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# A Study of New Converged Indian Accounting Standards Practices in India

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## Abstract

*In India, Accounting Standards being converged with International Financial Reporting Standards, called Indian Accounting Standards is being implemented since 2015 in a phase-wise manner. This paper has studied the new Indian Accounting Standards practices and its current implementation status in India, using the Govt. reports, notifications, etc. It was found that there were 38 new converged Indian Accounting Standards practiced in India and its implementation was in the 3<sup>rd</sup> phase of implementation till January, 2018.*

**Keywords:** Indian Accounting Standards, International Financial Reporting Standards, Accounting Standards Board

## 1 Introduction

Accounting standards (AS) are the generally accepted principles, rules and procedures that are followed while preparing, reporting and maintaining the financial statements of an undertaking. These AS are implemented in all over the world. In India, AS have been converged with International Financial Reporting Standards (IFRS) to bring the uniformity of the AS with the world standard. Now, it is the question that what the new converged AS are being followed in India, and what is the current implementation status of new converged Indian AS?

Parmanand and Sonal (2015) stated in their research paper that 'Accounting Standards are written policy documents issued by expert accounting body or government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation & disclosure of accounting transaction in the financial statement. Objective of accounting standard is to standardize the diverse accounting policies & practices with a view to eliminate to

the extent the non-comparability of financial statements & add the reliability to the financial statements' <sup>[1]</sup>. In another paper, Dr. R. Babu, J. Muni Narendra, and Prof. M. Venkateswarlu (2016) stated that 'globalization has laid down a way for all the countries to adopt a single set of accounting standards. Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. The use of common set of accounting standards throughout the world provides an easy way of comparability and transparency of financial information. It also reduces the cost of preparing financial statements. A constant use of accounting standards provide higher quality information which enables the investors to make a better decision, indirectly fund will allocate in more efficient manner in the market and the company can reduce its overall cost of capital' <sup>[2]</sup>. Dr. Mahendra (2015) stated that whole world should have one uniform language of accounting. In India, for smooth implementation of IFRS converged Ind AS, ICAI and regulatory bodies are taking several measures. The need is to have a systematic procedure for first time implementation of the newly issued converged Ind AS. Corporate houses need to gear themselves for continuous updation. The regulatory bodies should ensure changes in existing Companies Act, Taxation, Foreign Exchange Management Act, Banking Regulation Act and Insurance Act etc. These changes will be beneficial to line up Indian Accounting Practices with converged Standards<sup>[3]</sup>. Dr. Tawfiq and Dr. Beverley (2017) found in their research that despite social, cultural, and political barriers that exist, India would benefit financially and economically from implementing international reporting standards<sup>[4]</sup>.

The purpose of this paper is to study the new converged Indian AS and its current implementation status. This

paper will be very helpful for scholars, professionals, students and general readers to understand the New Ind AS practices and its current status.

## 2 Materials and Methods

This paper is based on the qualitative analysis using the source of information, such as Ministry Of Corporate Affairs Notifications, Annual Report ACAI 2016-17, 40th Anniversary Accounting Standards Board Report 2017, and other published materials on the subject matter.

### 2.1 History of Accounting Standard practices in India

The Institute of Chartered Accountants of India (ICAI) being the premier accounting body in India had set up the Accounting Standards Board (ASB) on 21st April, 1977 for formulating Accounting Standards in the country. In January, 1979, the 'Preface to the Statements of Accounting Standards' was issued. The first Accounting Standard (AS) 1, Disclosure of Accounting Policies, was issued in 1979. Initially, the Accounting Standards were recommendatory in nature, thereafter the same were made mandatory for its members. The legal recognition to the Accounting Standards was accorded for the companies in the Companies Act, 1956, by introduction of section 211(3C) through the Companies (Amendment) Act, 1999 and directed the companies to follow Accounting Standards issued by the ICAI and notified by the Central Government on recommendation by the National Advisory Committee on Accounting Standards (NACAS). Till 1999, ICAI had issued 15 Accounting Standards which were mandatory only for its members, to ensure compliance of standards during audit<sup>[5]</sup>.

In August 31, 2001, SEBI mandated all listed companies to comply with all the Accounting Standards issued by ICAI from time to time. In 2002, the Insurance Regulatory and Development Authority (IRDA) required insurance companies to comply with the Accounting Standards issued by the ICAI. In 2003, Reserve Bank of India (RBI) issued Guidelines on compliance with Accounting Standards (ASs) advising banks to ensure strict compliance with the Accounting Standards issued by the ICAI.

Thereafter, in 2006, Accounting Standards 1 to 7 and 9 to 29 were notified by the Government of India, Ministry of Company Affairs (now Ministry of Corporate Affairs). In 2008, ICAI decided to harmonize the differences between Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government during 2006.

#### 2.1.1 Convergence with International Financial Reporting Standards (IFRSs)

ICAI being the associate member of the International Accounting Standards Committee and full-fledged member of the International Federation of Accountants decided to consider the International Accounting Standards while formulating Accounting Standards and try to integrate them to the extent possible in the light of the local laws and regulations. ASB in line with its objective of setting up world class Accounting Standards, in 2006, decided to converge with International Financial Reporting Standards (IFRS) issued by the IASB, which were being recognized as Global Financial Reporting Standards. Accordingly, a Task Force was constituted to prepare a Concept Paper on Convergence with IFRSs, to be discussed with various interest-groups including the government, NACAS, regulators and industry associations. ASB accepted the Task Force recommendations to implement IFRS converged accounting standards with effect from 1st April 2011. The Council of the ICAI and Ministry of Corporate Affairs supported recommendations of ASB to converge with IFRS from 1st April, 2011 and approach to be followed for the same. In February 2011, the Ministry of Corporate Affairs (MCA) notified 35 IFRS converged Indian Accounting Standards (Ind ASs). However, the same were not implemented because of tax issues and unstable platform. In February 2015 Ind ASs formulated by ICAI considered by NACAS were notified by MCA, which are being implemented in a phased manner by a class of companies. ASB is working with Ind AS Implementation Committee towards making the transition to Ind ASs smooth. In order to remain converged, Ind ASs are revised/formulated from time to time in line with the amendments made by IASB.

ICAI is in continuous dialogue with key regulators, such as, Reserve Bank of India (RBI), Insurance Regulatory and

Development Authority of India (IRDA), Ministry of Corporate Affairs (MCA), etc., to address issues involved in Ind ASs implementation and other issues if any. ICAI formulates standards that are notified under the Companies Act by Central Government and are applicable to Companies. ICAI also formulates and issues, standards (with some relaxations and exemptions) that are applicable to Non-corporate entities.

## **2.2 Companies (Indian Accounting Standards) Rules, 2015**

In exercise of the powers conferred by Section 133 read with section 469 of the Companies Act, 2013 (18 of 2013) and sub-section (1) of Section 210A of the Companies Act, 1956 (1 of 1956), the Central Government, in consultation with the National Advisory Committee on Accounting Standards, hereby makes the rules, namely, the Companies (Indian Accounting Standards) Rules, 2015<sup>[6]</sup>. The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these Rules in preparation of their financial statements and audit respectively in a phase manner. Some amendments were brought to these Rules through the Companies (Indian Accounting Standards) (Amendment) Rules, 2016 and the Companies (Indian Accounting Standards) (Amendment) Rules, 2017.

## **2.3 List of Accounting Standards**

As of now, in India, there are three sets of Accounting Standards practiced: one, new converged Indian Accounting Standards for specified class of companies; second, Accounting Standards notified under Companies (Accounting Standards) Rules, 2006 for companies other than those following Ind ASs; and third, Accounting Standards prescribed by ICAI similar to notified AS with minor differences regarding presentation, etc. for entities other than companies.

### **2.3.1 Accounting Standards (AS) issued by ICAI, and under Companies (Accounting Standards) Rules, 2006 are as follows:**

AS 1: Disclosure of Accounting Policies

AS 2: Valuation of Inventories

AS 3: Cash Flow Statements

AS 4: Contingencies and Events Occurring After Balance Sheet Date

AS 5: Net profit or Loss for the period, Prior Period Items and Changes in Accounting Policies

AS 7: Construction Contracts

AS 9: Revenue Recognition

AS 10: Property, Plant and Equipment

AS 11: The Effects of Changes in Foreign Exchange Rates

AS 12: Government Grants

AS 13: Accounting for Investments

AS 14: Accounting for Amalgamations

AS 15: Employee Benefits

AS 16: Borrowing Costs

AS 17: Segment Reporting

AS 18: Related Party Disclosures

AS 19: Leases

AS 20: Earnings Per Share

AS 21: Consolidated Financial Statements

AS 22: Accounting for Taxes on Income

AS 23: Accounting for Investments in Associates

AS 24: Discontinuing Operations

AS 25: Interim Financial Reporting

AS 26: Intangible Assets

AS 27: Financial Reporting of Interests in Joint Ventures

AS 28: Impairment of Assets

AS 29: Provisions, Contingent Liabilities and Contingent Assets

**2.3.2 The new converged Indian Accounting Standard (Ind AS) under the Companies (Indian Accounting Standards) Rules, 2015 are given below:**

Ind AS 101: First-time Adoption of Indian Accounting Standards

Ind AS 102: Share-based Payment

Ind AS 103: Business Combinations

Ind AS 104 : Insurance Contracts

Ind AS 105: Non-current Assets Held for Sale and Discontinued Operations

Ind AS 106: Exploration for and Evaluation of Mineral Resources

Ind AS 107: Financial Instruments: Disclosures

Ind AS 108: Operating Segments

Ind AS 109: Financial Instruments

Ind AS 110: Consolidated Financial Statements

Ind AS 111: Joint Arrangements

Ind AS 112: Disclosure of Interests in Other Entities

Ind AS 113: Fair Value Measurement

Ind AS 114: Regulatory Deferral Accounts

Ind AS 115: Revenue from Contracts with Customers

Ind AS 1: Presentation of Financial Statements

Ind AS 2: Inventories

Ind AS 7: Statement of Cash Flows

Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors

Ind AS 10: Events after the Reporting Period

Ind AS 12: Income Taxes

Ind AS 16: Property, Plant and Equipment

Ind AS 17: Employee Benefits

Ind AS 20: Accounting for Government Grants and Disclosure of Government Assistance

Ind AS 21: The Effects of Changes in Foreign Exchange Rates

Ind AS 23: Borrowing Costs

Ind AS 24: Related Party Disclosures

Ind AS 27: Separate Financial Statements

Ind AS 28: Investments in Associates and Joint Ventures

Ind AS 29: Financial Reporting in Hyperinflationary Economies

Ind AS 32: Financial Instruments: Presentation

Ind AS 33: Earnings per Share

Ind AS 34: Interim Financial Reporting

Ind AS 36: Impairment of Assets

Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

Ind AS 38: Intangible Assets

Ind AS 40: Investment Property

Ind AS 41: Agriculture

**2.4 Implementation Status of Indian Accounting Standards (Ind AS)**

In India, the new converged Indian Accounting Standards (Ind AS) is adopted by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis under phase based implementation given below:

**Table 1: Implementation Status of Indian Accounting Standards (Ind AS)**

Phases	Transition date (1st Ind AS Financial Year)	Category of companies covered
Voluntary	April 1, 2014 (2015-16)	Any Company
Mandatory Phase I	April 1, 2014 (2015-16)	Companies other than Banking, NBFC & Insurance: a) Listed in India & Overseas with Net worth Rs.500 crore or more b) Unlisted with Net worth Rs.500 crore or more c) Parent, Subsidiary, Associates and JVs of above entities
Mandatory Phase II	April 1, 2016 (2017-18)	Companies other than Banking, NBFC & Insurance: a) All listed companies not covered in Phase I b) Unlisted companies with Net worth Rs.250 crore or more. c) Parent, Subsidiary, Associates and JVs of above entities

Mandatory Phase III	April 1, 2017 (2018-19)	Banking, Insurance and NBFCs  a) All Scheduled Commercial Banks*  b) All Insurance companies  c) NBFCs** with net worth Rs.500 crore or more
Mandatory Phase IV	April 1, 2018 (2019-20)	NBFCs**  a) All Listed NBFCs not covered in Phase III  b) Unlisted NBFCs with Net worth Rs.250 crore – Rs.500 crore

Source: 40th Anniversary Accounting Standards Board Report 2017

\*Along with its Parent, Subsidiary, Associates and Joint Ventures (Notwithstanding corporate roadmap)

\*\* Along with its Parent, Subsidiary, Associates and Joint Ventures (Other than those covered by the corporate roadmap)

### 3 Conclusion

This study is very helpful to understand the current accounting standard practices in India, and to understand the current implementation status of the converged Indian Accounting Standards in India. This paper is limited in its applications due to the amendments and changes being made time to time. However, this study can be used as the base for future study on the same topic.



## References

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