defined benefit plans.	Ind AS 19 requires recognition of actuarial gains and losses in other comprehensive income, both for postemployment defined benefit plans and other long-term employment benefit plans. The actuarial gains recognized in other comprehensive income should be recognized immediately in retained earnings and should not be reclassified to profit or loss in a subsequent period.
	IAS 19 does not provide guidance for actuarial valuation of defined benefit obligations.	Ind AS 19 gives guidance and states that detailed actuarial valuation of defined benefit obligations may be made at intervals not exceeding three years.
	IAS 19 requires that government that government bonds can be used only where there is no deep market of high-quality corporate bonds to discount portemployment benefit obligations.	According to Ind AS 19, the rate to be used to discount postemployment benefit obligations shall be determined by reference to the market yields on government bonds.
IAS 20, Accounting for Government Grants and Disclosure of Government Assistance	IAS 20 gives an option to measure non-monetary government grants either at their fair value or at nominal value.	Ind AS 20 requires measurement of such grants only at their fair value.
	IAS 20 gives an option to present grants related to assets, including nonmonetary grants, at fair value in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.	Ind AS 20 requires presentation of such grants in the balance sheet only by setting up the grant as deferred income. Thus, the option to present such grants by deducting the grant in arriving at the carrying amount of the asset is not available under Ind AS 20.

Topic	IFRS Treatment	Ind AS Treatment
IAS 21, The Effects of Changes in Foreign Exchange Rates	IFRS requires all foreign exchange differences to be recorded immediately in the profit and loss account.	Ind AS 21 permits an option to recognize exchange differences arising from translation of certain long-term monetary item from foreign currency to functional currency directly in equity. In this situation. Ind AS 21 requires the accumulated exchange differences to be transferred to profit or loss over the period of maturity in an appropriate manner.
IAS 24, Related Party Disclosures	IFRS had no such provisions	In Ind AS 24, disclosures that conflict with confidentiality requirements of stature/regulations are not required to be made since According Standards cannot override legal/ regulatory requirements.
	IFRS has no such provisions	In Ind AS 24 father, mother, brother and sister relatives as specified under meaning of "relative". Under the companies Act, 1956 are included in the definition of 'close members of the family of a person."
	IFRS has no such provisions	Ind AS 24 provides additional clarifying guidance regarding aggregation of transactions for disclosure.
IAS 28, Investments in Associates	Where the financial statements of as associate use in applying equity method are prepared as of a date different from that of the investor, IAS 28 requires that this difference should not be more than three months.	Ind AS 28 provides that this difference should not be more than three months, unless impracticable. Similarly, paragraph 26 of Ind AS 28 requires use of uniform accounting policies, unless impracticable, which IAS 28 does not provide.
	Standard is applicable to mutual funds, unit trusts and similar entities including investment-linked insurance funds	Paragraph 1 (d) of IAS 28 has been deleted in Ind AS 28 as the Companies Act. 1956, is not applicable to mutual funds, unit trusts, and similar entities including investment linked insurance funds. Thus, this standard would not be applicable to such entities.
	IFRS requires any excess of the investor's share of net assets in an associate over the acquisitions cost to be recognized as a gain in the profit and loss account.	Ind AS 28 has been modified on the lines of Ind AS 103 to transfer excess of the investor's share of the associate's identifiable assets and liabilities over the cost of investment to capital reserve.

Topic	IFRS Treatment	Ind AS Treatment
IAS 29, Financial Reporting in Hyperinflationary Economies	IFRS does not require such a disclosure	Ind AS 29 requires an additional disclosure regarding the duration of a hyperinflationary situation existing in the economy.
IAS 32, Financial Instruments : Presentation	This exception is not provided in IAS 32	As an exception to the definition of "financial liability". Ind AS 32 considers the equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of the entity's own equity instruments is considered as an equity instrument if the exercise price is fixed in any currency.
IAS 33, Earnings per Share	IAS 33 provides that when an entity presents both consolidated financial statement and separate financial statements, it may give information related to earnings per share in consolidated financial statements only.	Ind AS 32 requires information related to earnings per share to be disclosed both in consolidated financial statements and separate financial statements. Paragraph 4 has been modified in Ind AS 33 to clarify that an entity shall not present in separate financial statements earnings per share based on the information given in consolidated financial statements. It also requires, as does, IAS 33, that earnings per share based on the information given in separate financial statements shall not be presented in the consolidated financial statements.
	Under IFRS, earnings per share must be disclosed by listed companies and companies in the process of listing.	Under Ind AS, earnings per share must be disclosed by all companies applying Ind AS.
	No such requirement under the IFRS	Ind AS 33 this paragraph has been added : "Where any item of income or expense which is otherwise required to be recognized in profit or loss in accordance with accounting standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calcularing basic earnings per share."
	No such requirement under the IFRS	In Ind AS 33, paragraph 15 has been amended by adding the phrase "irrespective of whether such discount or premium is debited or credited to securities premium account" to future clarify that such discount or premium shall also be amortized to retained earnings.

Topic	IFRS Treatment	Ind AS Treatment
IAS 34, Interim Financial Reaporting	With regard to preparation of the statement of profit and loss, IAS 34 provides the option either to follow the single statement approach or to follow the two statement approach.	Ind AS 34 allows only the single-statement approach like Ind AS 1
	IAS 34 requires preparation of a statement of changes in equity as a separate statement.	Ind AS 34 requires the statement of changes in equity to be shown as a part of the balance sheet like Ind AS 1
IAS36, Impairment of Assets	IAS 36 states that the standard shall not be applied for accounting for impairment of the investment property that is measured at fair value.	In AS 36 does not so specify, as Ind AS 40 permits the cost model only.
IAS 38, Intangible Assets SIC 32, Intangible Assets-Website Costs	With regard to the acquisition of an intangible asset by way of a government grant, IAS 38 provides an entity the option to recognize both asset and grant initially at fair value or at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use.	Ind AS 38 allows only fair value for recognizing the intangible asset, and the grant would be accounted for in accordance with Ind AS 20.
IAS 39, Financial Instruments : Recognition and Measurement	Under IFRS, in determining the fair value of financial liabilities designated as fair value through profit or loss upon initial recognition, any change in fair value due to changes in the company's own credit risk are also considered.	A provision has been added in Ind AS 39 that states that in determining fair value of the financial liabilities that upon initial recognition are designated at fair value through profit or loss, any change in fair value consequent to changes in the entity's own credit risk shall be ignored.
IAS 40, Investment Property	ISA 40 permits both the cost model and the fair value model (except in some situations) for measurement of investment properties after initial recognition.	Ind AS 40 permits only the cost model.
	IAS 40 permits treatment of property interest held in an operating lease as investment property, if the definition of investment property is otherwise met and the fair value model is applied. In such cases, the operating lease would be accounted for as if it were a finance lease.	Under Ind AS 40, this treatment is prohibited

3.6 Deviation of Accounting Standards from IFRS

Ind AS contains a number of deviations from IFRS that may be segregated into five board categories.

Category 1: *Deviations from IFRS that result in Ind AS financial statements not being in compliance with IFRS.* For example, under IFRS, a foreign currency convertible bond is treated as a hybrid instrument having a liability and a derivative component. Ind AS 32 requires that the derivative component is treated as equity, if the exercise price is fixed in any currency.

Category 2: *Removal of Options*. Ind AS financial statements are compliant with IFRS, although accounting treatment choices are eliminated or minimized. For example, International Accounting Standard (IAS) 40 permits both the cost and the fair value model for subsequent measurement of investment properties. Ind AS 40 does not permit the use of the fair value model.

Category 3: *Additional options provided under Ind AS*. The financial statements do not remain compliant with IFRS if the entity has chosen these options. For example, Ind AS 101 allows a first-time adopter to use the transitional date circumstance to measure noncurrent assets held for sale and discontinued operations at the lower of carrying value and fair value less cost to sell.

Category 4: *Deferment of non adoption of certain IFRS*. Ind AS statements are not IFRScompliant. For example, the next IFRS pronouncements have been issued under Ind AS.

IFRS 9, Financial Instruments.

IAS 26, Accounting and Reporting by Retirement Benefit Plans.

IAS 41, Agriculture.

(IFRIC) 2, Member's Share in Cooperative Entities and Similar Instruments.

IFRIC 15, Agreement for Construction of Real Estate.

Category 5: *Regulatory and practice-related differences*. For example, the differences necessary to ensure conformity with Indian Companies Act, 1956 and requirement of presentation of Annual accounts under Schedule VI of the same Act.

Ind AS has maintained certain general differences with the IFRS, as described next.

1. In AS uses some terms that differ from IFRS. For example, the term "balance sheet" is used instead of "Statement of financial position," and the term "statement of profit and loss" is used instead of "Statement of comprehensive income". The word "approval of the financial statements for issue" are used instead of "authorization of the financial statements for issue" in the context of financial statements considered for the purpose of events after the reporting period.

2. Under IFRS 1, transitional provisions in other IFRS do not apply to a first-time adopter's transitional to IFRS, unless otherwise permitted by IFRS. Ind AS standards to do not

contain transitional provisions of corresponding IFRS/IAS standards.

3. Notification/applicability of certain standards/appendices of standards such as IFRIC 12 (Appendix A to Ind AS 11), Standing Interpretations Committee (SIC) 29 (Appendix B to Ind AS 11), IFRIC 4 (Appendix C to Ind AS 17), IFRS 4 (Ind AS 104), and IFRS 6 (Ind AS 6) has been deferred to a later date. However, Ind AS 8 states that an entity may consider the most recent pronouncements of IAS 8 in deciding the accounting treatment for transactions not covered by Ind AS.

4. The conceptual framework for financial reporting has not been notified under Ind AS. However, certain Ind AS (e.g., Ind AS 1 and Ind AS 8) refer to the framework. Further, differences may arise, depending on the manner in which the Campanies Amendment Bill is legislated, particularly with regard to provisions relating to Section 100, Section 78, Schedule VI, Schedule XIV, consolidation requirements, etc. In addition, differences may arise due to future changes introduced in IFRS and the manner in which they are incorporated in Ind AS.

Check Your Progress

1. What are the impact of Ind AS convergence with IFRS on Indian Companies?
2. Mention two similarities between Indian GAAP and IFRS.
3. Mention the IFRS treatment and Ind AS treatment of Income Tax.

3.7 Differences between Indian GAAP and IFRS:

The following table will highlight the major differences between Indian GAAP and IFRS.

Sl. No.	Point of Difference	IFRS	Indian GAAP
1	Preparation of Financial Statements	Main components of financial statements are : 1. Balance sheet (Fund statements) 2. Statement of comprehensive income 3. Statement of changes in equity 4. Cash flow statement Information about accounting policies and notes to financial statements. These components should disclose last three years information. (Ref. IndAS-1)	Components according to Indian GAAP are as follows : 1. Balance sheet 2. Cash flow statement 3. Profit and loss accounts In indian GAAP they should disclose last two year's data. (Reference : AS-1)
2	Expense Recognation	While classifying the expense, IFRS gives two considerations to follow. Entities can divide expenses either by nature or by function. They can take any one of these as consideration while recognizing expenses. Even they need to make certain notes about which nethod they are following and disclose the same in financial statements. (Classification of expense nature means when expenses are classified according to their nature, e.g. depreciation, transportation expense, rest expense etc. and classification of expense function means when expenses are classified according to their function, e.g. administration expenses, selling and distribution expenses. Under Ind-AS, Infosys ltd. 2014 are classiftying expenses according to function.	The recognition of expenses by nature is the only option provided according to Indian GAAP. (Under Indian GAAP infosys ltd. has classified expenses according to nature)
3	Other Comprehensive Income Statement	In the case of IFRS, one concept is there relating to the preparation of "Other comprehensive income" statement. Entities can add 'other comprehensive income' as a separate item under the financial statements.	There is no concept relating to 'other comprehensive income provided in Indian GAAP'
4	Small sized and Medium Sized Companies	If RS has a special set of principales and guidelines in case of small sized and medium sized companies. IFRS has certain set of financial reporting guidelines for these companies.	There are certain conditions under which certain exemptions are relazations are given to small sized and medium sized companies. For e.g. no need to prepare cash flow statements for small sized companies.
5	Consolidated Financial Statements	For both listed and unlisted companies, parents companies are required to include all subsidiary companies, both domestic and foreign, while preparing the consolidated financial statements.	Only listed companies are required to present consolifated financial statements, only it controlling interest exists (if the parent company is holding more than 50% stake in subsidiary company)

3.8 Similarities between Indian GAAP and IFRS

The following table will highlight the similarities between Indian GAAP and IFRS.

Sl. No.	Point of Difference	IFRS	Indian GAAP
1	Contents of Cash Flow Statements	Contents of cash flow statement were : 1. Operating activity 2. Financing activity 3. Investing activity	Contents of cash flow statements were : 1. Operating activity 2. Financing activity 3. Investing activity
2	Treatment of income Taxes in Cash Flow Statements	In case of taxes paid as income tax, it is recorded as an operating activity unless there is specific guidance about investing activities and financing activities.	In case of taxes paid as income tax, it is recorded as an operating activity unless there is specific guidence about investing activities and financing activities.
3	Methods of preparing cash flow statements	Listed and other companies can prepare the cash flow statement either on the basis of direct or indirect method.	Listed and other companies can prepare the cash flow statement either on the basic of direct or indirect method.
4	Cash flow from foreign currency	Cash flow foreign currency is determined based on the exchange rate prevailing at the date of preparing the cash flow statement.	Cash flow from foreign currency is determined based on the exchange rate prevailing at the date of preparing the cash flow statement.
5	Cost of Initial Investment	At the time of initial investment, the purchase price of the property is recorded at cost price.	At the time of initial investment, the purchase price of the property is recorded at cost price.
6	Measurement of Inventories	In case of valuation of inventories, it is done either at the cost price or net realizable value, whichever is lower, (Reference : AS-2)	In case of valuation of inventories, it is done either at the cost price or net realizable value, whichever is lower, (Reference : AS-2)
7	Method of Inventory Valuation	To calculate inventory, only weighted Average and FIFO method are considered.	To calculate inventory, only Weighted average and FIFO method are considered.

3.9 Summing Up

- Government of India released 35 India accounting standards (known as "Ind AS") on February, 25, 2011

- India, the emerging economic giant, has been consistent through planning and discussion, to harmonize its accounting practices with the global accounting frame work.
- The Ind AS converged with IFRS has put India at the centre stage of high quality and transparent financial reporting whose benefits for sure outweigh the challenges.
- Ind AS in a business imperative for Indian companies because it will not only greatly help in boosting foreign investment and making our capital market more robust, but will also benefit investors and other users of Financial Statement by refining the quality of reported information.
- One of the key challenges, which may also be relevant for Indian companies is that IFRS or Ind AS are principles based standards which require transactions to be accounted for based on their economic substance. Implementing Ind AS is likely to impact key performance matrix. It has wide application on a company's processes, It systems, internal financial controls, income tax pay rat, remuneration policies and also contractual arrangement change in reporting brings lots of changes in the areas of provisioning, capitalization, depreciation etc which may widely affect the profitability end out wroth of the organisation

3.10 Model questions

1. In what way India can benefit from its Accounting Standards being converged with IFRS?
2. Why is it important for countries to converge its Accounting Standards with IFRS?
3. Give a tabular comparison of Accounting Standards with IFRS.
4. How does Indian Accounting Standard deviate from IFRS?
5. Compare Indian GAAP and IFRS.

3:11 References and Suggested Readings

- *Framework for the Preparation and Presentation of Financial Statements,* July 2000, The Institute of Chartered Accountants of India (ICAI)

- *Study material on Financial Reporting, Ind AS1: Presentation of Financial Statements;* The Institute of Chartered Accountants of India (ICAI)
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Unit-4
National Differences in Financial Reporting Practices; Reasons for National Differences in Financial Reporting Practices; Attempts to Reduce the Differences

Unit Structure:

4.1 Introduction
4.2 Objectives
4.3 Difference between some national standards and IFRS
4.4 Reason for national differences and its impact in the financial reporting practices.
4.5 Attempts to reduce the differences
4.6 Need for preparation of uniform consolidated financial statements:
4.7 Summing Up
4.8 Model Questions
4.9 References and Suggested Readings

4.1 Introduction

Acceptance of a uniform accounting standards is a step towards reducing national differences in order to establish one uniform language of business, so that all homogeneous enterprises speak in a homogeneous language. IFRS is adopted in more than 100 companies; many countries are in the process of adopting IFRS by modifying them to some extent to meet the country specific circumstances. Around 40% of the Global Fortune 500 companies use IFRS. The IFRS are required for the listed companies across all the European Union countries and majority of the countries in Asia Pacific region

Why the difference? Because, the IASC member countries did not adopt the IAS uniformly because of the following reasons; this ultimately triggers in national differences.

- The strength of the professional accounting institutions of a country guided to generate on accounting treatment that conforms to IAS.
- Acceptance of IAS depended not only on the accounting profession, but also on the attitude of the govt. and regulatory agencies.

- IASC did not have any power of enforcement and hence adherence to IAS has been far from satisfactory.
- A country having weak or a newly established accounting profession will not be able to fully develop issue and enforce domestic standards and then conform to the IAS.

Global capital markets have become increasingly integrated, and cross border investments and borrowings have increased. Multinational companies have expanded their operational base. Therefore, the accounting standard setting bodies are looking to eliminate the national differences in accounting so that the financial statements from anywhere in the world can be easily read and understood by the business and financial communities. It was felt necessary to have a transition from detailed rule-based regulations to broader principle based regulations as evolved by IASC and IASB.

4.2 Objectives

After going through this unit you will be able to

- Understand the difference between IFRS and Indian GAAP
- Understand the national difference in financial reporting practices
- Explain the reasons for such differences
- Analyze the attempts made to reduce such differences.

4.3 Difference Between Some National Standards and IFRS

You've probably heard the phrase 'it wouldn't do for us all to be the same'– Well that's as true for the world of accountancy as it is in real life. Many countries around the globe still use their own accounting standards (referred to as generally accepted accounting practice (GAAP). There are attempts being made by the International Accounting Standards Board (IASB) to get countries around the world to adopt International Financial Reporting Standards (IFRS), in the hope that eventually methodologies which will then improve comparability of financial statements. Because many countries use their own GAAP, there are some notable differences between what some countries do and what IFRS does.

Here are *ten (10)* notable difference between what some countries do with their own national (GAAP) and what IFRS does so that you can appreciate the difference between the two.

1) Pension Plans :

Many companies operate what are known as Defined Benefit Pension Plans which is where an employee participates in the scheme, retires and then receives a pension based on his or her final salary (you've probably heard them referred to as final salary schemes). They're becoming less common these days and are not to be confused with Defined contribution Schemes. Some GAAPs do not require the defined benefit pension plan's surplus or deficit to be recognized on the balance sheet. However, under *IAS 19 Employee Benefits* a company must recognize such a defined benefit pension plan's surplus or deficit, and this surplus or deficit is calculated by the pension plan's actuary.

2) Deferred Tax :

Deferred tax is the method of smoothing out the differences between the accounting treatment of certain items in the financial statements against the way the same items have been treated for tax purposes and the deferred tax consequences can either be a liability (future tax charges will increase in the future as a result of the difference) or they can be an asset (future tax charges will decrease as a result of the difference).

Some GAAP do not require deferred tax assets or liabilities to be recognized due to the 'timing difference' approach (which focuses on when items are eventually recognized in profit or loss). Under IAS 12 Income Taxes this focuses on the 'temporary difference' approach (which focuses on the balance sheet and the tax that would be payable it assets were sold and liabilities settled at book value). IAS 12 requires that a company recognizes deferred tax assets and liabilities in respect of all temporary differences.

3) Intangible non-current Assets :

An intangible non- current Assets is a long-term asset the company will use in the business for more than one year and is shown on the balance sheet. An intangible non-current asset does not have a physical form-in other words you can't kick it. Some GAAP require certain costs relating to intangible non-current assets to be written off to profit or loss as and when they're incurred. Under IAS 38 Intangible Assets a company must recognize such costs on the balance sheet if they meet the recognition criteria (which are that the costs are capable of generating revenue for the business and the cost can be measured reliably).

4) Share-Based Payment:

A Share-Based Payment is an agreement between a company and a third party that entitles the third party to receive shares or share options of the company, or cash (or other assets) for amounts based on the price or value of the shares of the company at a future point in time provided certain conditions are met. Some GAPP do not recognize any expense arising on a share-based Payment to be reflected in company's income statement.

5) Provisions for liabilities:

A Provision is a liability of uncertain timing or amount and can arise because of either a legal or constructive, obligation. A constructive obligation arises because of a history of past practice by the company (for example paying profit-related bonuses year on year). Some GAAP do not recognize provisions because of a constructive obligation. However, IAS 37 provisions, contingent Liabilities and contingent Assets requires a provision to be recognized due to a constructive obligation if it can be demonstrated such an obligation exists, there's going to be cash changing hands to settle the obligation and the amount required to settle the obligation and the amount required to settle the obligation can be measured reliably.

6) Finance Leases:

A finance lease is a lease which transfer all the risks and rewards of ownership of the leased asset to the lessee (the party leasing the asset). Some GAAP do not require assets subject to finance leases to be recognized on a balance sheet. IAS 17 Leases specifically requires such leases to be recognized on the balance of companies entering into these types of lease (note IAS 17 is due to be replaced by another standard in the next couple of years).

7) Borrowing costs:

Borrowing costs are interest charges levied by banks and finance houses for loan taken out by companies. Some companies take out loans to construct their own assets (for example a new building). Some GAAP's permit a company to choose whether, or not, to capitalize these borrowing costs as part of the cost of constructing the asset. However, IAS 23 Borrowing Costs requires companies to recognize all such costs as part of the cost of asset- there is no option under IAS 23 to write them off to profit or loss when they are incurred.

8) Buying another company :

Lots of additional costs (such as legal fees, accountancy fees and due diligence fees) are incurred when a company buys another company. Some

GAPP allows these types of costs (called incremental costs) to be included in the cost of acquisition, IFRS 3 Business Combinations requires such incremental costs to be written off to the income statement as and when they are incurred. They cannot form part of the cost of the acquisition under IFRS.

9) Statement of cash flows :

Certain companies reporting under their own national GAAP do not have to produce a statement of cash flows in addition to the statement of profit or loss (sometimes called the income statement of profit and loss account) and statement of financial position (known as the balance sheet). IAS 1 Presentation of Financial Statements specifically requires a company to produce a statement of cash flows as part of the company's annual financial statements.

10) Inventory Valuations :

Some GAAP allow the use of the last-in-first-out(LIFO) method of valuing inventories. IAS 2 Inventories specifically prohibits this method of inventory valuation. It only allows the first-in first-out(FIFO) method or average cost method of valuation.

Stop to Consider

IFRS is used in more than 110 countries around the world, including the EU and many Asian and South American countries. On the other hand, each country follows its own set of generally accepted accounting principle. Under IFRS, LIFO cannot be used, but GAAP; companies have the choice between LIFO and FIFO.

Check Your Progress

1. Why does the difference exist in adopting the IAS by member countries?
2. Why does there exist national difference in accounting practices?
3. What is Deferred tax? How is it treated by GAAP and IFRS?
4. Highlight the difference in treatment of Inventory by GAAP and IFRS.

4.4 Reason for National Differences and its Impact in the Financial Reporting Practices

Differences in accounting practices among nations refers to varies kind of differences in accounting rules and standards ,recording ,reporting etc. The differences can be noticed in many accounting practices such as differences in financial statement included in the business annual report, differences in the format used to present individual financial statements, differences in the level of detail provided in the financial statements, terminology differences, disclosures differences and recognition and measurement differences. The following points highlight the major reasons for the differences in accounting practices across nation:

a) Legal system: The legal system adopted by any country could be the main reason behind the difference in the accounting practice across nations. Legal system not only shape the behavior of its citizen but it also prescribes accounting rules and regulates accounting and financial reporting. The degree to which government is involved in standard setting varies from country to country . There are basically two legal systems followed worldwide. The Common Law, which is used by English Speaking countries and The Codified Roman Law (Code Law) used by Non-English-Speaking countries. The countries that follow common law are more liberal and have fewer regulation prepared by professional bodies. Whereas countries following code law have more regulations which are prepared by agencies and government bodies.

b) Taxation: Taxation practices are different in different countries . In some countries, published financial statement form the basis for taxation but in some other countries financial statement are adjusted for tax purpose . This difference in practice leads to difference in Accounting Practices.

c) Inflation: Countries at different times face different degree of inflation. Countries facing high degree of inflation basically feel the necessity of adjusted accounting practices that require adjustment of historical cost amounts. For countries where accounting statement serve as the basis for taxation adjusted income for inflation is necessary because otherwise companies in those countries would be paying taxes on fictitious profits.

d) Financers' requirement: Financial reports provide various information to financiers and investors. Different financier seeks different information

as per their requirement. Say for example ,shareholders are more interested in profits so they are more concerned with the Profit and Loss Account whereas bank are more interested in insolvency and liquidity and lays emphasis on the Balance Sheet.

e) Political and Economic Ties: One of the main reason for the national difference in the preparation and presentation of financial statement between countries might be the political and economic ties of one country with other countries. This alliance and ties will certainly motivate to adopt accounting practices followed by its alliance countries.

f) Relation among various factors: It is very obvious that there is a strong correlation between the country's legal system, tax conformity and source of financing. So these factors also play major role in bringing about differences in accounting and reporting practices.

g) Apart from the above discussed factors, the following factors also have impact on creating differences in accounting practices.

- Nature of business ownership
- Invasion
- Level of Education
- Age and size of accounting profession
- Stage of economic development etc.

The following discussion highlights some national differences in Accounting and reporting practices and the impact of such national differences in reporting practices:

IND AS 12 - Income Taxes : Key Differences

1. AS 22 Accounting for Taxes on Income is based on the income statement liability method,which focuses on timing differences. Ind AS 12 Income Taxes is based on the balance sheet liability method, which focuses on temporary differences. Under Indian GAAP, no deferred tax is recognized on upward revaluation of fixed assets where such revaluation is credited directly to revaluation reserve. Under Ind AS, companies will recognize deferred tax on revaluation component, if other recognition criteria are met.

2. Ind AS 12 requires the recognition of deferred taxes in case of business' combinations. Under Ind AS, the cost of a business combination is allocated to the identifiable assets acquired and liabilities assumed by reference to their fair values. However, if no equivalent adjustment is

allowed for tax purposes, it would give rise to a temporary difference. Under Indian GAAP, business combinations (other than amalgamation) will not give rise to such deferred tax adjustment.

3. Where an entity has a history of tax losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits only to the extent that it has sufficient taxable temporary differences, or there is other convincing evidence that sufficient taxable profit will be available under Ind AS. Under Indian GAAP, if the entity has carried forward tax losses or unabsorbed depreciation all deferred tax assets are recognized only to the extent that there is virtual certainly supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized. Ind AS 12 does not lay down any requirement for consideration of virtual certainty in such cases.

4. Under Ind AS, an entity should recognize a deferred tax liability in consolidated financial statements for all taxable temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, except to the extent that the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Under Indian GAAP, deferred tax is not recognized on such differences.

5. Under Ind AS, deferred taxes are recognized on temporary differences that arise from the elimination of profits and losses resulting from intra-group transactions. Deferred tax is not recognized on such eliminations under Indian GAAP. The deferred taxes in the CFS are a simple aggregation of the deferred tax recognized by various group entities.

6. Disclosure required for income taxes will increase on transition to Ind AS. Examples of certain critical disclosures mandated in Ind AS are : an explanation of the relationship between tax expense (income) and accounting profit; an explanation of changes in the applicable tax rate (s) compared to the previous accounting period; the amount (and expiry date, if any) of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in the statement of financial position.

Impact on Financial Reporting :

Deferred Tax Accounting for the group : Till date, the deferred taxes in the consolidated Financial Statement (CFS) are a simple aggregation of the deferred tax recognized by various group entities, On transition to Ind AS, deferred taxes in the CFS will be significantly defferent from that under Indian GAAP. This is because of GAAP difference explained above, especially with respect to undistributed profits of subsidiaries, associates and joint ventures and intra-group transactions.

Acquisitions : Deferred tax is recognized on fair value adjustment of acquired assets, liabilities and contingent liabilities as part of business combination accounting. Good will under Ind AS is determined accordingly. Reversal of deferred tax asset/liability in future years affects the tax expense or income of those years. Therefore, the effect of acquisition deferred taxes on future financial statements will differ significantly under Ind AS and Indian GAAP.

Entities in Tax Losses : Due to the strict principle of virtual certainty under Indian GAAP, only in very rare cases can entities recognize deferred tax assets, where they have have carried forward losses and unabsorbed depreciation. The 'convincing evidence' principle under IFRS is less stringent in comparison. Hence, the probability of recognized deferred tax asset on carried forward tax losses and unabsorbed depreciation is higher under Ind AS.

Ind AS 110- Consolidatesd Financial Statements : Key Differences

1. Under Ind AS, the application of the equity method to associates/joint ventures is mandatory, even for entities without any subsidiaries. Under Indian GAAP, the companiesAct, 2013 requires the application of the equity method or proportionate consolidation to account for associates/ joint ventures even when the entity has no subsidiaries.

2. Under the new control model, an investor controls investee when it is exposed or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. An investor may still have power over an investee even the investor does not have a majority of the voting rights of the investee. An investor may have power over specified assets of an investee that are considered to be a separate 'deemed entity' (a silo), such that control could exist at a level below a legal entity.

3. Potential voting, which are currently exercisable, are considered for determination of control under Ind AS. Indian GAAP is silent on whether potential voting rights are to be considered for control. However, under AS 23, potential voting rights are not considered for determining significant influence in the case of an associate. Thus, an analogy can be drawn in the case of a subsidiary as well.
4. Both Ind AS and Indian GAAP require the use of uniform accounting policies for preparation of consolidated Financial Statements (CFS), However, Indian GAAP provides an exmeption on the grounds of impractically. Ind AS allows a three month gap between financial statements of a parent or investor and its subsidiary, associate or jointly-controlled entity. Indian GAAP allows a six-month gap for subsidiaries and jointly-controlled entities. For associates, there is no time gap prescribed.
5. Ind AS requires losses incurred by the subsidiary to be allocated between the controlling (parent) and non-controlling interest, even if the losses exceed the non-controlling equity investment in the subsidiary. Under Indian GAAP, excess losses attributable to minority shareholders over the minority interest are adjusted against the majority interest, unless the minority has a binding obligation to and is able to, make good the losses.

Impact on Financial Reporting

Preparation of CFS : Indian GAPP has no guidance on the consolidation of special purpose Entities. Ins AS requires SPEs satisfying certain criteria to be consolidated. Adoption of Ind AS does not always result in consolidation, but may result in de-consolidation of certain subsidiaries in some cases. Under Indian GAAP, two groups can consolidate the same entity, i.e. one group consolidates as it holds the majority ownership stake, whereas another group consolidates as it controls the board of directors. Under Ind AS, control can be held only by one entity.

Uniform Accounting Policies : Current Indian GAAP provides an exemption from the use of uniform accounting policies for the consolidation of subsidiaries, associates and joint ventures on the groups of impracticality. Ind AS does not provide such an exemption. This is likely to pose significant challenges, especially in the case of associates where the entity does not

have control over the associate. All entities will have to gear their system, or develop systems such as preparation of group accounting manuals, to ensure compliance with this requirement. On conversion to Ind AS, many group entities will have to change their accounting policies to bring them in line with the parent entity. Financial Year-Ends of All Components in the Group: Current Indian GAAP allows a maximum of six months between the financial statements of a parent and a subsidiary, and that of a venture and a joint venture. There is no time limit prescribed between the financial statement of an investor and an associate. Ind AS allows maximum of three months for subsidiaries, associates and joint ventures. On conversion to Ind AS, many entities may be compelled to change the year-ends of their group entities to comply with this requirement and to avoid reporting results at multiple dates.

IND AS 115-Revenue From Contracts With Customers : Key Differences

1. Ind AS 115 Revenue from Contracts with Customers is a comprehensive standard that deals with revenue recognition. It supersedes AS 9 Revenue Recognition and AS 7 Construction Contracts.
2. Ind AS 115 follows the control model where an entity shall recognize revenue when (or as) the entity satisfies a performance obligation byu transferring a promised good or service (i.e. as asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of and obtaining the benefits from, an asset.
3. IndAS 115 has introduced a five-step model with a single principle for recognizing revenue that applies to all contracts. AS 9 specifies different recognition and measurement criteria for varying streams of revenue. The five-step model comprises the following :

   Step 1 : Identify the contract(s) with the customer.
   Step 2 : Identify the separate performance obligations in the contract.
   Step 3 : Determine the transaction price.
   Step 4 : Allocate the transaction price to separate operformance obligations.

Step 5 : Recognize revenue when (or as) each performance obligation is satisfied.

4. IndAS 115, unlike AS 9 Revenue recognition requires revenue to be measured at the amount of consideration to which an entity expects to be entitled (rather than contractually specified) in exchange for transferring the promised goods or services.

5. IndAS 115 has introduced the concept of variable consideration. It takes various forms, including (but not limited to) price concessions, volume discounts, rebates, refunds, credits, incentives performance bonuses and royalties. An entity's past business practices can cause consideration to be variable if there is a history of providing discounts or concessions after goods are sold. AS 9 currently contains non guidance in this regard. An amount of consideration would be variable if either a products was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of specified milestone.

6. IndAS requires that revenue from rendering of services should be recognized over time by measuring progress toward completion. AS 9 provides an option to use either the proportionate completion method the completed service contract method for specified transactions for recognizing revenue from service transactions.

Impact On Financial Reporting

Multiple Element Arrangements : According to AS 9, revenue is measured by the charge made to customers or clients for goods supplied and service rendered and by the charges and rewards arising from the use of resources by them. In the absence of a fair value concept, it sometimes becomes difficult to determine revenue for a contract that contains multiple elements such as sale of goods and rendering of service. IndAS 115 prescribes that the transaction price in such arrangements must be allocated to each separate performance obligation, so that revenue is recorded at the right time and in the right amount. Under Indian GAAP, an EAC opinion deals with accounting in the case of multiple elements in a limited way.

Control Model : Ind AS 115 has introduced the control model to determine the point of revenue recognition. Management needs to determine, at contract inception, whether control of a good or service transfers to a customer over time or at a point in time. Arrangements where the performance obligations are satisfied over time are not limited to service arrangements.

Complex assets or certain customized goods constructed for a customer, such as a complex refinery or specialized machinery, could also be transferred over time, depending on the terms of the arrangement. Revenue is recognized over time if any of the following three criteria are met :

1. The customer simultaneously receive and consumes the benefits provided by the entity's performance as the entity performs :
2. The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, and
3. The entity's performance does not create and asset with an alternative use to the entity; and the entity has an enforceable right to payment for performance completed to date.

This model may have the highest impact for companies engaged in construction or real estate business. Since Ind AS 115 requires revenue to be recognized over time by measuring progress toward completion, entities that defer revenue based on the completed service contract method under AS 9 will experience a significant impact on their income statement. The volatility of the income statement will be streamlined by the application of Ind AS 115 and the profit or loss for the period will better represent the efforts put in by the entities during the period.

4.5 Attempts to Reduce the Differences

Attempts have been made at different levels to reduce the differences-in accounting and reporting practices. This is done by harmonization and convergence of differing accounting standards. Such reconciliation would enhance uniformity, comparability of financial information and make the financial statements useful for various stakeholders. Such reconciled or converged financial statements would be useful for decision making purposes Standardization of financial reporting is the process of ensuring uniformity. Standardization of accounting procedures improves comparability of financial statements, both intra-enterprise and inter-enterprise; inter-period comparability and thus make them useful for decision making purpose. Such comparisons are effective and a widely used tool for performance evaluation, risk assessment, performance assessment of corporate entities.

International Accounting Standard Committee (IASC) had formulated IAS since 1973 and these standards were used in different ways in different countries. Either they were adopted as national standards; or they were

used as a basis of comparison with the existing national standards; or they were used as inputs to the legislative process of regulating financial reporting practices.

Stop to Consider

As per the MCA, govt. of India, the corporate entities have been mandated to switch over from physical form of reporting and filing of returns to digital online reporting.

Steps Taken to Resolve the National Differences in Accounting and Reporting Practices

International Financial Reporting Standards (IFRS) principle-based regulations are becoming globally applied set of accounting standards, these will replace local GAAP for statutory reporting purposes. IFRS is a set of accounting standards, developed by the International Accounting Standards Board (IASB), London, that is becoming the global standard for the preparation and presentation of public company financial statement. IFRS is a 'principle-based' set of standards that establish board rules rather than dictating specific accounting treatments. In April 2001 the IASB adopted all IAS and began developing new standards called IFRS. Many countries have plans to converge (eliminate significant differences) their national standards with IFRS. The integrated business world under WTO regime is transformed into an economic village urging the need for inter-dependence among the nations in respect of trade, cross border capital movement, investment, exchange of goods and services, currency exchange and securities trading. This has created an urgent need for adoption of IFRS in place of domestic GAAPs specific to a country. Multinational companies are establishing their business across the globe; the securities of corporate entities are getting listed in various world class capital markets; capital markets are gradually getting integrated with world-wide trend. Sound financial reporting acquires added dimension to satisfy the information needs of various user groups; and to help the decision making process.

4.6 Need for Preparation of Uniform Consolidated Financial Statements :

With the absence of harmonization is accounting standards the additional cost of financial reporting along with the difficulties that multinational groups face in the manner in which they undertake transactions becomes critical. It is quite possible for a transaction to trigger profit under one accounting standard, whereas it may require a deferral under another standard. Thus, MNCs working in the USA and the UK face a great deal of complexity while preparing consolidated financial statements. When a multinational company has to report under the standards of both of the countries it might lead to some extremely odd results. Adoption of different accounting standards causes difficulties in making relative evaluation of performance of companies. This phenomenon hinders the valuation method and any financial decision relating thereto. Harmonization therefore is not an end by itself but it is a means to attain and end of uniform information system. Convergence of accounting standards yields a benefit in cross-border merger and acquisition facilitation.

4.7 Summing Up

- In general terms, convergence means to achieve harmony with IFRS; in precise terms convergence can be considered "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRS"
- The accounting standard setting bodies are looking to eliminate the national differences in accounting so that the financial statements from anywhere in the world can be easily read and understood by the business and financial communities
- A finance lease is a lease which transfer all the risks and rewards of ownership of the leased asset to the lessee (the party leasing the asset).
- Acceptance of a uniform accounting standards is a step towards reducing national differences in order to establish one uniform language of business so that all homogeneous enterprises speak in a homogeneous language

- Attempts have been made at different levels to reduce the differences-in accounting and reporting practices. This is done by harmonization and convergence of differing accounting standards. Such reconciliation would enhance uniformity, comparability of financial information and make the financial statements useful for various stakeholders.

4.8 Model Questions

1. Mention various factors that trigger national differences in reporting practices.
2. Discuss the attempts made to reduce such differences.
3. Highlight the needs of preparing a uniform consolidated financial statement.
4. Mention the words and terms that need to be carefully noted while attempting to reduce the national differences.

4.9 References and Suggested Readings

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