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Differences Between Ind AS and IFRS: Can Full Convergence Ever Occur Between the Two?

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Abstract:

Since the turn of the millennium, there have been various attempts by Indian regulators as well as the government to converge the current accounting system in India (tentatively called Indian GAAP) to a system similar to IFRS, considered today to be the prevalent worldwide set of accounting standards. Indian GAAP has had its fair share of criticism, the most telling being that it avoids the principle of substance over form in various topics in its literature. The first announcement of a plan to converge came in July 2007. While suffering various setbacks through delays in recent years, the current roadmap indicates that certain companies will have to mandatorily adopt Ind AS (Indian Accounting Standards) next year. When assessing the major differences between Ind AS and IFRS to evaluate whether complete convergence can ever be possible, most differences are either avoidable or textual in nature. Three major potentially irreconcilable differences occur in the topics **IND AS 19: Employee Benefits, IND AS 32: Financial Instruments – Presentation** and **IND AS 103: Business Combinations**. While it can be concluded that complete convergence can indeed be possible one day, it would benefit Indian entities to have a slow route to convergence in order to maintain a sense of comparability in their financial statements from Indian GAAP to Ind AS.

Abbreviations:

Ind AS – Indian Accounting Standards

ICAI – Institute of Chartered Accountants of India

MCA – Ministry of Corporate Affairs

IFRS – International Financial Reporting Standards

GAAP – Generally Accepted Accounting Principles

IASC – International Accounting Standards Committee

IASB – International Accounting Standards Board

IASCF – International Accounting Standards Committee Foundation

IAS – International Accounting Standard

ASB – Accounting Standards Board

NFRA – National Financial Reporting Authority

NACAS – National Advisory Committee on Accounting Standards

FRRB – Financial Reporting Review Board

RBI – Reserve Bank of India

IRDA – Insurance Regulatory and Development Authority

SEBI – Securities Exchange Board of India

QARC – Qualified Audit Report review Committee

ESMA – European Securities and Markets Authority

IFAC – International Federation of Accountants

IOSCO – International Organization of Securities Commission

FASB – Financial Accounting Standards Board

OCI – Other Comprehensive Income

FCCB – Foreign Currency Convertible Bond

Table of Contents

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Chapter 1: Introduction

On January 18, 2011, the Institute of Chartered Accountants of India (ICAI) announced their intention to converge with IFRS by issuing an exposure draft calling for the release of 35 Ind AS' (Indian Accounting Standards). After consultation from the Ministry of Corporate Affairs (MCA), the roadmap of convergence began. These standards were designed using the 'Framework for the Preparation and Presentation of Financial Statements', prepared by the ICAI, as a reference point. (ICAI, 2011) It is a decision that is sure to benefit India in the future. IFRS adoption is heavily widespread, with around 141 countries permitting or requiring it either completely or in part according to a 2014 study by PwC. (PwC, 2014)

With India enjoying high economic growth and added importance as a burgeoning superpower in the world, there is a growing need for adherence to international standards of business. The convergence to IFRS was going relatively slow in India until the Parliament passed the new Companies Act, requiring the preparation of consolidated financial statements. (MCA, 2014) This has urged the ICAI to make a concrete roadmap, which it recently finalized during its council meetings on March 20-22, 2014. The details of the roadmap to convergence will be discussed in detail later.

Before continuing this thesis, it is important to define the terms harmonization, standardization and convergence. Convergence is the process of bridging gaps between two different entities, in this case being IFRS and the country trying to adopt it. According to Christopher Nobes, harmonization is "a process of increasing the compatibility of accounting practices by setting bounds to their degree of variation". If everything is completely compatible, a state of harmony is reached. Nobes defines standardization as “working towards a more rigid and narrow set of rules.” (Nobes & Parker, 2010, p. 75) It wouldn’t be erroneous to state that both the terms are similar. IASB, the body that produces IFRS, has worked towards worldwide harmonization of accounting standards since its inception.

A cautionary tale regarding the need for a uniform set of accounting standards is the Asian financial crisis in the late 1990s. Investors believed that Thailand would no longer be suitable for foreign investment and took back their money, creating an economic crisis. A contagion effect occurred in countries like Indonesia and South Korea, nations with similar economies to Thailand due to their trade links. (Walker, 1998) Indonesia suffered heavily in the crisis despite having a healthy economy. A universal set of accounting standards could have gone some way to stopping it, as the investors would have made better decisions regarding their money.

Today, the general consensus is that there is a need for a uniform set of accounting standards system worldwide. There are various advantages and a few disadvantages to this. For India, acknowledgement of convergence to IFRS will give them access to capital markets that were previously not available to use for them. Stock appraisers and financial analysts from different countries will now be able to analyze Indian firms due to their comparability. Convergence to IFRS gives investors and analysts added confidence to make the right choice when it comes to investment decisions. This, in turn, could result in reducing the cost of capital. Another advantage lies in the fact that India receives a lot of FDI due to the increased prevalence of multinational corporations. India’s status as a growing superpower attracts many MNCs. Comparable financing reporting will be beneficial for both the MNCs involved and India as well. The work of MNC accountants would be much easier if all the countries had similar financial statements. In most cases, MNCs operate in countries using IFRS as a benchmark. Knowing that India has agreed to converge could create interest from more MNCs to set up operations in India. It will also be easier for MNCs to move their financial staff to different countries because of the comparability.

Despite an overwhelming gamut of positives resulting from convergence to a universal set of standards, there remain a few disadvantages. IFRS still has not been able to achieve an accord with the United States and their use of GAAP. Indian companies will not be able to access the United States' vast capital market unless it writes statements that conform directly to IFRS. Another disadvantage is that every country has a specific reason for using financial reporting. Some use it for tax purposes, some for obtaining capital. Complete harmony is hard to achieve due to the individual prerogatives of each country when it comes to their financial reporting. This is one of the reasons why IASC didn't achieve that much support in the Eastern European countries as well as Japan before it became the IASB. (Nobes & Parker, 2010, p. 84) MCA's roadmap is facing some delays primarily due to tax issues, an example of how it is hard to achieve standardization in every country. There are already various differences between Ind AS and IFRS in order to accommodate India's economic climate.

The question to my thesis is this: *Can complete convergence occur between Ind AS and IFRS?* If not, I plan to segregate the various differences into either textual differences, avoidable differences or potentially irreconcilable differences. The latter facet is what needs to be discussed and dissected.

Chapter 2: History of Indian Accounting and IFRS

Part A: History of Indian Accounting

It would not be an erroneous statement to suggest that India is one of the countries in which it is most difficult to impose a uniform set of accounting standards. To start with, the Eighth Schedule of the Indian Constitution lists 22 languages spread among 29 states. (MHA, 2006) Each of these states differs by culture and business practices. Independence from colonial rule gave accommodation to these various needs. Indian's colonization by the British through the East India Company imposed an almost identical pattern of accounting rules and financial reporting before independence, seen by Claire Marston's research of financial reporting in India. (Marston, 1986) Before the East India Company arrived in India and exerted control in the 18th century, there is not much literature on accounting practices used by the various empires that ruled India.

One of the various figures I researched about regarding ancient accounting involved a professor by the name of Vishnugupta Chanakya Kautilya. He was known for shaping various events in Indian history, one being the destruction of the tyrant (*Nanda*) rule of India and starting the Mauryan Empire during 4th century BCE. It was during this time that he wrote a book called the *Arthashastra*, a book divided into 15 parts and subsequently divided into 150 chapters. The *Arthashastra* is known in history for containing progressive elements of government organization and in particular accounting. In the book, Kautilya describes the need for an accurate measurement of economic performance for the process of economic growth. In order words, Kautilya found accounting to be an integral part of economics. He "developed not only bookkeeping rules but also the procedures for preparing periodic income statements and budgets and performing independent audits.” (Sihag, 2004, p. 132)

What is so shocking about this book is the fact that many of Kautilya’s teachings still hold true today. He believed in a set of uniform standards in order to estimate expected profits for the future for businesses. He realized “that in the absence of uniform standards and accurate measurement of economic performance, resources could not be allocated efficiently – measurement errors (whether inadvertent or deliberate) led to the mal-allocation of resources.” (Sihag, 2004, p. 137) Throughout his life, he tried to implement rules of ethical accounting and independence to the public of India. One of the revolutionary acts he enforced to limit conflict of interest was to create two separate offices of Treasurer and Comptroller-Auditor, with no scope of corruption or malfeasance. (Sihag, 2004, p. 141) It is a shame that all of these teachings that Kautilya tried to instill in the Indian environment slowly eroded. There is some evidence that India regained its importance to accounting before colonization by the British. This can be traced back to when India was the hub of the silk route, with accounting systems required to be at play for effective trading with people from the East and the West. (Perumpral, 2009)

The colonization by the British brought forth stringent rules of accounting to the subcontinent similar to those used back in their own country. The British’s primary prerogative with India was revenue collection, which was achieved through taxes and land fees. The uniformity of accounting made it simpler for the British to collect money from the natives and centralize it so that it could go back to the home country. However, increasing nationalism combined with bipartisanship led to the end of British colonial rule in India during 1947. With independence came leeway to assimilate to the various accounting needs of different parts of India. However, less stringent rules led to the formation of large businesses unwilling to disclose financial information for a gamut of purposes such as presence of false reporting, fear of competition and other privacy-related reasons. This led to the enactment of the Companies Act in India during 1956, which allowed the formation of enterprises through a set of rules. The Act has been amended several times and was replaced in 2013 by a new Companies Act, based on what ICAI was trying to accomplish with Ind AS and the roadmap. Examples of amendments of the old Companies Act include 1969, which brought requirements of a cost audit, as well as 1971 and 1973 (extension of disclosure rules). (Perumpral, 2009)

The biggest problem with standardization of accounting standards in the Indian economy is the vast majority of the population living in the rural areas. While urbanization has been rapid in India during recent decades, a large proportion of the nation still resides in the villages. After all, India has a population of 1.252 billion, received through a 2013 survey of the World Bank. Standardization of the rural areas started gathering steam in the late 1980s with the formation of the *Panchayat* system by Rajiv Gandhi. This grass roots program gave each of the village chiefs the power of financial and political administration in the area. The centralized nature of this program made it a success in standardizing the rural parts of the region.

The progress of the Indian economy came onto a whirlwind of worldwide recognition during 1991 after it implemented major changes in the business environment of the nation. Before this, Gernon's conformity index saw India's accounting standards in the 1980s with the IAS to be 56%, the fifth lowest among the countries represented.

(Perumpral, 2009) Manmohan Singh, then the finance minister of the country, urged the country to adhere to pressures of the International Monetary Fund (IMF). The IMF urged India to cut back on governmental interference and excessive taxes in the business sector, opening up these companies to foreign investment and growth opportunities from abroad. Parts of the public sector were also privatized to successful effect. Multinational companies also began extensive operations in India, a beneficial act to these companies due to the cheap labor India possessed. These progressive changes made India an exporting superpower in areas such as software, industrial and consumer goods.

While all these factors stimulated harmonization to standards by the IASB, the cultural environment of India prohibited certain rules that weren't conducive to their business environment. The old Companies Act did not requirement consolidation until April 2001, allowing all businesses to list their subsidiaries as investments. (Perumpral, 2009) This was a misrepresentation of a company's economic substance despite adhering to legal form. It betrayed the basis of the substance over legality principle that the IASB employs.

The board at the forefront of accountancy setting in India is known as the ICAI (The Institute of Chartered Accountants of India). It was established in 1949 as part of the Chartered Accountants Act. The ICAI works in conjunction with the MCA (Ministry of Corporate Affairs) when it comes to passing and implementing accounting standards in the country. The ICAI has an Accounting Standards Board (ASB) to develop standards. The MCA, therein, contains the NFRA (National Financial Reporting Authority), which assesses the standards the ASB conjures and submits them to the Central Government with accordance to the Companies Act. The NFRA came about after the New Companies

Act, replacing the NACAS (National Advisory Committee on Accounting Standards) in 2013. (ESMA, 2014)

Along with the presence of the ASB in the ICAI, the organization has also set up a Financial Reporting Review Board (FRRB). The function of this board is to review financial statements of all listed and non-listed entities. While this may seem like a strenuous job, the reverence that the ICAI enjoys in the Indian business market helps the board's case. This brings about the question of how India regulates these standards. ICAI handles some of the regulation itself but also outsources it to other organizations. Regulators of various factions of the economy act in accordance with the standards issued by the ICAI. The RBI (Reserve Bank of India), regulator of all the banks in India, requires that banks comply with the ICAI standards. A similar case occurs for insurance companies, as the IRDA (Insurance Regulatory and Development Authority) fulfils the same function in adhering to ICAI standards. While the SEBI (Securities Exchange Board of India) regulates the listed companies located in the securities exchanges of India, the MCA handles unlisted ones. The FRRB looks at serious non-compliance and outsources any necessary action to the respective enforcement bodies. When it comes to serious problems with auditor independence and falsified audit opinions, the case is thereby referred to the Director of the ICAI. (ESMA, 2014)

Since the SEBI handles listed companies, there is a need to make sure standards are followed exactly as the ICAI requires. For this, the SEBI has adopted a review board of its own, the Qualified Audit Report review Committee (QARC). The QARC and the FRRB work in union to make sure the financial statements of these companies are in order. These home-grown listed companies, along with MNCs, form the backbone of an

Indian economy which is set to prosper in the next few decades because of its relatively young population. (ESMA, 2014)

Until 2007, the strong culture of India obstructed the adoption of IAS' in its economy. In March 2007, the Press Trust of India reported that "India had adopted only 21 IAS in comparison to the 47 IAS adopted by several developed countries." (Perumpral, 2009) This led to the ICAI announcing a plan in July 2007 to convergence all its standards to IFRS. While this led to the perceived achievement of harmonization, the ICAI insisted on the importance of continuing to adhere to Indian traditions. The ICAI indicated that certain modifications would have to be made in regards to factors such as additional disclosures, etc. The partial conformation to IFRS would lead to India's competitive position being improved in world markets. However, harmonization remains extremely difficult for a country like India. This is seen by the fact that convergence towards IFRS has seen several delays already, with the date of effectiveness being pushed back multiple times. A report from ESMA in 2014 indicated that there were more significant differences from IFRS than envisaged earlier. Some of these differences also constitute as severe departures from the norms and rules that IFRS expects. One of the big reasons for the incessant delays is that there is a lack of experience in India regarding enforcement of IFRS amongst the companies. India's government was also not helping in sorting out the differences as they refused to make much public discourse regarding the harmonization of these growing differences. The ICAI has been helpful in recognizing the need to train their auditors to audit for Ind AS. However, the continuance of delays in the roadmap makes these skills valuable only in a theoretic nature for now. The roadmap of the plan is described in the next chapter in extensive detail. Before that, an extensive examination regarding the evolution of the IASB is required.

Part B: The evolution of the IASB

The International Accounting Standards Board (IASB) is based in London and its standards, the International Financial Reporting Standards (IFRS), are considered to be the world's most prevalent set of accounting standards. The IASB was started in 2001 as the operating arm to the International Accounting Standards Committee Foundation (IASCF), the successor to the International Accounting Standards Committee (IASC), an organization that is considered the body that started the wheels in motion for international harmonization to be achieved. (Nobes & Parker, 2010, p. 92)

The IASC's inception began in 1973 by the respective accounting bodies of nine different countries, respectively "Australia, Canada, France, Japan, Mexico, the Netherlands, the United Kingdom with Ireland, the United States and West Germany." (Benson, 1979) Sir Henry Benson, former senior partner of the organization that would now be part of PricewaterhouseCoopers, was instrumental in this organization coming together. The IASC was started with the basic aim "to formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance" (IASC, 1992). It published a conceptual framework filled with various topics in accounting. With the process of trial and error, it set about publishing the best possible worldwide standards for these topics. The IASC's *Constitution* allowed it to contain a maximum of 17 board members, where the organization got most of its budget from. The other countries in

IASC also paid for subscription, another source of income for the organization. Donations and revenue from their various publications were other sources. (Nobes & Parker, 2010, p. 79)

The IASC began as an organization independent of any other, but this quickly changed with the formation of the International Federation of Accountants (IFAC). The IFAC worked in congruence with the IASC, and this worked because of no overlap in aims between the two. The IFAC's work is three-fold. Firstly, it sets international standards for auditing, ethics, education and management accounting. Secondly, it involves itself in technical research and education for each of the bodies it represents. Thirdly, and finally, it organizes an international congress of accounting every four or five years. The first ever congress of such sort began in 1904 at St. Louis. (Nobes & Parker, 2010, p. 88) There remains controversy over IFAC's attempts to take over the IASC in the 1980s. Two cases have been noted during that decade in which the IFAC wanted the IASC in its operations through a merger.

The separation of duties between the IASC and the IFAC led to an almost identical membership between the two when the IASC was reforming towards changing to the IASB at the turn of the millennium. The reform to the IASB came at an advantageous time for the organization, as Europe had just announced in 2000 that EU listed companies had to adopt IAS' by 2005. The EU was seeking an alternative to US GAAP and IASC seemed like a good option. Another event that helped the IASC at that time was the IOSCO (International Organization of Securities Commissions) endorsed IASs for its members. This monopoly in Europe gave the IASC a worldwide image of being the leading accounting standard setter of the world. Therefore, the IASB started off its operations amidst much interest from the entire world, as harmonization had become a norm at that point.

A factor to be considered is whether the IASC was considered a success before its change to IASB. The answer to this question is multi-faceted, as the IASC itself is an organization with various aims. We use Nobes' analysis to determine whether it was a success in its aims. When it comes to the publishing and issuance of standards, the IASC was an unequivocal success. A total of 41 standards were issued by the IASC during its time, along with subsequent amendments and other publications. The standards were criticized for their excessive range of options early on, but the IASC sought to smooth out these differences over time. During the 1990s, these differences became minimal in countries fully adopting IASC's standards. The controversy comes when it comes to the aim of promoting and observing standards, as this was out of the organization's control. It was up to the individual companies in the respective countries that adopted the framework of the IASC to determine whether the IASC had been truly successful in that regard.

According to Nobes, the IASC proved to be a big success in developing countries, particularly those countries with a history of British colonial rule, such as Malaysia and Singapore. Adopting the framework of the IASC proved to be a better alternative than writing and preparing standards of its own. This process also gave their home companies opportunities to be noticed abroad. However, this was not the case for every single developing country, particularly those without previous Anglo-Saxon influences. Despite this, countries like China and Russia benefitted heavily from the IASC. The organization was gathering steam at a point where both wanted to revert from communist to capitalist economies. The framework of the IASC allowed a quick and simple solution to this matter, allowing a rapid formation of a business environment which was conducive to world standards.

The IASC also proved to be a success to capital market countries such as the United States and the United Kingdom, as many of the IAS' are derived from principles similar to their respective accounting systems. In fact, it wouldn't be erroneous to state that the IASC was a way for these countries to gain influence over the world. Harmonization allowed them to have the confidence to invest in companies from countries they previously did not have any information about. Most multinational companies today originated from these countries and the IASC helped them stamp their authority all over the world.

The areas where the IASC received some sort of criticism are continental Europe and Japan. They saw the IASC as "a Trojan horse concealing the Anglo-Saxon accounting enemy inside a more respectable international façade". (Nobes & Parker, 2010, p. 84-85) Many of the standards of the IASC were not congruent to their own business environment. Some of these countries saw accounting as a by-product of tax collection, meaning that elements such as fair information and substance over form were alien to them.

The IASC accommodated these concerns, and there was little resistance from these countries after that. For one, the IASC had a large representation on their board of members not belonging to Anglo Saxon countries. This meant that their concerns could be well raised at the organization. The IASC's progress also came at a time of increasing globalization, which meant that companies in these countries were interested in raising finance overseas. Adhering to the rules of IASC made it possible for these companies, especially the ones arising from Germany and Japan. Another factor that made these countries get on board with the IASC was the fact that the other alternative would be to succumbing to US GAAP if they wanted to achieve their goals. Aligning towards principles incorporated by the US seemed an extremely undesirable option for each of their respective governments. Conforming to the IASC seemed to be a much more popular alternative for them. (Nobes & Parker, 2010, p. 85)

As mentioned earlier in the section, the IOSCO's approval was imperative to the IASB generating a lot of worldwide interest. It is interesting then to realize that a big reason for IASC's restructuring was to gain support from the IOSCO. In particular, the SEC required restructuring to believe that the IASC was to continue as the world's leading standard setter. The SEC's demands to the organization indicated that it had to be small, independent and prone to succumb to due process. Another requisite from the SEC was that the board be chosen mainly by technical expertise, not geographical origin. The EU disagreed with some of these aspects, such as the absence of part-time workers and geographical origin not being considered. The change towards IASB started with the setup of a Strategy Working Party by the IASC, where top members in the organization met to propose a more effective body for standard setting. The resulting makeup of the IASB seemed to comply more towards concerns placed by the SEC. It was untenable to think that the world's prevailing set of accounting standards would receive no support from the world's leading capital market.

The new design consisted of a 19 member board of trustees from diverse backgrounds, both in terms of geography and occupation. As a compromise to both the

SEC and the EU, the trustees would elect a Board with 12 full time members as well as 2 part time members. According to Nobes, as a salute to the demands of the SEC, "foremost qualification for Board membership would be technical expertise" and "selection of Board Members would not be based on geographical representation". In May 2000, all of the IASC's members had approved of this new formation, resulting in the slow death of the IASC.

The IASB ended up being an upgrade on the IASC, meaning that they achieved most of the things they wanted to from the change. The first step taken by the IASB was called the Norwalk Agreement, where the IASB and the FASB worked to reconcile differences between IFRS and US GAAP so that the United States capital markets would allow listed companies to have IFRS as their standard without reconciliation. This process is still ongoing, as IASB Chairman Hans Hoogervorst recently implied that there is still a while to go for reconciliation. He also said that once these individual reconciliations were solved, the market would need time to react to these changes. (IFRS, 2011) The IASB also received a huge boost in its aim of harmonization when close to 8,000 firms in the EU switched from their national GAAP to EU-endorsed IFRS. This is not to be confused with normal IFRS as there are minor changes. In fact, the SEC still does not accept financial statements that say "IFRS endorsed by the EU".

When it comes to wondering whether the IASC was a success, I believe it was a resounding one. Before the IASC, the theme of harmonization was just one of theory. As a worldwide assembly of accounting professionals, it was truly unprecedented. It also gave other organizations such as IFAC, IOSCO, G4+1 the chance to collaborate as they could base their worldwide reach model on the IASC. The IASC truly opened the floodgates for achieving harmonization in international accounting. Its transition to the IASB was required to adapt to a more globalized world post-millennium. It wouldn’t be incorrect to state that the IASB has adapted well and continues to help create convergence throughout the world. However, many countries cannot adopt every single rigid standard that IASB releases, India being one. Some elements of IFRS are considered untenable by many countries due to non-compliance of their business environment. Therefore, while the effort has been truly commendable, there still remains a lot of work for the IASB to do.

Chapter 3: Roadmap and Outline of Differences

A. Roadmap

In 2007, the ASB of the ICAI produced a Concept Paper made by their task force and submitted it to the ICAI. The ICAI made a public commitment of convergence to IFRS before 31 December, 2011. This announcement gained traction in the Indian political climate, leading to the government announcing the same commitment of converge by the end of 2011 a year later from the announcement by the ICAI. Even during its inception, the aim of convergence was not to fully conform to IFRS but rather to modify the standards for acclimatization to India's business environment. Factors such as "the legal and regulatory environment, economic conditions, industry preparedness and practice as well as the removal of some options permitted under IFRS" (ESMA, 2014, p. 8) were implemented to create a sense of compromise between IFRS and the way business is done in India.

In February 2011, the MCA released a total of 35 Ind AS' on their website, with each standard containing an appendix highlighting the differences between it and its counterpart in the IFRS. (There were some standards not included: IFRS 9 – Financial Instruments, IAS 26 – Accounting and Reporting by Retirement Benefit Plans and IAS 41 – Agriculture) What was baffling about the release of these standards at the time was that they were neither notified under the Companies Act of 1956 nor corroborative with tax functions for the government. Following the release of the standards, the ICAI continued to revise or add new standards to the fray. Revision was done through consultation with the NACAS, with additional standards being added whenever the IASB issues more IFRS'. (ICAI, 2011)

The initial press release by the MCA while they were in the process of preparing the standards indicated a three-phased roadmap for Indian companies, as deadlines were set for certain companies to conform to Ind AS by April 1st of 2011, 2013 or 2014. The date of conformation was based on a range of criteria applicable to the net worth of a company. Prominent insurance companies in India were slated to conform by 2012, whereas banks in India had to accept these changes either in 2013 or 2014, dependent on the volume and nature of their activities. This proved to be a hasty decision, as the MCA had another press release following the issuance of the standards during February 2011, where they indicated that the earlier deadlines could not be implemented in such a rigid manner. Mostly due to tax-related reasons, the MCA decided to scrap the earlier plan and announced that another roadmap would be provided once the various kinks were sorted.

From that time till present, various measures have been undertaken by the Indian government to allow smoother harmonization. 2013 saw the Indian government adopting a new Companies Act in order to facilitate the various new provisions convergence to IFRS required. To resolve issues of tax, the Indian Ministry of Finance drafted Tax Accounting Standards to account for the conflicts between accounting and taxation. The ICAI performed several impact analyses to examine how these standards would change the course of business for large companies as well as SMEs in various sectors. (ESMA, 2014) 2013 saw Prabhakar Kalavacherla, the only Indian member on the board of the IASB, leave the organization after a five year term to join KPMG. There were concerns regarding how this would affect India's influence in the IASB. It wouldn't be erroneous to state that India continues to possess importance in the organization despite the departure of Kalavacherla. The fact that India recently hosted the 8th IFRS Regional

Policy Forum in March 2014 is testament to that. (ESMA, 2014, p. 12) On 11 July 2014, Finance Minister Arun Jaitley proposed the budget to the Indian Parliament, with one of the topics of discussion being convergence of Ind AS and IFRS. Here is an excerpt of his speech:

"There is an urgent need to converge the current Indian accounting standards with the International Financial Reporting Standards (IFRS). I propose for adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis. Based on the international consensus, the regulators will separately notify the date of implementation of AS Ind for the Banks, Insurance companies, etc. Standards for the computation of tax would be notified separately." (India Budget, 2014)

The most recent revised roadmap from the ICAI came as a by-product of Jaitley's words. On 16 February 2015, the MCA set forth new dates of Ind AS applicability for certain companies that qualified. Adoption to the IFRS meant the creation of financial statements. The Companies Act of 2013 decomposes financial statements into five facets: "a balance sheet, a profit or loss account (equivalent to the income statement in the US), cash flow statement, a statement of changes in equity (equivalent to the statement of retained earnings in the US) and any explanatory notes." (MCA, 2013) The first time adoption date is slated to the accounting period beginning on or after 1 April 2016 for companies with the following criteria:

a) Entities listed or in the process of listing on any stock exchange in India or abroad, containing a net worth of Rs. 500 crores or more (equivalent to 80.25 million USD). The New Companies Act of 2013 defines net worth as a formula equivalent to “paid-up share capital + reserves created out of the profits (excludes reserves created out of revaluation of assets, write-back of depreciation and amalgation) + securities premium account – accumulated losses – deferred expenditure – miscellaneous expenditure not written off as per the balance sheet.”

b) Unlisted companies having a net worth in excess of Rs. 500 crore

c) Holding, subsidiaries, joint venture or associated of the companies attested to be in a) or b) (Deloitte, 2015, p. 4)

The comparative for these financial statements will start with periods “ending 31 March 2016 or thereafter”. The first instances of these financial statements must be submitted using the Ind AS on financial years ending on 31 March 2017.

The MCA set forth additional rules for companies who did not qualify in the criteria described to be required for mandatory Ind AS adoption on 1 April 2016. It set forth mandatory adoption to IFRS exactly a year later than the aforementioned companies (the date being 1 April 2017) for companies which met the following criteria:

a) Listed companies having a net worth of less than Rs. 500 crore
b) Unlisted companies having a net worth of more than Rs. 250 crore but less than Rs. 500 crore (the latter would conflict with the criteria set forth in the guidelines provided for a year earlier)
c) Holding, subsidiaries, joint venture or associated of the companies attested to be in a) or b)

The comparative for these financial statements will start with periods “ending 31 March 2017 or thereafter”. The first instances of these financial statements must be submitted using the Ind AS on financial years ending on 31 March 2018. Once these companies start their conformation to Ind AS, they are not allowed to change should they veer away from the criteria that previously mandated them to adopt Ind AS. (Deloitte, 2015, p. 4)

The announcement on 16 February, 2015 also announced the concept of voluntary adoption. This is seen as beneficial by many countries who want to promote themselves worldwide. IFRS is seen as the prevalent accounting standard of the world today and Ind AS uses its template and is seen as very similar (though there may be some differences that cannot be reconciled). The MCA announced that companies “may voluntarily adopt Ind AS for financial statements for accounting periods beginning on or after 1 April 2015, with the comparatives for the periods ending on 31 March 2015 or thereafter.” (Deloitte, 2015, p. 4) However, similar to the aforementioned companies, this option is irrevocable.

Once Ind AS is adopted, it cannot change it for all their subsequent financial statements. Adoption indicates compliance of companies to both its standalone financial statements and consolidated financial statements. An overseas subsidiary, associate, joint venture, etc. of an Indian company is required by the respective parent company to prepare its consolidated statements in Ind AS, even if they are required in other countries to prepare different financial statements. Similarly, an Indian company which happens to be a joint venture, subsidiary, associate, etc. of a foreign company must comply with Ind AS if it meets the criteria mentioned earlier. The rules clearly do not apply for companies not attaining the criteria mentioned above, but they also do not apply to companies whose securities are already listed or are on the process of being listed on SME exchanges (Small and Medium Enterprises). An interesting rule set forth by the ICAI roadmap concerns Indian companies already using IFRS to conduct business. To get into the Indian market, these companies must use Ind AS in their consolidated statements. This rule brings queries over whether there are significant differences between IFRS and Ind AS. This will be explored further in the subsequent chapters.

Companies must also consider potential impacts of the conversion process to Ind AS on the entity, whether it is positive or negative. Deloitte considers the core impact of the project to be accounting and reporting, with secondary impact areas being regarded as tax, controls and process & systems (with changes to these processes considered partial to the core elements) and tertiary impact areas being training, communication and project management office. All the changes to these processes must be considered before convergence, even if it is mandatory for companies complying with the criteria. According to a report by Deloitte, there are financial reporting considerations as well as non-financial reporting ones.

There are many financial reporting considerations when taking the step of convergence. Implications of convergence in the decision making of the Board of Directors, CEOs, CFOs, Audit Committees, etc. must be considered in order to facilitate clear communications within the company as well as externally. When it comes to options in the financial statements, it is a good choice to consider what other industry peers and competitors choose as their preference. This increases comparability in a sector and allows potential stakeholders to make a much better decision. Companies must also devise a plan to uniformly implement Ind AS in its processes to ensure inconsistencies do not exist within the company when it comes to financial reporting and tax reporting purposes. The adoption of Ind AS will result in additional disclosures for a company to increase its transparency. It would not be a bad idea to do impact analyses for all these facets. Most importantly, a by-product of the convergence to Ind AS should be increased communication to all its stakeholders, the reason why the MCA and the Indian Government decided to implement it in the first place.

There are also several non-financial considerations to evaluate for a company. A training program for all their employees is essential to accomplish bridging the gap. A company may also face the choice of outsourcing its structures into being Ind AS compatible packages. It is important to consider whether it is more advantageous to do this process externally or internally. Companies that are externally financed may have covenants that might change due to the conversion into Ind AS. Additional costs may be incurred due to poor planning of the company towards this convergence. This should be minimized as much as possible. Implementation of these standards could also allow a company to assess their entity as a whole and evaluate if any changes need to be made. When it comes to policy choices, choose those that align with what strategic direction the company wants to take. However, these choices should not veer far from the choices of the respective peers and competitors of its industry. Moreover, the shareholders should be completely informed of the changes the company is implementing in order for the entity to effectively measure their shareholders’ expectations. While all these changes may be a nuisance to the company, it is important to consider the trust and confidence that Ind AS is slated to bring to the Indian economy. More international investment is likely to come from the increased transparency, comparability and reliability that convergence to Ind AS brings. Many analysts believe it will be worth the challenges that convergence brings to a company. (Deloitte, 2015b)

A positive measure that the ICAI has carried out along with the roadmap is the presence of educational systems in order to get acclimatized to the rules of IFRS. The organization offers both an IFRS Certificate course and IFRS e-Learning course. Both courses are for 100 and 60 hours, respectively. Similar to the GRE or the GMAT, the certificate requires the completion and subsequent passing of a written exam. Almost 5000 members of the ICAI have conducted this course. However, at this point in time, this education is rather theoretical in nature and has no proven practical value as yet. (ESMA, 2014, p. 13)

The delay has also allowed the Indian business environment to strengthen enforcement regarding the upcoming standards. The SEBI, as mentioned earlier, is the main enforcement body for listed companies. The capacity of its role drastically increased with the introduction of the new 2013 Companies Act, as SEBI was guaranteed referrals to the Court and the National Company Law Tribunal when it came to making enforcement decisions. SEBI realized that internal changes needed to be made in order to cope with the added responsibility. It now carries out all enforcement proceedings alone and gives out follow ups such as issuing notices, organized hearings, passing orders and handling court proceedings. (ESMA, 2014) One facet that must be rectified is that members of the SEBI are only well-versed in Indian GAAP. With convergence to IFRS looming, it wouldn't be disadvantageous for their members to grasp the nuances of Ind AS, possible through ICAI's IFRS Certificate Course. The Audit Committees and BoD of companies who are slated to converge soon should consider the Certificate Course in order to achieve initial intelligence of Ind AS in the entity. It is very important for these members to disperse this knowledge amongst the rest of the entity in order to facilitate a clean convergence of the company to Ind AS.

B: List of differences between Ind AS and IFRS

There are currently 39 Ind AS published in tandem by the ICAI and the MCA. To analyze the differences between Ind AS and IFRS, I used the 2015 Deloitte report titled "Indian GAAP, IFRS and Ind AS: A Comparison" and the 2011 PwC report titled "Decoding the differences: Comparison of Ind AS with IFRS." The differences are highlighted in the appendix table.

C: Types of Differences

The point of this research paper is to headline the big, irreconcilable differences between Ind AS and IFRS so that one could look with added importance to these facets and try to solve them. All quotations in this subsection are taken either from the 2015 Deloitte report titled "Indian GAAP, IFRS and Ind AS: A Comparison" or the 2011 PwC report titled "Decoding the differences: Comparison of Ind AS with IFRS." It would be advisable at this point to separate the aforementioned differences into various sub-categories based on their various degrees of irreconcilability. Therefore, the subcategories are the following: possible irreconcilable differences, repairable differences and textual differences. The difference between repairable differences and textual differences lies in theory and practice: repairable differences involve different business practices between Ind AS and IFRS that can be reconciled without much degree of difficulty, whereas textual differences are those in which contrast can only be found in definitions, formats or types of disclosure.

The focus is mostly on the possible irreconcilable differences between Ind AS and IFRS, something explored in the next chapter. These are the possible irreconcilable differences found:

- Ind AS 103: Business Combinations in contrast to IFRS 3: Business Combinations
- Ind AS 19: Employee Benefits in contrast to IAS 19: Employee Benefits
- Ind AS 32: Financial Instruments-Presentation in contrast to IAS 3

Since these three important facets are discussed with heavy detail in the subsequent chapter, it would be advantageous to separate the rest of the differences into repairable and textual. In the case where one standard contains both repairable and textual differences, it is classified in the repairable difference category. The following contains all the repairable differences between Ind AS and IFRS:

- Ind AS 1 – Presentation of Financial Statements: The repairable difference in this standard has to do with breaching certain covenants of long-term liabilities and whether it should be a current liability if the lender has not demanded payment as a consequence of the aforementioned breach. It is when the lender agrees after the reporting period but before the approval of financial statements where IFRS and Ind AS differ in their practicality. IFRS continues to classify the liability as current even if the lender has agreed in that time, whereas Ind AS does not. Textual differences include a) differences in terminology; b) recent amendments to IFRS not seen in Ind AS as of yet; c) IFRS conducting an expense analysis based on either nature or function while Ind AS uses only nature; and d) the option of giving single as well as separate statements of profit & loss as well as OCI in IFRS whereas Ind AS only allows for a single income statement containing both.

- Ind AS 10 - Events after the Reporting Period: The difference lies in what each set of standards does with lender permission after the reporting period but before the financial statements are due as aforementioned, thus making it practical by nature.
- Ind AS 12 – Income Taxes: Due to Ind AS' practicality-altering ban of the fair value model, one cannot measure investment property with regards to income taxes. Another repairable difference in income taxes is seen in business combinations when the carrying amount of goodwill is zero. According to IFRS, any remaining deferred tax benefit is recognized in profit & loss whereas in Ind AS, it is recognized in OCI and subsequently accumulated either in equity as a capital reserve or recognized directly in capital reserve.
- Ind AS 17 – Leases: Property interests in operating leases are recognized in IFRS using the fair value model, not allowed in the Indian accounting environment. Another facet of leases seen as repairable is in lease income from operating leases. IFRS instantly recognizes it on a straight-line basis while Ind AS contains a provision for protection against inflation in which case straight-line basis should not be used.

- <u>Ind AS 21 – The Effects of Changes in Foreign Exchange Rates:</u> There are repairable as well as textual differences in this standard when compared to its IFRS counterpart. A repairable difference is that IFRS requires that all gains and losses arising on retranslation of monetary assets and liabilities denominated in a foreign currency to be recognized in profit or loss. “Ind AS adds an option for entities if the entity wants to recognize unrealized exchange differences arising on translation of long-term monetary items denominated in a foreign currency directly in equity, and accumulated as a separate component therein. These differences must be sufficiently transferred to profit & loss over the period of maturity. The option is exercisable when the differences are initially recognized. Once exercised, it is irrevocable and applied for all long term monetary items.” Textual differences in this standard include a) a change in an entity’s functional currency must disclose the fact and reason of change as denoted by IFRS whereas Ind AS adds another disclosure to the mix with the date of change; and b) during the beginning year of convergence to Ind AS, entities are given an option to use the previous year’s policy as per Indian GAAP.
- <u>Ind AS 24 – Related Party Disclosures:</u> There is a repairable as well as a textual component to this standard. The repairable difference arising from Ind AS containing an option which eliminates the need for related party disclosures if they conflict with “the confidentiality requirements of statute, a regulator or similar competent authority, on the basis that accounting standards cannot override legal/regulatory requirements.” IFRS requires that disclosures be made in any case. What makes this difference somewhat problematic is the fact that

entities can misuse it to their advantage. Also, the term similar competent authority is quite vague and easy to be misrepresented. The textual difference involves the definition of a close member of the family. Ind AS has rigid rules for this, indicating that a brother, father, mother and sister automatically qualify as a close member of the family and are already included. IFRS focuses the criterion onto people who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

- <u>Ind AS 28 – Investments in Associates and Joint Ventures:</u> This can be subdivided into one repairable difference and two textual differences. The repairable difference is what IFRS and Ind AS both individually do to any excess of the investor's share of net fair value of the associate's identifiable assets and liabilities over the cost of investments. For IFRS, it is included in profit & loss during the same period it occurs in. For Ind AS, it is directly recognized as capital reserve in equity. The two textual differences are a) the absolute need for uniform accounting policies in IFRS whereas in Ind AS, there is a need unless it is impracticable to do so; and b) Ind AS prohibits the use of equity method for investments in subsidiaries, allowing only for the use of cost whereas IFRS gives the entity an option between cost or equity method.
- <u>Ind AS 38 – Intangible Assets:</u> Usually, adoption to IFRS means a holistic ceding to its policies and practices. However, Ind AS allows some leeway when it comes to using the same amortization policy of intangible assets related to service concession arrangements when it comes to toll roads as it did in Indian GAAP. It

allows the entity to incorporate the same policies used in Indian GAAP during the first new years of Ind AS convergence. This option is not seen in IFRS.

- Ind AS 101 – First Time Adoption of Ind AS: There are elements of this already discussed in previous sections, such as what to do with exchange differences arising from translation of long-term foreign currency monetary items, amortization of intangible assets arising from service concession arrangements and zero goodwill from previous business combinations. The major differences seen in this area have to do with the transitional relief, a sort of comfort against the whirlwind of change that is Ind AS. These reliefs allow an entity to continue using some of the policies it did during Indian GAAP for various topics, whether it be lease classification, non-current assets held for sale or discontinued operations, or previous P,P&E carrying values (also includes intangibles as well as investment properties).
- Ind AS 110 – Consolidated Financial Statements: The difference in this has to do with investment property measurement, done in IFRS through fair value basis. The fair value model is not yet allowed in Ind AS.
- Ind AS 114 – Regulatory Deferral Accounts: Ind AS provides transitional relief to "an entity subject to rate regulation coming into existence after Ind AS coming into force or an entity whose activities become subject to rate regulation subsequent to preparation and presentation of first Ind AS financial statements", allowing them to use previous Indian GAAP policies. IFRS does not require that an entity adopt this standard. However, once the standard is adopted, one must continue using it for its subsequent financial statements.

- Ind AS 115 – Revenue from Contracts with Customers: Variable considerations in the form of penalties are measured in Ind AS as per the substance of the contract. This is something not seen in IFRS.

Finally, this section contains all the standards that have only textual differences in its literature and function:

- Ind AS 7 – Statement of Cash Flows: Ind AS contains stringent rules on what to do with interest and dividends, something that IFRS gives an entity leeway to, as long as there is consistency between period to period. Ind AS gives different rules for financial entities when compared to others, as interest paid and received as well as dividend received are operating activies. Furthermore, dividend paid is a financing activity. For all other entities in compliance with Ind AS, interest and dividend received are investing activities while interest and dividend paid are financing activities.
- Ind AS 20 – Accounting for Government Grants and Disclosure of Governmental Assistance: There are two textual differences seen in this standard. The first one involves what IFRS and Ind AS do with government grants related to assets. IFRS puts them in the statement of financial position either as deducted from the carrying amount of the asset or as deferred income. Ind AS gives only the option of placing it as deferred income. Another difference involves non-monetary government grants. In IFRS, an entity can use either at fair value or nominal amount, whereas in Ind AS, they are classified only at fair value.

- Ind AS 27 – Separate Financial Statements: The difference involves accounting for the investments in subsidiaries in separate financial statements of the parent. IFRS either uses the cost method (IFRS 9) or equity method (IAS 28), whereas in Ind AS, an entity is only allowed to use the cost method.
- Ind AS 29 – Financial Reporting in Hyperinflationary Economies: The difference involves the various disclosure requirements when the economy is in hyperinflation. IFRS requires that disclosures be made regarding the measuring unit current at the end of the financial period, whether financial statements are based on historical or current cost as well as the identity and level of the price index at the end of the reporting period. In addition to this, Ind AS asks for another disclosure in the form of the total duration of the hyperinflationary situation.
- Ind AS 33 – Earnings Per Share: There are three main differences seen in this section. The first involves what entities require EPS. For Ind AS, this involves all entities issuing ordinary shares applicable to the Companies Act. In IFRS, this is applicable to all parents or companies part of a parent: "i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing ordinary shares in a public market." The difference lies in the stringency. The second difference involves EPS when there are both consolidated and separate financial statements. In IFRS, EPS is only required in the consolidated

statements, with a voluntary option in separate statements. In Ind AS, EPS is required to be presented in both. The third difference involves Ind AS and its recognition of income or expenses in the capital reserve account. In the cases where it does this, profit & loss from continuing operations should be adjusted to calculate a correct EPS. This is not seen in IFRS, which immediately dispenses it in profit & loss.

- Ind AS 40 – Investment Property: The only difference in this standard involves which technique an entity measures investment property with. IFRS allows an option or either cost or fair value. For Ind AS, the fair value option is not allowed, therefore making investment property only at cost.

Chapter 4: Possible Irreconcilable Differences

Using an analysis of all the differences between Ind AS compared to IFRS, it wouldn't be erroneous to state that there are three possible irreconcilable differences amongst the two sets of standards. All quotations in this subsection are taken either from the 2015 Deloitte report titled "Indian GAAP, IFRS and Ind AS: A Comparison" or the 2011 PwC report titled "Decoding the differences: Comparison of Ind AS with IFRS." These three differences are seen in the standards Ind AS 19 – Employee Benefits, Ind AS 32 – Financial Instruments: Presentation and Ind AS 103 – Business Combinations.

Part A: Ind AS 19 – Employee Benefits

The possible irreconcilable difference in this topic lies in the usage of the discount rate for post-employment benefit obligations. IAS 19 in IFRS indicates that the discount rate must be computed by referring to market yields on high quality corporate bonds at the end of the reporting period. However, IFRS also acknowledges the fact that some countries do not have deep markets for these bonds. In that case, a replacement is used in the form of government bond yields. It is to be noted that one cannot use government bond yields in IFRS unless there is no deep market for high quality corporate bonds.

Ind AS 19 acknowledges that India possesses no such deep market for high quality corporate bonds as such. It explicitly states that there is a requirement to use only the market yield for government bonds to find the discount rate for post-employment benefit obligations. There is no literature from the ICAI or the MCA regarding high quality corporate bonds. It has removed the option of using high quality corporate bonds on the likely reason that India does not possess a deep market for them.

However, that reasoning is very archaic when considering the international nature of business today. While the difference is not said to affect solely domestic companies, most companies that are required to adhere to Ind AS soon are unlikely to be solely domestic. Successful Indian companies have succeeded in establishing overseas subsidiaries in countries where there are markets for high quality corporate bonds. These overseas subsidiaries are likely to have defined benefit schemes. If they are in countries that have a deep market for high quality corporate bonds, such as the UK or the US, it will lead to an irreconcilable difference. Those subsidiaries will have to submit financial reports adhered to the country they are operating in as well as to their parent Indian company. This is where the difference will arise.

The parent Indian company will ask for the discount rate to be referenced to government bonds, whereas the regulatory bodies of the country they are operating in will likely ask for the discount rate to be referenced to high quality corporate bonds. The difference in amounts will lead to confusion by the subsidiary, as it will then need to show two different calculations when it comes to post-employment benefit obligations.

One might argue that this irreconcilable difference can be easily solved should Ind AS change its literature a tad to reflect on the international nature of business. It must realize that companies that are forcefully required to adhere to Ind AS in the next two years are likely to have subsidiaries or operations in countries that possess a deep market for high quality corporate bonds. These companies are likely to have discrepancies when they too come across previously-outlined situations that cause differences. The literature of Ind AS is also neglecting the fact that India could also possess a deep market for high quality corporate bonds in the years to come, especially since India is one of the world's fastest growing economies.

A solution to the ICAI or the MCA would be to reinstate the original language of the corresponding standard in the IFRS onto Ind AS 19. Not only would this provide greater clarity to the situation, it will also limit differences that are likely to appear if the literature is the same as it is now. The current Ind AS 19 literature has several problems to it. Firstly, it ignores India's prospects of procuring a deep market for high quality corporate bonds in the future. Should India be capable of doing this, the literature will have to go through a change anyways once it does so. High quality corporate bonds provide a much better reference point to the discount rate for post-employment benefit obligations than government bonds. Secondly, it ignores the fact that business is very international in nature today. Should companies adopt Ind AS, there is a high probability that differences will occur if these companies have operations or subsidiaries in countries with deep markets for high quality corporate bonds. While this can be currently classified as a potentially irreconcilable difference, a solution to fixing this is not that hard to formulate or implement. In fact, it wouldn't be erroneous to state that the proposed solution is better for Ind AS' future than the current state of rules.

Part B: Ind AS 32 – Financial Instruments: Presentation

The possible irreconcilable difference in this section between Ind AS and IFRS arises when it comes to the definition of a financial liability. When it comes to the conversion option embedded in a foreign currency convertible bond (FCCB), IFRS only recognizes equity in the form of the entity's functional currency. Thus, IFRS users have to fair value this instrument at the end of every reporting period, with differences being accounted for in profit & loss. Ind AS 32 gives more legroom for its entities to maneuver, allowing the FCCB to be classified as an equity instrument "if it entitles the holder to acquire a fixed number of entity's own equity instruments for a fixed amount of cash, and the exercise price is fixed in any currency." In the case of Ind AS, there is no specific need to use fair value as a means to re-measure, as IFRS users are required to do.

A question must be asked over why the ICAI insisted on these provisions in which these instruments can be exercised in any currency. A prevailing reason is that these provisions were made to prevent income statement volatility that arises from IFRS accounting for "(a) translations of long term monetary items from foreign currency to functional currency (i.e. IAS 21) and (b) equity conversion options in a foreign currency convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments for a fixed amount in a foreign currency (i.e. IAS 32)." Indian companies are known to issue long-term FCCBs in a currency different from the entity's functional currency in order to obtain foreign funds at a competitive rate. These instruments contain a relatively simple conversion option, as the number of shares to be issued at a certain fixed foreign currency is indicated in all the literature accompanying it. These FCCBs will cause differences should they be accounted for either in IFRS or in Ind AS.

In IFRS, these FCCBs will undergo split accounting due to their convertible nature, meaning that these bonds will be separated into two components and subsequently accounted for in different ways. The pure liability portion of the FCCB is initially measured at fair value, with subsequent measurements to be done in amortized cost. Any foreign exchange translation difference resultant to this has to be recognized in the respective year's profit & loss account. The conversion feature of this FCCB is treated by IFRS as a derivative liability. It treats it as a liability rather than equity because of its failure to achieve the "fixed-for-fixed condition", seen in IFRS literature as "a contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument." The fact that there is exchange rate variation negates this fixed-for-fixed condition, making both portions of the convertible bond different types of liability. Once again, the profit & loss account is used as an offset for any kind of future re-measurement seen in this account as well.

It is in the latter component of the accounting described in the paragraph above where differences start to arise between Ind AS and IFRS. Ind AS 21 allows companies an irrevocable option to recognize exchange differences on the translation of long term monetary items (similar to the discussed FCCBs) from foreign currency to functional currency in equity. These amounts in equity will subsequently be transferred to profit & loss throughout the maturation of the FCCBs. This rule proves to be in direct opposition to the guidelines prescribed by IFRS. Under these rules, the component which is seen as a derivative liability by IFRS will be seen as equity under Ind AS. This will prove to have big irreconcilable differences should the entity write its financial statements in both IFRS and Ind AS.

Unlike Ind AS 19, there seems to be greater difficulty associated with trying to reconcile this difference and envisioning a common solution. The easiest solution could be to remove the irrevocable option described in Ind AS 21 that allows you to recognize exchange differences on the translation of these instruments from foreign currency to functional currency in equity. However, Ind AS 19 has prescribed this option in order to facilitate a clean transition from Indian GAAP to Ind AS. Many companies will not be happy about the move to Ind AS should the transition cause widespread negative impact for covenants required to be at a certain level for them to obtain external financing. Classifying both convertible portions as liability is certain to negatively impact certain ratios, as there is a marked increase to liability. A possible solution could be to change the literature once companies get a grasp of Ind AS, probably within five or ten years of adopting it. This would give companies more time to try and ponder solutions for this increase in liability. It would also give Indian companies more impetus to adopt Ind AS for the time being, as the current Ind AS literature allows for the policies for long term monetary assets to be the same as they were for Indian GAAP. This makes it easier for companies slated to convert to Ind AS in the next two years to make a quicker transition to these rather new and alien sets of accounting standards.

Part C: Ind AS 103 – Business Combinations

Unlike the previous two standards, Ind AS 103 contains two possible irreconcilable differences in its literature that set it apart from IFRS. The first possible irreconcilable difference arises when accounting for business combinations of entities under common control. Common Control is defined by US law in 13 CFR 107.50 as "a condition where two or more persons, either through ownership, management, contract or otherwise, are under the control of one group or person. Two or more licensees are presumed to be under common control if they are affiliates of each other by reason of common ownership or common officers, directors or general partners; or if they are managed or their investments are significantly directed either by a common independent investment advisor or managerial contractor, or by two or more such advisors or contractors that are affiliates of each other."

IFRS 3 does not have the concept of common control in its scope itself. Meanwhile, Ind AS 103 acknowledges and gives guidance on what to do regarding accounting of these assets under common control. It prescribes the pooling of interests method to account for this type of business combination. The pooling of interests method is a rather simple one, with the hallmark of it being the usage of book value rather than fair value. When using the pooling of interests method, the balance sheets of the two companies are simply added together, line item by line item. When arriving at the consideration, it is compared to the amount of share capital. Ind AS 103 also has guidance on what to do when there is an excess or shortfall relative to the amount of share capital. When the consideration is in excess of the amount of share capital, it is recorded as goodwill. When the consideration is less than the amount of share capital, it is treated as a capital reserve.

An additional guideline that Ind AS 103 prescribes for business combinations under common control is the restatement of previous financial information. It proclaims that "financial information in respect of prior period should be restated as if the business combination has occurred at the beginning of the earliest period presented in the financial statements, irrespective of the actual date of combination." IFRS users who are confused about what to do with common control business combinations typically revert to two options: either the fair value method that is used for all other business combinations described in IFRS 3 or the usage of the pooling of interests method, using predecessor accounting as the setup. Furthermore, any excess consideration received by using the pooling of interests method in IFRS is not taken to be new goodwill. Any excess or negative consideration over aggregate book value of the assets and liabilities of the acquired entity is included either in retained earnings or in a separate reserve. Therefore, the whole concept of business combinations under common control will have big possible irreconcilable differences with IFRS should there be any goodwill or additions to capital reserve recognized.

The second possibly irreconcilable difference in this section arises with regards to accounting for the gain on a bargain purchase. A bargain purchase is defined as one where the cost of acquiring a business is lower than the fair value of all that business' assets and liabilities. In IFRS, any gain arising from such a purchase is immediately recognized in profit & loss. This is not seen in Ind AS 103, as the literature prescribes that this gain be recognized in OCI and accumulated in equity as a capital reserve. If there is no clear evidence indicating that this purchase is indeed a bargain purchase, the gain is directly recognized as a capital reserve in equity, with no requirements for recognition in OCI.

When looking at these two differences, it wouldn't be incorrect to state that the first difference is more irreconcilable than the second. The second difference is seen in other instances, such as Ind AS 12 or Ind AS 28, and has the capability to be avoidable. The first difference is worth searching solutions for. The one instance where there could be an irreconcilable difference is when there is a big excess of consideration when compared with the amount of share capital, resulting in a large amount of goodwill prescribed by adhering to Ind AS. This goodwill, in IFRS, will immediately be kept in retained earnings or in a separate reserve.

A possible solution is to abolish the concept of common control transactions from Ind AS literature, indicating that the only possible procedure to follow in such a case would be correlated to what would be done in IFRS. However, the concept of business transactions of entities under common control is seen in a lot of Indian entities, who would all prefer to use the pooling of interests method as compared to the fair value method. Amidst all the massive changes from Indian GAAP to Ind AS, abolishing the pooling of interests method would not be popular move. In fact, when the FASB announced that all business combinations should be accounted for using the purchase method rather than the pooling of interests method on January 23, 2001, the move was under wide opposition by the business community.

Chapter 5: Advantages and disadvantages of convergence with regards to Indian economy

Before concluding this thesis, it would be profitable to list out the advantages and disadvantages/challenges of convergence to IFRS when it specifically applies to the Indian economy. In this section, I take as reference Prashant Shinde's research paper on the International Indexed & Referred Research Journal titled "Adoption of IFRS, Challenges for India." The following are some advantages seen from converging to IFRS:

- IFRS prevalent as the worldwide accounting standard: In an age where increased comparability is required, IFRS is recognized as the prevalent worldwide accounting standard of today. This gained major traction at the turn of the millennium through EU-endorsed IFRS. Each member of the EU had requirements to use IFRS if it met the criteria. Today, most of the world's countries use IFRS.
- Increased comparability: Adoption or convergence of IFRS leads to increased comparability of financial statements with some of the biggest markets in the world. Even though the US still uses GAAP, it allows IFRS in its capital markets because of the volume of its worldwide usage (not to be confused with EU-endorsed IFRS).
- Increased exposure to FDI and FII: Convergence towards IFRS allows investors from prominent capital markets to make much better-informed decisions regarding one's entity. It is always much more advantageous to make a decision when the format is in something even you use. IFRS also serves as a bridge for investment companies and possible stakeholders to enter the economy and invest

money into the business environment. There is likely to be high FDI and FII once the convergence process is done and Ind AS finds its footing. This will, in turn, result in a long-term effect of reduction in the cost of capital due to investors making informed decisions.

- Increased transparency: When compared to Indian GAAP, IFRS contains a lot of additional disclosures in various areas, adding more transparency to the Indian business environment. This gives added security to stakeholders and investors, who are subjected to much more information with Ind AS when compared to Indian GAAP. Increased transparency also leads to better communication between the entity's stakeholders and its management.
- Convergence allows companies more leeway than adoption: Convergence towards IFRS as opposed to direct adoption allows companies to smooth its financial statements from the previously used Indian GAAP better. This is at times favorable to direct adoption, which could be seen as adding heavy volatility due to the drastic nature of changes in the Indian business environment.

The following contains some disadvantages or challenges seen from convergence to IFRS, the world's most prevalent accounting standard:

- Still unable to achieve complete comparability: Because India is converging to IFRS as opposed to directly adopting it, the level of acceptability of Ind AS financial statements will be less in other capital markets seeing as it is not IFRS in full. If an Indian company wants to place its financial statements on a prominent international capital market, it will once again have to provide different financial statements in accordance to IFRS in order to enter and trade. While using Ind AS is preferable to using Indian GAAP when it comes to switching towards IFRS, it is still not as better off as direct adoption of IFRS.

- <u>High degree of difference between Indian GAAP and IFRS:</u> When considering Indian GAAP, the current accounting standard used by India today, the differences between it and IFRS are widely seen. In particular, topics such as PP&E accounting, accounting of financial instruments, investment accounting, business combination, share based payment, presentation of financial statements, etc. are not seen currently under Indian GAAP. Convergence to IFRS could lead to big changes in the financial statements of Indian entities, something which may negatively affect the current Indian business environment.
- <u>Use of fair value measurement under IFRS:</u> The act of using a fair value model is something alien to the Indian accounting environment, currently. Indian GAAP bans the use of the fair value model due to its volatile nature, affecting key measures like EPS and other covenant ratios. It would not be advantageous for a company with various covenants to convergence towards IFRS unless the fair value model can be introduced in a proper way conducive to the Indian business environment.
- <u>Wanton changes required:</u> Due to the wide differences between Indian GAAP and IFRS, convergence towards IFRS will require that training be provided right from the grassroots level. For entities with covenants or those who are crunched for cash for these training programs, this will prove to be a big challenge. Seeing as the new roadmap indicates that next April will be the start of the first Ind AS

accounting period for several companies, time is running out for these entities to get its staff acclimatized to Ind AS.

- Two-fold requirement for accounting teams: Not only do accountants need to be well-versed in Ind AS, they must also know the complementing information technology when it comes to Ind AS.
- Lack of professionals who know IFRS in Indian business environment: Because of the current usage of Indian GAAP, not many accountants in India are well-versed in IFRS. This also applies to the accountants of entities who are soon to change their financial statements to Ind AS, whether it is the next year or the year after. Therefore, Indian entities soon to convergence may have to depend on external advisors and auditors during its first few years for proper assimilation to Ind AS. This could lead to unnecessary expenditures for the entity, extremely disadvantageous for entities with not enough liquidity or those that have stringent covenants.
- Tax issues: There is several tax issues associated with convergence to IFRS. Recognition issues should be considered, such as whether the imputed interest on credit sales would be considered as sales or interest income. So should classification issues such as whether the payment on redeemable preference shares or convertibles should be treated as dividend or interest. Point of recognition issues, such as whether the services contract would be taxed only upon completion or at the point of accrual, must also be kept in mind. Furthermore, one must explore whether the tax base will continue to be determined using Indian GAAP or convergence to IFRS as well. Finally, one must

explore indirect tax impacts as well as transition issues on the tax treatment for the one-time adjustments on IFRS convergence.

- Need for consistency between all regulatory bodies: In the buildup to Ind AS convergence, there must be consistent communication amongst all the regulatory bodies of India to ensure that everything is going according to plan. This includes the ICAI, SEBI, RBI and IRDA as well as the National Advisory Committee on Accounting Standards (NACAS) established by the MCA.

Chapter 6: Conclusion

The overhaul of Indian GAAP into Ind AS promises to bring about positive changes for the Indian business environment. The current roadmap relating to the convergence to Ind AS will start taking practical shape next year, where unlisted and listed companies having a net worth of 500 crores or more will have to undergo mandatory Ind AS adoption on 1 April, 2016. This assumption has been taken given that there will be no further delay regarding Ind AS adoption henceforth.

Indian GAAP has faced several criticisms throughout its tenure as India's prevailing accounting standard. One severe criticism has been that Indian GAAP refuses to adhere to IFRS' prevailing principle of substance over form in several instances. These instances make Indian GAAP financial statements not reflect the economic reality of the entity. Until July 2007, there was no real attempt to try and converge to IFRS, the world's prevailing set of accounting standards. The ICAI's announcement of a convergence plan in July 2007 set the wheels in motion towards IFRS convergence. While several delays have occurred in the buildup to adoption of Ind AS, we believe the current roadmap will be followed to its completion, leading to Ind AS being introduced in practice from 1 April, 2016. Some Indian entities have already responded to these wholesale changes, with many of their faculty going through training procedures in order to grasp Ind AS.

A precarious issue when discussing Ind AS is the fact that it is a partial convergence towards IFRS, not a complete one. Several differences, whether avoidable or potentially irreconcilable, are seen between Ind AS and IFRS. Most differences in the literatures of the two have to do with Ind AS possessing options to continue some of the policies used during Indian GAAP. This is done by the ICAI in order to smooth the transition from Indian GAAP to something resembling a cousin of IFRS (Ind AS). Immediate convergence to IFRS will lead to several shocks in the financial statements of an entity, something the ICAI seems to have extrapolated. Many companies have intimated concern over complete convergence, a possible reason for why Ind AS was created. One problem that arises with partial convergence is that while Ind AS is held in high regard amongst the Indian government and regulators of Indian business, outsiders may not understand its proximity to IFRS. To some, investment decisions regarding Indian entities might be at the same difficulty as it was when Indian GAAP was in the Indian business climate. Until international investors are well-versed with Ind AS and how it differs with IFRS, the full advantages of convergence to IFRS cannot be redeemed as international investor confidence will not have improved.

When assessing all the differences between Ind AS and IFRS, it must be noted that repeated delays in the convergence process have led to lesser potentially irreconcilable differences between the two. Most of the differences between the two currently are either avoidable or textual. Currently, according to me, there remain three potentially irreconcilable differences that could hinder any plans the Indian government or its regulatory bodies have of achieving complete convergence between IFRS and Ind AS one day. These are seen in these topics: **IND AS 19: Employee Benefits, IND AS 32: Financial Instruments – Presentation** and **IND AS 103: Business Combinations**.

Ind AS 19's potentially irreconcilable difference with IFRS lies in the fact that India does not possess a deep market for high quality corporate bonds. However, this is a problem to which there is an easy solution. Corresponding IFRS literature already intimates that should there not be a deep market for high quality corporate bonds, government bonds are used as a reference for finding the discount rate for post-employment benefit obligations. Ind AS 19, in comparison, states in its literature to only use government bonds on the basis that India does not possess the aforementioned deep market. This will create problems in the case of Indian subsidiaries based abroad in countries that do possess these deep markets. A simple change of the literature of Ind AS 19into what IFRS prescribes will go a long way to reconciling this difference, without trying to change its meaning or function.

Ind AS 32's potentially irreconcilable difference lies in the fact that IFRS only recognizes equity in the form of an entity's functional currency when it comes to FCCBs, whereas Ind AS allows entities to recognize equity in any currency. The irreconcilable difference will lie in the fact that these convertible bonds (able to recognize equity in any currency) will have components that are only liabilities in accordance to IFRS, whereas there will definitely be an equity component if one is to follow Ind AS. This difference arises because of Ind AS' insistence to keep some of the principles held by Indian GAAP in order to smooth the transition between the two. A solution could be to change the literature towards something similar to IFRS after initial convergence towards Ind AS has successfully occurred.

Ind AS 103's potentially irreconcilable difference lies in the fact that IFRS does not have the concept of business combinations of entities under common control in its scope, whereas Ind AS does and prescribes the pooling of interests method to account for them. This difference is potentially the most irreconcilable out of the three for the sole reason that IFRS has abolished the concept from its scope. In order to achieve complete convergence with IFRS on this difference, it is likely that business combinations of entities under common control will have to be taken off from the scope of Ind AS literature as well.

Overall, the differences between India's accounting standards and IFRS are sure to be at an all-time low once Ind AS is introduced into the Indian business environment, with the roadmap indicating that it should be in the coming year for certain companies who have been recognized in the mentioned criteria. Ind AS is a good way for Indian entities to smooth out their earnings from Indian GAAP to something similar to IFRS. For Ind AS to be successfully instilled in the business environment, hard work as well as training starting from the grassroots level needs to be done by entities prescribed to be adhering to these standards soon. First and foremost, there should no further delays regarding introducing Ind AS to the environment. Once Ind AS has been successfully implemented in India, there could be discussion on how to mitigate the potentially irreconcilable differences between Ind AS and IFRS. It is well within the realm of possibility that one day, India has the capacity and the resources to completely adopt IFRS in its business environment.

Appendix:

To analyze the differences between Ind AS and IFRS, I used the 2015 Deloitte report titled "Indian GAAP, IFRS and Ind AS: A Comparison" and the 2011 PwC report titled "Decoding the differences: Comparison of Ind AS with IFRS."

Ind AS No.	**Respective IFRS No.**	**Differences**
Ind AS 1 – Presentation of Financial Statements	IAS 1 – Presentation of Financial Statements	a) Differences in terminology (ex. Ind AS uses the term balance sheet, IFRS uses statement of financial position) b) Recent amendments to IFRS (ex. 'Disclosure Initiatives' of IAS 1) not seen in Ind AS yet. c) Whether long-term liabilities upon breach of certain covenants are pronounced as current even if the lender has agreed after the reporting period but before the approval of financial statements to not demand payment as a consequence of the breach. (IFRS says it should still be current, Ind AS says it should not be) d) In the income statement, IFRS conducts an analyses of expenses based on either the

		nature or function of the expense, whichever is relevant. Ind AS conducts its analyses only on nature of the expense. e) While there is the option of giving a single as well as separate statements of profit and loss and OCI in IFRS, in Ind AS there is only the option of providing a single income statement containing both profit and loss as well as OCI.
Ind AS 7 – Statement of Cash Flows	IAS 7 – Statement of Cash Flows	a) Interest and dividends in IFRS may be classified as operating, investing and financing in a manner consistent from period to period. Ind AS has stringent rules (similar to its predecessor Indian GAAP) where the rules are different for financial entities when compared to other entities. For financial entities, interest paid/received and dividend received are operating activities whereas dividend paid is a financing activity. For other entities, interest and dividends received are investing activities whereas interest and dividends paid are financing activities.

Ind AS 10 – Events after the Reporting Period	IAS 10 – Events after the Reporting Period	a) The difference is similar to the one described for Ind AS 1 above. The agreement of the lender in IFRS is not considered an adjusting event whereas in Ind AS, it would be considered one.
Ind AS 12 – Income Taxes	IAS 12 – Income Taxes	a) In Ind AS, one cannot measure investment property using the fair value model the same way one can in IFRS. b) In business combinations, if the carrying amount of goodwill is zero, any remaining deferred tax benefit in IFRS is recognized in profit or loss. In Ind AS, they are recognized in OCI and accumulated in equity as capital reserve or recognized directly in capital reserve (dependent on several factors).
Ind AS 17 – Leases	IAS 17 – Leases	a) A property interest in an operating lease is recognized and accounted for in IFRS using the fair value model. Ind AS does not use the fair value model. b) In IFRS, lease income from operating leases should be recognized on a straight-line basis. Ind AS 17 contains an addition for

		escalation of lease rentals based on inflation. Since the function of these escalations is to protect the lessor from inflation, these lease payments should not be straight-lined by both the lessor and lessee.
Ind AS 19 – Employee Benefits	IAS 19 – Employee Benefits	a) Post-employment benefit obligations are recognized in IFRS as being discounted by a discount rate determined by referring to market yields on high quality corporate bonds at the end of the reporting period. Since India does not have a deep market for such bonds, it uses market yields of government bonds as a reference to determining the discount rate.
Ind AS 20 – Accounting for Government Grants and Disclosure of Governmental Assistance	IAS 20 - Accounting for Government Grants and Disclosure of Governmental Assistance	a) When it comes to government grants related to assets, IFRS puts them in the statement of financial position either as deferred income or deducting the grant from the carrying amount of the asset. In Ind AS, these grants (including non-monetary grants at fair value) should be presented in the balance sheet only as deferred income. b) Non-monetary government grants can be

		classified either at fair value or nominal amount by IFRS (both asset and grant). In Ind AS, they are classified only at fair value.
Ind AS 21 – The Effects of Changes in Foreign Exchange Rates	IAS 21 - The Effects of Changes in Foreign Exchange Rates	a) When it comes to change in functional currency, IFRS asks for the fact and reason of change as disclosures. Ind AS 21 asks for the same as well as additionally disclosing the date of change. b) During the beginning of convergence, companies adopting Ind AS are allowed to use the policy used by the previous year to account for exchange differences arising from the translation of long-term foreign currency monetary items.
Ind AS 24 – Related Party Disclosures	IAS 24 – Related Party Disclosures	a) IFRS is more relaxed in its definition of a close member of the family. Ind AS 24 insists on including father, mother, brother and sister in the definition of close members. b) Ind AS 24 indicates that disclosures which conflict with confidentiality requirements of statutes are not required to be made. IFRS requires some amount of disclosures from

		such entities.
Ind AS 27 – Separate Financial Statements	IAS 27 – Separate Financial Statements	a) For accounting the investments in subsidiaries in separate financial statements of the parent, IFRS uses either cost in relation to IFRS 9 or equity method in relation to IAS 28. For Ind AS, the equity method is not allowed.
Ind AS 28 – Investments in Associates and Joint Ventures	IAS 28 - Investments in Associates and Joint Ventures	a) In IFRS, any excess of the investor's share of net fair value of the associate's identifiable assets and liabilities over the cost of investments is included as income in the statement of profit and loss in the same period. In Ind AS 28, it is recognized directly in equity as capital reserve in the same period. b) Uniform accounting policies are required in IFRS, with no exception. In Ind AS 28, they are followed unless proven to be impracticable to do so. c) As mentioned earlier, Ind AS prohibits the use of equity method in separate financial statements for investments in subsidiaries. Only the cost method can be used.

Ind AS 29 – Financial Reporting in Hyperinflationary Economies	IAS 29 - Financial Reporting in Hyperinflationary Economies	a) Disclosure requirements in IFRS are the fact that the financial statements are stated in terms of measuring unit current at the end of reporting period, whether financial statements are based on historical cost approach or a current cost approach and the identity and level of the price index at the end of the reporting period. In addition to this, Ind AS 29 requires another disclosure indicating the duration of the hyperinflationary situation.
Ind AS 32 – Financial Instruments: Presentation	IAS 32 - Financial Instruments: Presentation	a) When it comes to the conversion option embedded in foreign currency convertible bonds, IFRS only recognizes equity in the entity's functional currency. Therefore, it should be fair valued at the end of every reporting period using profit and loss as a tool. In Ind AS 32, one can acquire fixed amount of shares in any currency. Therefore, there is no requirement to use fair value to remeasure.
Ind AS 33 – Earnings Per	IAS 33 – Earnings Per Share	a) Ind AS 33 needs all companies issuing ordinary shares applicable to the Companies

Share		Act to provide EPS. IAS 33 is applicable "to the separate and consolidated financial statements of an entity/group with a parent: i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing ordinary shares in a public market." b) When an entity shows both consolidated and separate financial statements, IFRS requires EPS to be included only in the consolidated statements, with voluntary requirement in separate ones. In Ind AS 33, EPS is to be presented in both. c) In Ind AS 33, cases where any item of income or expense which is usually recognized in profit or loss is debited or credited to the securities premium account or

		other reserves, profit or loss from continuing operations should be respectively adjusted to calculate a proper EPS. This is not required in IFRS.
Ind AS 38 – Intangible Assets	IAS 38 – Intangible Assets	a) IFRS recently introduced a rebuttable option that changes the fact that revenue is not an appropriate option to amortize an intangible asset. This option is only permitted when the intangible asset is expressed as a measure of revenue or when revenue and usage of the asset have high correlation. Ind AS 38 also employs this but adds another facet which allows entities to continue using the same amortization policy of intangible assets related to service concession arrangements when it comes to toll roads recognized in the period just before adoption of Ind AS.
Ind AS 40 – Investment Property	IAS 40 – Investment Property	a) In IFRS, investment property is initially measured at cost, with subsequent measurements being either at cost or fair value. If it is fair value, changes in it should

		be recognized in profit and loss. In Ind AS 40, the fair value model is not permitted.
Ind AS 101 – First Time Adoption of Ind AS	IFRS 1 – First Time Adoption of IFRS	a) In IFRS, there is no permission of previous GAAP carrying values of P,P&E with the exception of certain special oil and gas assets as well as rate regulated assets. In Ind AS 101, entities have the option to use previous Indian GAAP values for P,P&E as well as intangible assets and investment properties. b) For non-current assets held for sale and discontinued operations, IFRS provides no exemption whereas Ind AS 101 gives companies some leeway. They are allowed to measure these assets or operations at the lower of carrying value and fair value less cost to sell. c) For lease classification, no exemption is provided by IFRS. In Ind AS, similar to b), transitional relief is provided which allows companies to look at their earlier data to assess whether it is an operating or financing lease. For any land lease recently classified as

		a finance lease, assets and liabilities are recognized at fair value on the convergence date, with any difference recognized in retained earnings. d) For business combinations, both IFRS and Ind AS provide exemptions in different ways when it comes to the non-application retrospectively to past business combinations. If the exemption is taken in IFRS, any intangible asset that does not qualify under IAS 38 is reclassified as a component of goodwill. In Ind AS, these amounts can be adjusted using the capital reserve up to the point that the amounts don’t exceed it. e) As aforementioned, Ind AS provides exemption for treatment of exchange differences arising from translation of long-term foreign currency monetary items. There is no such exemption in IFRS. f) As aforementioned, Ind AS provides exemption for amortization of intangible assets arising from service concession

		arrangements, something IFRS does not.
Ind AS 103 – Business Combinations	IFRS 3 – Business Combinations	a) Ind AS 103 includes for the accounting of entities under common control, one where the acquirer cannot be determined. The pooling of interests method is used for common control, something prohibited in IFRS. The pooling of interests method will be talked about later. b) When it comes to negative goodwill, the resulting gain is recognized in profit or loss as a bargain purchase in IFRS. In Ind AS, the gain is recognized in OCI and accumulated as a capital reserve in equity.
Ind AS 110 – Consolidated Financial Statements	IFRS 10 – Consolidated Financial Statements	a) Investment property measurement by investment entities in IFRS is done on a fair value basis. This is not allowed in Ind AS, which measures it at cost initially and cost less depreciation subsequently.
Ind AS 114 – Regulatory Deferral Accounts	IFRS 14 – Regulatory Deferral Accounts	a) IFRS does not require adoption of IFRS 14, but once it is adopted, one must continue to use it for the subsequent financial statements. Ind AS 114 allows “an entity subject to rate

		regulation coming into existence after Ind AS coming into force or an entity whose activities become subject to rate regulation subsequent to preparation and presentation of first Ind AS financial statements" should be allowed to use previous GAAP rules.
Ind AS 115 – Revenue from Contracts with Customers	IFRS 15 – Revenue from Contracts with Customers	a) Variable considerations are measured differently in IFRS and Ind AS 115. However, Ind AS accounts for penalties as per the substance of the contract. IFRS does not do this.

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