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Indian GAAP and Ind AS - A Study with Respect to Presentation of Financial Statements

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ABSTRACT

India is converging to IFRS and Indian IFRS standards, known as Ind AS. The conversion to Ind AS will not be a hassle-free job, as Ind AS is significantly different from the current Indian GAAP. The present research tries to compare Indian GAAP and Ind AS with respect to Presentation of Financial Statements. Descriptive research design has been used. Data has been gathered from secondary sources like top accounting journals, research papers and diagnostic study reports. From the reviews, it has been concluded that Ind AS gives more clarity regarding presentation of financial statements and emphasises more on transparency, reliability and comparability aspects.

Keywords: Indian GAAP; IFRS; IND AS; ICAI

1. Introduction

Accounting Standards are certain guidelines that direct the manner of proper application of a particular accounting principle in the preparation and presentation of the accounts of an entity. Different countries have different accounting standards. But due to globalization, the world of business has witnessed many changes and it has been observed that many countries (e.g. India) have been trying to or have made changes in the laws governing business to bring in global adaptability.

One of the recent developments in the field of standard setting is the International Financial Reporting Standards (IFRS). These are principles based Standards, Interpretations and Framework adopted by the International Accounting Standards Board (IASB) since its inception in April 2001 [earlier known as International Accounting Standards Committee (IASC)]. The IASC from 1973 (the year of its formation) till 2001 has issued 41 International Accounting Standards (IAS) and the IASB has added eight new standards. Presently, these are collectively known as IFRS.

India has got its own set of national Accounting Standards [as given by the Accounting Standard Board (ASB)] that are different on many counts especially on the socio-economic, cultural and legal norms. Accounting and Financial Statements are being prepared in India by applying these standards which are called Indian Accounting Standards (IAS), earlier India was applying Indian GAAP (Generally Acceptable Accounting Principles) which had limited applicability in terms of comparison with International Accounting Standards so India also

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decided to converge with IFRS and established its own Ind AS. There were 32 accounting standards in Indian GAAP; while at present there are 41 accounting standards as per Ind AS.

2. Objective of the Study

- To focus on the comparison of Indian GAAP and Ind AS with respect to presentation of financial statements.
- To understand Indian GAAP and Ind AS.

3. Research Methodology

This paper is purely based on secondary data. Descriptive research design has been used. Data has been gathered from secondary sources like top accounting journals, research papers and diagnostic study reports.

4. Comparative Study of Indian GAAP and Ind AS

Ind AS1-Presenatation of Financial Statements has been compared in the light of guidelines issued by Indian GAAP and Ind AS. Components of Financial Statements, Formats, Definition of "Material" and Disclosure of Material Information, Fair Presentation, classification of financial liabilities upon breach of covenants, classification of financial liabilities under refinancing arrangements, presentation of income statement / statement of comprehensive income, Presentation of Income Statement / Statement of Comprehensive Income, presentation of profit or loss attributable to non- controlling interests (minority interests), statement of profit or loss and other comprehensive income (statement of comprehensive income), Reclassification, extraordinary items, critical judgements, estimation uncertainty and Capital as given below.

4.1 Component Analysis of Ind AS 1

4.1.1 Indian GAAP

AS 1 – Disclosure of Accounting Policies/Schedule III to the Companies Act, 2013 AS 5 – Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies Note: An exposure draft of AS 1 (Revised), Presentation of Financial Statements has been issued by the ICAI. Pending finalization, the discussion below is based on AS 1 as notified under the Companies (Accounting Standards) Rules, 2006.

4.1.2 Ind AS

Ind AS 1 – Presentation of Financial Statements

4.2 Components of Financial Statements

4.2.1 Indian GAAP

The requirements for the presentation of financial statements are set out in Schedule III to the Companies Act, 2013, Schedule III to the Banking Regulation Act, 1949 (for banks), the regulations issued by the Insurance Regulatory and Development Authority (for insurance companies) and the SEBI Guidelines for Mutual Funds (for mutual funds) together with the Accounting Standards notified under the Companies

(Accounting Standards) Rules, 2006. As per the Companies Act, 2013, financial statements in relation to a company, includes (a) a balance sheet as at the end of the financial year; (b) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year; (c) cash flow statement for the financial year; (d) a statement of changes in equity, if applicable; and (e) Any explanatory note annexed to, or forming part of, any document referred to above. Comparative (corresponding) figures are presented for one year as per the requirements of Schedule III. Separate financial statements are required to be presented by all entities. The Companies Act 2013 requires a company having one or more subsidiaries, to prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own. The term "subsidiary" includes an associate company and joint venture. Certain relaxations have been provided from the preparation of consolidated financial statements.

4.2.2 Ind AS

A complete set of financial statements under Ind AS comprises a) a balance sheet as at the end of the period; b) statement of profit and loss; c) statement of changes in equity; d) a statement of cash flows; e) Notes including summary of accounting policies and other explanatory information. Comparative figures are presented for one year. When a change in accounting policy has been applied retrospectively or items of financial statements have been restated/ reclassified, a balance sheet is required as at the beginning of the earliest period presented.

4.3 Formats

4.3.1 Indian GAAP

Schedule III prescribes the minimum requirements for disclosure on the face of the balance sheet and statement of profit and loss and notes. AS 3 provides guidance on line items to be presented in the statement of cash flows.

4.3.2 Ind AS

Ind AS 1 does not include any illustrative format for the presentation of financial statements. The ICAI has issued an exposure draft of the Ind AS-compliant Schedule III. It provides guidance on line items to be presented in the statement of cash flows.

4.4 Definition of "Material" and Disclosure of Material Information

4.4.1 Indian GAAP

Financial statements should disclose all "material" items, i.e. items, the knowledge of which might influence the decisions of the user of the financial statements.

4.4.2 Ind AS

Omissions or misstatements are material if individually or collectively they could influence the economic decisions that users take on the basis of financial statements.

Under Ind AS 1, a specific disclosure required by an Ind AS is not provided if the information is not material except when required by law.

4.5 Fair Presentation

4.5.1 Indian GAAP

Fair presentation requires compliance with the applicable requirements of the Companies Act, 2013 and the other regulatory requirements and the application of the qualitative characteristics of the Accounting Standards Framework.

Departures from Accounting Standards or Companies Act, 2013 are prohibited unless permitted by other regulatory framework for example, the Insurance Regulatory and Development Authority.

4.5.2 Ind AS

Fair presentation requires faithful representation of the effects of the transactions, other events and conditions in accordance with the definitions of and recognition criteria for assets, liabilities, income and expenses set out in the Framework. In extremely rare circumstances in which management concludes that compliance with requirements of a Standard or Interpretation is so misleading, it may depart from the Standard or the Interpretation. Reasons for departure and why application of the Standard or the Interpretation would have been misleading and the financial impact of applying the standard are required to be disclosed.

4.6 Classification of Financial Liabilities under Refinancing Arrangements

4.6.1 Indian GAAP

There is no guidance in the existing standards. Schedule III specifies that financial liabilities where the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date will be classified as current liabilities.

4.6.2 Ind AS

Currently, even if the agreement to refinance or reschedule payments on a long-term basis is completed after the end of the reporting period and before the financial statements are authorised for issue.

4.7 Classification of Financial Liabilities upon Breach of Covenants

4.7.1 Indian GAAP

There is no guidance in the existing standards. Schedule III specifies that financial liabilities where the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date will be classified as current liabilities. The Guidance Note on Revised Schedule VI to the Companies Act, 1956 (Schedule VI has now been superseded by Schedule III under the Companies Act, 2013) issued by the ICAI states that "In the Indian context, the criteria of a loan becoming repayable on demand on breach of a covenant, is generally added in the terms and conditions as a matter of abundant caution. Also, banks generally do not demand repayment of loans on such minor defaults of debt covenants. Therefore, in such situations, the companies generally continue to repay the loan as per its original terms and conditions. Hence, considering that the practical implications of such minor breach are negligible in the Indian scenario, an entity could continue to classify the loan as "non-current" as on the Balance Sheet date since the loan is not actually demanded by the bank at any time prior to the date on which the Financial Statements are approved."

4.7.2 Ind AS

Where there is a breach of a material provision of a long-term arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender has agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach, the loan will not be classified as current.

4.8 Presentation of Income Statement/ Statement of Comprehensive Income

4.8.1 Indian GAAP

Schedule III requires an analysis of expense by nature. Any item of income or expenditure which exceeds 1% of the revenue from operations or Rs.1,00,000 whichever is higher, needs to be disclosed.

4.8.2 Ind AS

Entities should present an analysis of expenses recognised in profit or loss using a classification based only on the nature of expense.

4.9 Presentation of Profit or Loss Attributable to Non - Controlling Interests (Minority Interests)

4.9.1 Indian GAAP

Profit or loss attributable to minority interests is disclosed as deduction from the profit or loss for the period as an item of income or expense (as per AS 21).

4.9.2 Ind AS

Profit or loss attributable to non-controlling interests and equity holders of the parent are disclosed in the statement of profit or loss and other comprehensive income as allocations of profit or loss and total comprehensive income for the period.

4.10 Statement of Profit or Loss and Other Comprehensive Income (Statement of Comprehensive Income)

4.10.1 Indian GAAP

Statement of profit and loss is the Indian GAAP equivalent of separate statement of profit or loss under IFRS. Some items such as revaluation surplus which are treated as other comprehensive income under IFRS/ Ind AS are recognised directly in equity under Indian GAAP.

4.10.2 Ind AS

An entity is required to present all items of income and expense including components of other comprehensive income in a period in a single statement of profit and loss.

4.11 Presentation of Financial Statements - statement of changes in equity

4.11.1 Indian GAAP

A statement of changes in equity is currently not presented. Movements in share capital, retained earnings and other reserves are to be presented in the notes to accounts.

4.11.2 Ind AS

The statement of changes in equity includes the following information: • Total comprehensive income for the period; • The effects on each component of equity of retrospective application or retrospective restatement in accordance with IAS 8; and • For each component of equity, a reconciliation between the opening and closing balances, separately disclosing each change.

4.12 Extraordinary Items

4.12.1 Indian GAAP

Extraordinary items are disclosed separately in the statement of profit and loss and are included in the determination of net profit or loss for the period. Items of income or expense to be disclosed as extraordinary should be distinct from the ordinary activities and are determined by the nature of the event or transaction in relation to the business ordinarily carried out by an entity.

4.12.2 Ind AS

Presentation of any items of income or expense as extraordinary is prohibited.

4.13 Reclassification

4.13.1 Indian GAAP

A disclosure is made in financial statements that comparative amounts have been reclassified to conform to the presentation in the current period without additional disclosures for the nature, amount and reason for reclassification.

4.13.2 Ind AS

When comparative amounts are reclassified, nature, amount and reason for reclassification are disclosed.

4.14 Critical Judgements

4.14.1 Indian GAAP

AS 1 does not specifically require disclosure of judgements that management has made in the summary of significant accounting policies or other notes.

4.14.2 Ind AS

Requires disclosure of critical judgements made by management in applying accounting policies.

4.15 Estimation Uncertainty

4.15.1 Indian GAAP

AS1 does not specifically require an entity to disclose information about the assumptions that it makes about the future and other major sources of estimation.

Ind AS

Requires disclosure of key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The nature of the uncertainty and the carrying amounts of such assets and liabilities at the end of the reporting period are required to be disclosed.

4.16 Capital

4.16.1 Indian GAAP

AS-1 does not require an entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes of managing capital.

4.16.2 Ind AS

Requires disclosure of information about management of capital and compliance with externally imposed capital requirements, if any.

5 Conclusion

It has been concluded that Ind AS gives more clarity regarding presentation of financial statements and emphasizes more on transparency, reliability and comparability aspects. Ind AS requires disclosure of critical judgements made by management in applying accounting policies, while Indian GAAP does not. This study is focused only on Ind AS 1 so we cannot gather broader view of the issues related with the other Ind AS. Studies covering more Ind As can be conducted.

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