Indian Accounting Standards & International Financial Reporting Standards (Ind AS) vs (IFRS)

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Abstract: ***In order to have uniform accounting standards across the globe Indian companies are converging towards IFRS and adopted Ind AS. By the year 2020-21 all the companies will have these standards. Companies need to prepare balance sheet, P&L, cash flow and notes in accordance with Ind AS. A new grouping called Financial Assets and liabilities; A statement of changes in equity has been included. The Profit and Loss statement will show income and expenses for the year along with a "statement of other comprehensive income".***

Keywords: Financial Assets and liabilities, other comprehensive income, financial instrument, non controlling assets

1. Introduction

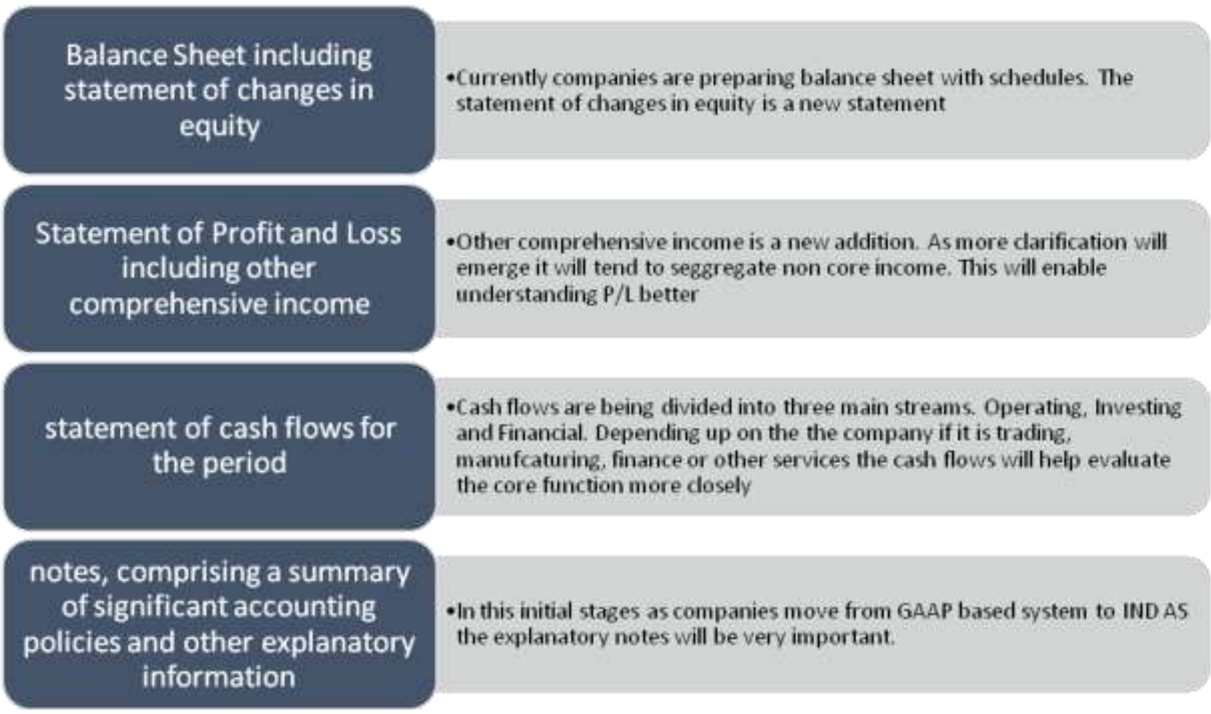
Until now Companies in India were adopting the accounting standards GAAP However, these financial statements could not be easily compared internationally as each country had its own norms. it has become necessary to have uniform accounting standards across the world called International Financial Reporting Standards (IFRS). India has adopted Indian Accounting Standards (Ind AS) that are based on and are **substantially converged** with **International Financial Reporting Standards (IFRS).**

The Ministry of Corporate Affairs has published the following time lines for adoption on Indian Accounting Standards converged with IFRS.

Financial Year	Applicable to
2015-16	Voluntary adoption permitted only for companies (other than Banks/NBFCs/Insurance companies).
2016-17	Companies whose net worth is >= INR 500 crore. Holding, subsidiaries, joint venture or associates of above companies.
2017 -18	Unlisted companies whose net worth is >= INR 250 crores<= Rs 250 crores and all listed (debt or equity is listed) companies Holding, subsidiaries, joint venture or associates of above companies.
2018 – 19	When a company's net worth crosses INR 250 crore commercial banks, and non-bank finance companies`
2020-21	Insurance Companies

IndAS 1 – Presentation of Financial Statements

This standard specifies the components and structure of Financial Statements prepared in accordance with Ind AS.
The following statements comprise the Financial statements of a firm in accordance with Ind AS



Some of the important changes that companies will have to bring about in the financial statements are

1) Currently the Balance Sheet displays the assets and liabilities in the order of liquidity into Non Current and Current. A new grouping called Financial Assets and liabilities has been included following the adoption of the accounting standard on Financial Instruments (Ind AS 109).
2) Items included under equity shares under Indian GAAP may be reclassified as debt and similarly items included under debt under Indian GAP which exhibit characteristics of Equity may be reclassified as Debt. (see details under Ind AS 109).
3) Minority interests which were earlier displayed in between Equity shareholders funds and long term liabilities have been re labelled as non-controlling interests and made a part of Total Equity.
4) A statement of changes in equity has been included as part of financial statements. This statement is primarily a reconciliation between the carrying amount of the various components of equity and reserves at the beginning of the period to the value at the end of the period. This information were, in the case of companies, provided in notes in the form of schedules to financial statements before adoption of Ind AS.
5) The Profit and Loss statement will show income and expenses for the year along with a "statement of other comprehensive income". Essentially this is to segregate non-operation income and its impact on the performance of the company. The standard also specifies the items that should be included in the statement of Other comprehensive income. Further certain specified items are divided into those that may be reclassified on realization to profit and loss and those that may not
6) The following list provides the detailed list of items with their classification.

2. Other Comprehensive Income (OCI)

Items that will not be reclassified to Profit or loss:

- Revaluation of property, plant and equipment
- Defined benefit plan actuarial gains(losses)
- Gains or losses on equity instruments classified as fair value through OCI
- Share of OCI of associates that may not be reclassified to P&L
- Tax impact on above

Items that may be reclassified to Profit or loss:

- Net loss on hedge of investment in foreign operations
- Foreign currency translation difference on foreign operations
- Gains or losses on Debt instruments measured at fair value through OCI
- Tax impact on above

In view of this there will be definite change in the profit that has been declared in the past and in future. The notes to account will have to, initially explain these changes.

Changes from Indian GAAP–

The significant changes from the credit management perspective in presentation of financial statements are:

1) Classification of items in the Balance Sheet with a new categorization of financial assets. Further details on this have been provided in the section on Financial Instruments.
2) Inclusion of a statement of Other Comprehensive Income – this statement includes additional information about the affairs of the company. An analyst may continue to use the Net Profit after tax (before OCI) for computation of ratios. However, he/she should review the statement on OCI to observe areas of potential loss to the company.

From credit appraisal point of view financial statements are important to

a) Assess the performance of the company
b) Assess if the company is growing or improving its position with reference to past performance
c) To compare the financial performance (through ratios) with other similar companies in the industry to find strength and weakness and finally
d) If the company or firm meets with threshold eligibility criteria such as debt equity ratio, debt service coverage ratio etc.

3. Conclusion

A change in the accounting policy or any modification in the grouping of accounts or valuation of assets and liabilities will have impact for all the above objectives. IND AS on implementation might give some benefits to the companies. Appraiser has to be careful about the items that will impact the quality of credit and also issues that will impact important ratios. It should also be noted that, normally the impact will be more in the first few years of implementation of IND AS.

Another issue is that companies will initially adopt those standards that are favourable to them. As a lender banks have a say on matters which will impact the credit quality and should not hesitate to take up issues with the company to ensure that bank interest is protected.

References

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