Accounting Standards in India – Present Status

A. Accounting standards applicable to companies in India

In India Companies are governed by Companies Act, 2013, which is administered by Ministry of Corporate Affairs (MCA).

As per Section 133 of Companies Act, 2013, the Central Government may prescribe the standards of accounting as recommended by the Institute of Chartered Accountants of India (ICAI) after consultation with National Financial Reporting Authority (NFRA). At present NFRA is not constituted. In accordance with rule 7 of Companies (Accounts) Rules, 2014, till NFRA is constituted, the Central government may prescribe standards of accounting as recommended by ICAI after consultation with National Advisory Committee on Accounting Standards (NACAS) constituted under section 210A of the Companies Act, 1956.

At present, companies in India apply Accounting Standards notified in Companies (Accounting Standards) Rules, 2006. The MCA has notified Companies (Indian Accounting Standards) Rules, 2015 via notification dated 16th February 2015 which came into force on 1st April 2015. These rules prescribes the applicability of Ind AS for Companies in India.

B. Convergence with IFRS

As we are aware, India is in the process of convergence of Indian accountings standards with International Financial Reporting Standards (IFRS). The current Indian Accounting standards will soon be replaced with Ind AS which are almost on par with IFRS, with some minor departures which are being made after considering the economic environment of the country. This will attract foreign investment in India, as the investor will be able to compare the financial statements of Indian companies with financial statements of companies abroad.

As per the Companies (Indian Accounting Standards) Rules, 2015, adoption of IND AS is optional for companies for period beginning on or after 1 April 2015. Further, it is mandatory for following companies to comply with Ind AS in preparation of financial statements for the accounting periods beginning on or after **1 April 2016**:

i. companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more (INR 500 crores or more);
ii. unlisted companies having net worth of rupees five hundred crore or more (INR 500 crores or more);
iii. holding, subsidiary, joint venture or associate companies of above companies

Further, it is mandatory for following companies to comply with Ind AS in preparation of financial statements for the accounting periods beginning on or after **1 April 2017**:

i. companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore (Less than INR 500 crores);
ii. unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore or more (Between INR 250 crores and INR 500 crores);
iii. holding, subsidiary, joint venture or associate companies of above companies

Notes:

- ✓ Net worth here means net worth in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date. For companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified above for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified above. The companies meeting the specified thresholds for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year.
- ✓ Once the Indian Accounting Standards (Ind AS) are applied voluntarily, it shall be irrevocable.
- ✓ The insurance companies, banking companies and non-banking finance companies shall not be required to apply Indian Accounting Standards (Ind AS) for preparation of their financial statements either voluntarily or mandatorily.
- ✓ Companies not covered by the above criteria shall continue to apply existing Accounting Standards notified in Companies (Accounting Standards) Rules, 2006.

C. International Financial Reporting Standards (IFRS)

Before we discuss about Ind AS, we should know about IFRS. IFRS comprises of following:

- International Financial Reporting Standards
- International Accounting Standards issued by the International Accounting Standards Committee (IASC);
- Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC).

International Accounting Standards Board (IASB) is responsible for developing and promoting the use and application of IFRS. Before March 1, 2001, IFRS were developed by International Accounting Standards Committee (IASC). The standards issued by IASC were called International Accounting standards (IAS). Hence, in IFRS we find both IAS and IFRS. IAS were issued by IASC and IFRS are issued by IASB. Similarly interpretation were earlier issued by Standing Interpretations Committee.

IASB is a body of IFRS Foundation.

D. IND AS in India

IND AS are numbered in line with IFRS numbering. All the IND AS which are based on IAS have same numbers. Further, all the IND AS which are based on IFRS starts from 100 series. For example, IND AS 32 is based on IAS 32. Similarly IND AS 109 is based on IFRS 9. Please refer the below link for IND AS notified by MCA:

http://www.mca.gov.in/MinistryV2/Stand.html

IND AS notified have been in line with corresponding IFRS, except some minor departures which are being made considering the economic environment of the country. For example, instead of using the terms used in IFRS like “Statement of Financial Position” & “Statement of Comprehensive income”, the terms “Balance Sheet” and “Statement of Profit and Loss” respectively are being used.