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B.Com Honours | Semester II | Calicut University

# Accounting Standards for Financial Reporting

Course Code: COM2MN103 • Module 3 Notes

# 1. International Financial Reporting Standards (IFRS) and Convergence

As trade and investments expand globally, multi-national corporations and cross-border investors require a single, high-quality global accounting language. This need is met by the **International Financial Reporting Standards (IFRS)**, developed by the **International Accounting Standards Board (IASB)**. This module covers IFRS features, global need, comparison between Indian Accounting Standards (Ind AS) and IFRS, and the process of IFRS convergence in India.

## Need and Features of IFRS

- **Global Capital Access:** Enables Indian companies to raise funds from foreign exchanges (NYSE, LSE) without restating accounts.
- **Principle-Based Standards:** IFRS focuses on broad principles and economic substance rather than strict rules, preventing companies from using loopholes.
- **Fair Value Focus:** Promotes using market value (fair value) measurements for assets, rather than historical cost.

## IFRS Convergence in India: The Birth of Ind AS

Rather than adopting IFRS directly, India chose to **converge** with IFRS. This resulted in **Ind AS (Indian Accounting Standards)**. Ind AS is IFRS-converged, meaning it matches IFRS almost completely, with minor modifications (called "Carve-outs" and "Carve-ins") to suit Indian legal and economic environments:

- **Carve-outs:** Deviations from IFRS to prevent conflicts with Indian laws (e.g., treatment of gain on bargain purchase, foreign exchange differences).
- **Carve-ins:** Additional provisions inserted into Ind AS where IFRS lacked guidance.

## Comparison: Ind AS vs. IFRS

| Comparative Basis | IFRS (International Standards) | Ind AS (Indian Converged Standards) |
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| **Authority** | Issued by the IASB. | Notified by the Ministry of Corporate Affairs, India. |
| **Application Format** | Purely international; used by over 140 countries. | Tailored to fit the Indian legal framework and Companies Act. |
| **Presentation of Statements** | Allows presenting components on the face of statements. | Requires presenting balance sheets strictly in the Schedule III format. |
| **Terminology** | Uses terms like "Statement of Financial Position". | Maintains terms like "Balance Sheet". |

## Conceptual Framework of Financial Elements

Under converged accounting standards, financial elements are recognized and measured using strict guidelines:

- **Recognition:** The process of capturing an item in the Balance Sheet or Income Statement. An item is recognized if it is probable that future economic benefits will flow to/from the entity and its cost can be measured reliably.
- **Measurement Bases:** The process of assigning monetary values to items. Includes **Historical Cost** (original purchase price), **Current Cost** (replacement price), **Realizable Value** (settlement value in normal sales), and **Fair Value** (market price).