IFRS & Indian GAAP: A Comparative Study

Dr. Manohar K. Sanap
Assistant Professor of Commerce, Ness Wadia College of Commerce, Pune-411001

Introduction:

International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB). There are many jurisdictions which have adopted IFRS with very few modifications and thus described accordingly e.g. IFRS has adopted by EU, Australia, Japan, China, USA etc. However, in international parlance, the term IFRS refers to pronouncements issued by International Accounting Standards Board. Until Ind-AS is mandatory, the present framework of Accounting Standards, Interpretations, Guidance Notes and various Industry practices are collectively referred as Indian GAAP. Ind-AS refers to converged standards notified by NACAS. In all 35 standards have been notified till date, however, the implementation date is yet to be notified. Alternatively you can describe Ind-AS= IFRS as issued by IASB less carve outs add IFRS pronouncement being adopted in Ind-AS. This paper makes the comparative study of IFRS & Indian GAAP.

Key words: *IFRS, Indian GAAP, IASB etc.*

Objectives of the paper:

The objective of this is to make a comparative study of IFRS and Indian GAAP.

Methodology:

In order to attempt thispaper, important contributions in the subject through important books, journals, magazines, and Internet have been used.

Comparative Study of IFRS and Indian GAAP:

1) **Guidance on identification, classification, recognition and measurement:**
IFRS provides extensive guidance on identification, classification, recognition and measurement of financial instruments. Under IFRS financial assets are classified under four categories: a) financial asset at fair value through profit or loss b) held to maturity, c) loans and receivables, and d) available for sale financial assets. Financial liabilities are recognized at fair value through profit or loss and all others. Whereas, Indian GAAP: there is no comprehensive guidance on accounting of financial instrument. However, ICAI has approved standards on financial instruments similar to IFRS from 1st April, 2011 which are recommendatory in nature.
2) **Basis of Classification:**
IFRS classification of financial instrument as financial liability or equity would depend mainly upon substance of the contractual agreement and Indian GAAP classification is based on the form rather than substance of the agreement. For e.g. under Indian GAAP preference share capital is consider as equity which may not hold true under IFRS where it may be treated as financial liability or equity depending upon the contractual arrangement. Further, under IFRS, if an instrument has both a liability component and an equity component, the issuer is required to separately account for each component. Under Indian GAAP there is no specific guidance but accounting follows the form rather than substance.
3) **Repurchase of own share:**

IFRS, if an entity repurchases its own shares, such shares are considered as treasury shares and are shown as deduction from shareholders equity. Whereas Indian GAAP, there is no specific standard for accounting of such transactions under Indian GAAP. When the shares are repurchased they are cancelled and cannot be kept as treasury stock.

4) **Guidance on accounting for business combination:**
IFRS provides extensive guidance on accounting for business combination and requires looking beyond the legal form of the transaction. All business combinations, within the standards, are considered as acquisitions and accounted using the purchase method. And Indian GAAP, there is no comprehensive accounting standard and the accounting is driven by legal form and often the court order in case of merger. Business combinations can be accounted using the pooling of interests method, if it meets certain criteria or the purchase method.

5) **Contingent consideration:**
IFRS contingent consideration which depends upon future event, such as achieving certain sales target, profit levels, etc. is required and estimated and is included as a part of the acquisition cost if it is probable and is recognized initially at fair value as either financial liability or equity. Whereas Indian GAAP contingent consideration is considered at the date of acquisition if the payment is probable and a reasonable estimate of amount can be made.

6) **Acquisition date:**
IFRS, acquisition date would be the date on which the acquirer effectively obtains control of the acquire. And Indian GAAP, acquisition date has not been specifically defined. In case of amalgamation or acquisition of business, it is the date prescribed in the court scheme.

7) **Property, plant and equipment measurement:**
Under IFRS, these are measured at an amount paid or fair value of other consideration given to acquire an asset at the time of acquisition or construction.Whereas, under Indian GAAP similar to IFRS except in certain cases where there is no specific guidance available. Such situations are accounting of site restoration obligations, asset acquired on deferred term basis etc.

8) **Component accounting:**
IFRS requires component accounting of fixed assets where each major part of item of property, plant and equipment is depreciated separately. This depreciation is allocated on systematic basis over its useful life, reflecting the pattern in which entity consumes the assets benefits. And Indian GAAP, no specific concept of component accounting and in practice, entire asset is depreciated at a flat rate of depreciation based on the useful life determined by the management and in many cases based on rates given in Schedule XIV of the Companies Act, 1956 which provide minimum rate of depreciation for companies.

9) **Changes in method of depreciation and estimation of useful life:**
IFRS change in method of depreciation and estimation of useful life of assets are treated as changes in estimation and accounted prospectively in the financial statement. Whereas Indian GAAP, change in method of depreciation is accounted by retrospectively computing depreciation under new method and impact is recorded in the period of change i.e. it is treated as change in accounting policy. Accounting of changes in estimation of useful life is similar to IFRS i.e. prospectively.

10) **Functional currency and presentation currency:**
IFRS, all the entities are required to identify and determine its functional currency and presentation currency. Selection of functional currency has a direct impact on the treatment of exchange gains on the financial results of the entity. And Indian GAAP does not have the concept of functional currency and presentation currency. It assumes an entity's reporting currency would be the currency in which it is domiciled.

11) **Accounting of exchange gains and losses arising from translation:**

IFRS exchange gains and losses arising from translation of all monetary assets or liability are recognized immediately in profit and loss account except to the extent meets the definition of borrowing cost. Whereas Indian GAAP, if the long term foreign currency item relates to other than an acquisition of depreciable capital assets, the entity has an option to accumulate such difference “foreign currency monetary reserve” and if the long term foreign currency item relates to acquisition of depreciable capital assets, exchange difference can be added or deducted from such capital asset.

12) **Share based payment transactions recognition:**
IFRS requires an entity to recognize share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets or equity instruments of the entity. Fair value method is required in almost all circumstances. And in the Indian GAAP, there is no specific standard which explains the accounting of share-based payment transaction. Mostly accounting is done based on guidance note issued by ICAI and SEBI guidelines for listed entities which is applicable to employees. Intrinsic value method is widely applied practice and considering the nature of ESOP schemes, in most cases, it does not result in any charge in the statement of profit & loss account.

13) **Stock options issued by foreign parent company:**
IFRS, stock options issued by parent company to the employee of the subsidiary need to be assessed in the books of subsidiary i.e. whether it would be equity settled or cash settled share based payment transactions.Indian GAAP most of the equity settled arrangements are yet to the brought in specific framework of accounting.

14) **Coverage of related party:**
IFRS related party covers close members of the family of an individual referred to as key management personnel or a party who exercises control or significant influence. And Indian GAAP covers only relatives of key management personnel.

15) **Coverage of post-employee benefit:**
IFRS related party covers close members of the family of an individual referred to as key management personnel or party who exercises control or significant influence.
Indian GAAP covers only relatives of key management personnel.

16) **Coverage of post-employee benefit:**
IFRS, post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity is a related party under IFRS. Whereas Indian GAAP does not specifically identify employee benefit trusts as related parties.

17) **Coverage under key management personnel:**
IFRS covers executive as well as non-executive directors in the definition of key management personnel. Also, it covers key management personnel of the entity as well as its parent. And Indian GAAP the term key management personnel as defined under AS 18, does not include non-executive directors, unless they have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.

18) **Consolidated financial statements-special purpose entities:**
IFRS, special purpose entities should be consolidated when the substance of the relationship between entity and SPE indicates that the SPE is controlled by that entity. Whereas Indian GAAP, no specific guidance.

19) **Presentation of non-controlling/minority interest:**
IFRS, non-controlling interests are presented as component of equity. And Indian GAAP, minority interests represented separately from liabilities and equity.

20) **Allocation of losses by subsidiary:**
IFRS, losses incurred by subsidiary have to be allocated to non-controlling interests, even if this results in deficit balance of non-controlling interest. Indian GAAP losses exceeding minority interest in the

equity of the subsidiary have to be adjusted for the minority interest, except to the extent that the minority interest has a binding obligation to, and are able to make good the losses.

21) Interest in Joint Venture:
IFRS, interest in joint venture is accounted either by using proportionate consolidation method or equity method. Indian GAAP only allows proportionate consolidation method.

Conclusions:

International Accounting Standards Board (IASB) has adopted International Financial Reporting Standards (IFRS) which is a standardized format of financial reporting. Consistent, comparable and understandable financial information is requirement of commerce and making investment. The main purpose to global harmonization of accounting standards is to overcome the problem of comparability of financial statements across the country. The main fascination with adoption or convergence of IFRS is sound business sense. Looking at the present scenario of the world economy and the position of India convergence with IFRS can be strongly recommended. But at the same time it can also be considered that this rather require change in formats of accounts, change in different accounting policies and attempt to understand the concept, objective and benefits of convergence with IFRS and explores the way how we converge the Indian GAAP with IFRS.

References:

Ball R. (2008) “What is the Actual Economic Role of Financial Reporting” available at http://ssrn.com.

CA KoosaiLehery& CA AniruddhaGodbole, “Impact of IFRS on Reported Results of Companies-A Sectoral Analysis”, The Chartered Accountant Journal, The Institute of Chartered Accountants of India, Volume 62. No. 3, September, 2013.

CA Rakesh R. Agarwal, “Comparision of IFRS, Indian GAAP and IND AS-Simplified, The Chartered Accountant Journal”, The Institute of Chartered Accountants of India, Volume 62. No. 3, September, 2013.

http://www.article base.com/accounting-articles/working towards a Global Convergence of Accounting Standards.

IFRS: A quick reference Guide by Robert Krikhttp://icai.org/resource.

Michel Blanchette, Francois-Eric Racicot “Effects of IFRS on Financial Ratios: Early Evidence in Canada, Certified Accountant Association of Canada.

Mingyi Hung, K. R. Subramanyam (2004) “Financial Statement Effects of Adopting IFRS: The Case of Germany available at http://ssrn.com.

ShobanaSwaminathan, Dr. Sindhu (2011) “Financial statement effects on convergence to IFRS-a case study in India”, International Journal of Multidisciplinary Research Vol. 1 Issue 7, November, 2011.

Stent W. Bradbury M. and Hooks J. (2010) “IFRS in New Zealand: Effects on Financial Statements and Ratios”. Pacific accounting Review, Vol. 22, No. 2, pp 92-107.

******