Corporate affairs ministry to prescribe road map for companies to adopt new account norms next week

The corporate affairs ministry will unveil a road map next week for implementing the new Indian Accounting Standards, a senior government official has told ET.

The blueprint will prescribe the class of companies that will be required to follow the new standards and the timelines within which they will need to adopt them.

The new Indian Accounting Standards (Ind-AS), which will be converged with the International Financial Reporting Standards (IFRS), are likely to initially apply to all listed and unlisted companies that have a net worth of Rs. 500 crore or more and their holding, subsidiary, joint venture or associate companies.

"The earlier road map released by MCA (ministry of corporate affairs) in 2011 could not be applied due to changes in the Companies Act and various other reasons. We are now in the process of revising the standards and will subsequently notify them by the end of December 2014," said the official quoted above. The Institute of Chartered Accountants of India (ICAI) is working on these drafts, some of which have already been released for public comments. These drafts include the one on financial instruments, which addresses the loan loss recognition problem that banks and financial institutions in developed countries faced during the 2008 global financial crisis. The drafts will be presented to the National Advisory Council on Accounting Standards by the end of this month, which will then make recommendations to the MCA for notifying these standards.

"The converged standards, relating to consolidated financial statements and fair value measurement, are likely to increase global acceptance of financial statements of Indian companies, resulting in lower cost of capital and improved valuations," said Sai Venkateshwaran, head-accounting advisory services at KPMG in India.

The global accounting standard will also allow investors and lenders to assess the risks and returns of their various investment opportunities, using financial information that is relevant, reliable and comparable.

The Indian Accounting Standards drew a lot of criticism when they were published in 2011, especially from the international community, which argued that there were significant carve-outs and deviations as against the IFRS and that the standards did not meet their objective.

"The MCA should now keep the carve-outs to the bare minimum when finalising the new Ind-AS to ensure that there is global acceptability for financial statements prepared using these standards when they are issued," Sai added.

Companies that will have to prepare their accounts as per the new norms will also be required to give last year comparative as per Ind-AS. Companies have to voluntarily follow the new Ind-AS from the next fiscal and it will be mandatory from 2016-17.

"It will give entities sufficient time to adopt new Ind-AS as it will have no impact on various requirements like minimum alteration tax computation, managerial remuneration computation because standalone financials will continue to be as per existing set of accounting standards," said Rakesh Nangia, managing partner, Nangia & Co.

The transition to a new framework for both financial reporting and tax reporting purposes will be a big change for companies and analysts say it may not be that smooth.

"Companies should start assessing the impact of Ind-AS adoption on their business, financial reporting, systems and processes, training needs and start preparing for the change, as these changes are not restricted to just the accounting function but have an organisation-wide impact, and possibly the way the company does business and raises capital," KPMG's Sai said.

Banks, financial institutions and insurance companies are expected to have a separate road map, which will be announced by their sectoral regulators in due course.

(Economic Times)