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Convergence to IFRS: A comparative analysis of accounting standards in India.

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ABSTRACT

This study has employed summative content analysis to measure de-jure harmonisation between the Indian converged IFRS (Ind.AS) and IFRS under the headings Definition Terms (DT), Measurement and Recognition (M/R), and Presentation and Disclosures (P/D). The study has also introduced the convergence index, which was used to investigate differences that the convergences process has removed between the existing GAAP (AS) and IFRS.

There are significant differences between Ind.AS and IFRS in Measurement/Recognition and Presentation/Disclosure. The convergence index shows that Ind.AS has removed about 86% of the difference between the existing local GAAP (AS) and IFRS. The most interesting difference between Ind.AS and IFRS is that Ind.AS provides options where IFRS does not, while IFRS also provides options where Ind.AS does not.

Users of financial statements should understand that, although India has converged to IFRS, there are significant differences between Measurement/Recognition and Presentation/Disclosure of some major transactions. However, most of the differences between IFRS and Ind.AS are time and transaction-specific likely to be undertaken by large companies; hence, it may not reflect in financial statements of small and medium enterprises.

The study makes a methodological contribution by introducing a convergence index which measures how a country has bridge the gap between local GAAP and IFRS

Keywords: *IFRS, Ind.AS, Convergence, Adoption, India.*

1.0. Introduction.

The quest for accounting harmonisation is not a recent phenomenon; however, the preliminary convergence efforts before the 20th century focused on only reducing differences among the principles of accounting around the world. The establishment of International Accounting Standard Board (IASB) in 1973 with a prime motive of developing a single set of high quality, comparable accounting standards has shifted attention from reducing the differences in principles to the standardisation of accounting standards and practices.

This new drive of harmonisation has caused many accounting scholars to focus on the measurement of de-facto harmonisation (Ahmed and Ali 2015; Bayerlein and Al-Farooque 2012, Jones and Finely 2011, Van der Tas (1998), which are even confined to developed countries. Many researchers now believe that harmonisation can be achieved only at the point of practices (de-facto harmonisation). However, other scholars argue that de-facto harmonisation can only be achieved when there is de-jure harmonisation (Boolakay 2006; Ding et al. 2007; Morais and Fialho 2008; Rahman, Perera and Ganeshandam 2002). That is, de-facto harmonisation cannot be achieved in isolation, and uniformity of accounting practices is only possible when the standards and principles that guide the practices are uniform. For instance, Rahman et al. (1996) found that the similarity of accounting practices between New Zealand and Australian depends on the level of de-jure harmonisation between the two countries. Morais and Fialho (2008) also found that formal harmonisation of IAS 39 led to high compliance with IAS 39 among EU companies.

Although de-jure harmonisation is expected to lead to de facto harmonisation, it is not always the case, especially when the harmonised accounting standards allow for more options for companies (Canibano and Mora, 2000). A typical example is Ind.AS. Hence, it is imperative for studies to be undertaken to track the difference between national accounting standards and

IFRS. Such studies will reveal the extent of variation that accounting users must take into consideration when interpreting and evaluating financial statement across countries.

The notification by the Ministry of Corporate Affairs (MCA 2015) about India's converged IFRS implementation roadmap has placed the country's accounting reporting in the global spotlight. As one of the traditionally strong accounting countries, India's bite on IFRS is a matter of interest to the international accounting community. Further, the convergence to IFRS will facilitate the growth of India's companies across the world because investors will understand the financial statements of Indian companies with ease. For example, Bhatia and Tripathy (2018) found that the transition to IFRS increases the return to scale of Indian IT firms in the diaspora. Klibi and Kossentini (2014) also highlighted that the use of IFRS impact stock market development in emerging countries. Other scholars such as Campa and Donnelly (2016), and Cormier et al. (2015) has provided evidence on how IFRS improve reporting quality. For instance, Tawiah and Muhaheranwa (2015) reported that Indian companies that use IFRS provide quality accounting information than those using the local standards. However, the option for convergence rather than complete adoption by India brings many mixed feelings about how financial statements of Indian companies will be different from other countries.

Although there are prior studies such as Boolaky, (2006), Ding et al. (2007) Fontes, Rodrigues and Craig (2005), Herrmann and Thomas (1995), Qu and Zhang (2010), which have examined de-jure harmonization in different countries, I argue that India has some unique feature which warrants this current study. First, although Indian open its economy in 1991 to the world through the Liberation, Privatisation and Globalisation (LPG) program, its businesses are still dominated by government and family ownership (Perumpral et al. 2009; Tawiah et al. 2015). Additionally, there is a high level of promoter ownership in most Indian companies. These business structures differ from settings of prior studies, which are mostly

European with private and dispersed ownership. For instance, Chen and Rezaee (2013) argue that concentrated ownership tends to overreach minority shareholders by controlling the flow of information compared with dispersed ownership. Hence we expect Indian accounting standard to be unique due to it's (India) business ownership structures.

Second, India is a founding member of International Federation of Accountants (IFAC), and member of IASB which have been promoting IFRS for 40 years now. Additionally, the Institute of Chartered Accountants of India (ICAI) claims that they have been providing inputs to IASB in the development of IFRS (ICAI 2007). Despite ICAI involvement in the globalisation of accounting practices, it took India seven years after the first IFRS (2003) to initiate action on its roadmap to convergence and not even adoption. Also, it took the country another five years to announce the implementation of the converged IFRS standards, which was developed in 2010. These long timelines clearly indicate that the new standards were carefully crafted to align with IFRS and at the same time, incorporate the unique business practices in the country. These imply that the new standards are expected to bring major changes in the reporting landscape of the country. (Rekhy, 2015).

Third, with the stage-wise implementation strategy of Ind.AS, two sets of accounting standards will be operating concurrently in India for at least the next three years. These are, the existing GAAP (AS) and the newly converged IFRS (Ind.AS). Further Indian companies that are traded in the USA and Europe prepare accounts according to IFRS as issued by IASB and which makes it three different sets of accounting standards operating in India.

For these reasons, we are motivated to investigate the differences between Indian converged IFRS (Ind.AS) and IASB IFRS and its possible impact on financial statements. To achieve this, summative content analysis approach (Hsieh and Shannon 2005, Boolaky 2006) was used to measure de-jure harmonisation between the Indian converged IFRS (Ind.AS) and IASB IFRS under Definition Terms (DT); Measurement and Recognition (M/R); and

Presentation and Disclosures (P/D). The hypothesis was tested using the Wilcoxon paired test. The study has also introduced the convergence index, which was used to investigate differences that the convergences process has removed between the existing Local GAAP (AS), and IFRS.

There are many differences in the (P/D) compared to the (D/T) as well as the M/R. The results show that 72% of the P/D requirements of Ind.AS share similarities with IFRS. However, Ind.AS will be closer to IFRS when firms do not opt for the alternatives provided by Ind.AS. Ind.AS has incorporated options because of the dominance of family-controlled businesses, which are not likely to disclose more information. Also 76% of Ind.AS M/R requirements are similar to that of IFRS. Regarding DT, 90% of Ind.AS are similar to IFRS.

This study provides significant contributions to both academic and practices. First, it extends and updates prior literature Boolaky, (2006), Ding et al. (2007) Fontes, et al. (2005), Herrmann and Thomas (1995), Qu and Zhang (2010) by employing summative content analysis to measure the level of convergence to IFRS in India, an area which has not attracted much attention in research. Second, the study makes a methodological contribution by the introduction of a convergence index, which can be used to measure how a country has bridge the gap between local GAAP and IFRS. For practitioners and policy-makers, the study provides highlights on the individual items that are likely to cause differences between Ind.AS and IFRS statements. The study has also discussed the potential impact of these differences. Since the implementation of Ind.AS is at the introductory stage, this study provides novel grounds for studies into the consequences of IFRS in India.

The rest of the paper is organised as follows. In the next section, we compare IFRS adoption and IFRS convergence, followed by Accounting in India in Section 3.0. Section 4.0 presents the prior studies and hypothesis development. Section 5.0 explains the research methods; Section 6.0 covers the analysis and discussion, and Section 7.0 concludes the study.

2.0. IFRS Adoption vs IFRS Convergence

Adoption of IFRS means the application of full IFRS issued by the IASB in a country or jurisdiction, and 100% compliance with the IASB guidelines. It implies a continuous commitment by the jurisdiction to contribute to the development of IFRS in the future. (Mackisntos, 2014). Nobes (2011) argued that the purest form of IFRS implementation is where regulations in a jurisdiction require companies to use IFRS as issued by the IASB, whatever these may be at the time. Examples of such countries are Israel and South Africa.

Convergence, on the other hand, means the application of a modified comparative version of IFRS within a country. This means that the Accounting Standard Board (ASB) of the country develops high-quality compatible standards that meet the specific condition of the country but are based on the IFRS principles. The ASB of the country takes IASB's output and amends it in various ways—giving it a national name (Ind.AS), making textual changes, deferring effective dates, and deleting some options (Nobes, 2011).

Most professionals, especially IASB who are the major supporters and admirers of adoption, have continuously advocated that IFRS adoption is the only way to achieve a global common reporting language. In a speech by Ian Mackintosh (Vice Chairman of IASB 2014) at the IFRS Foundation conference 2014, he stated that the 2011 Trustee's Strategy Review has made it clear that convergence cannot be a substitute for adoption. The IASB also stated that convergence should not be a short-cut to adoption. Convergence alone cannot eliminate all the difference between national standards to bring uniformity. The Constitutional Review of the IASB Trustee reiterates that convergence is not an objective in itself but is a means to achieve the adoption of IFRS. Convergence is seen as a good preparatory step for IFRS, and a complete adoption is the only sufficient approach for a country to reap the full global benefits of IFRS in its financial reporting.

3.0. Accounting in India

3.1. Accounting Systems and Practices

It is not unusual for an ancient country like India to practice different accounting system that reflects the different phases of its economic development. India existed as a country and engaged in trade in the BC (Before Christ). Hence it is not wrong to start the genealogy of Indian accounting practices from the BC.

Before colonialization, Vishnugupta Chanakya Kautilya wrote a book called Arthashastra in the 4th century that describes accurate measuring and reporting of economic activities as a means of wealth creations (Kautilya's Sutra, Subramanian). At that time, the objective of accounting was to explain and predict economic activities (Kautilya 4th Century). Kautilya used permutations and combination, to developed accounting rules for the preparation of income statements and budgets as well as performing independent audit (Sihag, 2004). These rules were mainly addition and subtraction of figures which is similar to the single entry of present-day accounting reporting (Tawiah and Boolaky 2020). Due to the dominance of the public sector at the time, the rules on primarily for preparation and presentation of government business activities.

As part of its colonial dominance, the Britishers brought in strict uniform accounting practices, especially on the East-India companies during the colonialisation era (Maston, 1986). These strict uniform accounting practices facilitated tax collection in India. There was also a need for a uniform accounting system because Indians traded with people from both the East and West during the colonial (Perumpral et al. 2009).

After the independence of India from the British, private individuals (family) took over some of the government business and British companies, as well as the start-up of family-controlled business such as TATAs' (Maston, 1986). Because of the to fear of competition, and payment of high taxes, most family-controlled businesses were unwilling to disclose financial

information (Perumpral et al. 2009). Businesses were preparing accounts as it suits them without any reference to any standards. At best, some state and empire tried to develop laws that suit the people of the state. Despite the formation of the ICAI in 1949, it had no legal power for setting accounting standards (Tawiah and Boolaky 2020).

Although the inception of Companies Act 1956 brought some uniformity in the preparation of accounts, the requirements of the Act were generic without reference to any specific standards. Section 211 of the Companies Act 1956 prescribes the content of the balance sheet, profit and loss accounting, making references to the schedule VI in Part 1. However, Subsection 3A and 3C further stated that the profit and loss, and balance sheet should comply with standards recommended by the ICAI. Though mandated to set standards, until 1979, the ICAI has not set any standards; hence, there were no specific standards for accounts preparations.

The ICAI established the Accounting Standard Board in 1977 to develop accounting standards. The first standard titled In AS 1: Disclosure of Accounting Policies was introduced in 1979. From that date onwards, the recommended standards and basis of preparation of accounts in India has been the IGAAP (AS). Up until 2007 when the ASB has been developing and revising IGAAP (AS) to meet the continuous changing economic environment. The AS is perceived to closer to IFRS because of the Indian membership in the IFRS foundation.

3.2. The journey of IFRS in India.

Similar to other strong accounting nations such as Canada, China, Russia, Japan, and the USA, the journey of IFRS in India has not been smooth or fast. It has been a “back and forth” road map with a series of deferred implementation dates since 2011. Figure 1.0 shows the chronology of events leading to the implementation of converged IFRS standards in India. India first public touch on the use of IFRS started with the issuance of the “Concept Paper on Convergence with IFRS” by the Institute of Chartered Accountants, India (ICAI) in 2007.

Because the country made it clear that it would deviate from the complete adoption of IFRS, the ICAI began developing a new set of a converged IFRS to suit the country.

There are several carve-outs¹ and carve-ins² that cause divergence from IFRS. The purpose of these modifications is to ensure that the IFRS is applied smoothly within the context of the Indian economic and cultural environment. It is worth noting that Ind.AS has brought changes to the financial reporting landscape of India. Unlike the Indian GAAP (AS), which was both rule-based and generic, Ind.AS is a blend of the rule-based³ nature of AS and the principle-based IFRS⁴.

After the development of Ind.AS by ICAI in 2010, the Ministry of Corporate Affairs (MCA) took the mantle by issuing Ind.AS on its website as an official publication in February 2011. According to the MCA proposal, these new standards were expected to enter into force on April 1, 2011, with India's usual stage-wise implementation process. Unfortunately, this proposal remained only a plan, even until the end of 2014. There were numerous speculations about the implementation date as well as many deferring dates before 2015.

The light of implementation finally dawned on Ind.AS in February 2015, with an official notification of the new roadmap on Ind.AS. Phase I⁵ and phase II⁶ companies were mandatorily required to report per Ind.AS from the 2016/2017 and 2017/2018 accounting year respectively. However, all companies could voluntarily report Ind.AS financial statements from the 2015/2016 financial year (MCA notification 2015). The notification also included the 39 Ind.AS which came into force on the said date.

¹ "Carve-outs" are the requirements that are in IFRS but are removed from Ind.AS.

² "Carve-ins" are additional requirements per Ind.AS that are not part of IFRS.

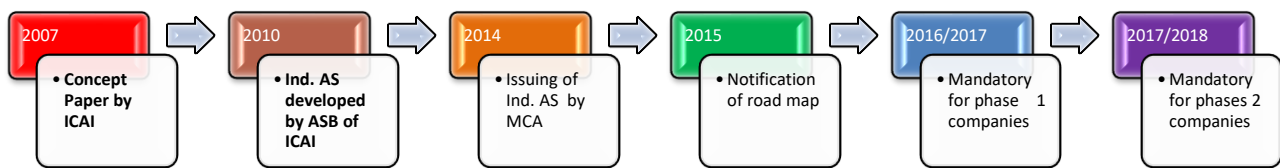
³ AS is rule-based because is straightforward and does not give options for preparing the account

⁴ IFRS is principle-based because it gives options to be selected from in reporting.

⁵ Phase 1 companies are companies with network of 500 crores and above

⁶ Phase 2 companies with network of over 250crores but less than 500 crores

Figure 1.0. The journey of IFRS in India. Source: authors' design based on existing information.



3.3. Accounting standard-setting process in India

In pursuant to Section 133 of Companies Act 2013 of India, “The Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under Section 3 of the Chartered Accountants Act, 1949 (38 of 1949), in consultation with and after examination of the recommendations made by the National Financial Reporting Authority”. The Central Government does this through the Ministry of Corporate Affairs, who is the administrator of the Companies Act.

The Institute of Chartered Accountants of India (ICAI) is the statutory body responsible for the setting accounting standards and regulating the profession of chartered accountancy in India.

As done in other countries, ICAI has Accounting Standard Board (ASB), a sub-committee within the institute which set accounting standards. In setting each standard, ASB follows seven-steps due process.

- (1) The ASB determines the broad areas in which accounting standards need to be formulated and the priority with regard to issuance thereof.
- (2) Study groups on specific subjects determined in step 1 are constituted.
- (3) ASB considers the preliminary draft as submitted by the study group and finalise it for exposure to interest groups
- (4) ASB circulate a draft for comments and suggestions as well as meet with representatives from interest groups such as Associated Chambers of Commerce and

Industry, Federation of Indian Chambers of Commerce and Industry, Institute of Cost and Works Accountants of India, Standing Conference of Public Enterprises, Institute of Company Secretaries of India, Central Board of Direct Taxes, Department of Company Affairs, Comptroller and Auditor General of India, Reserve Bank of India, Indian Banks' Association, Securities and Exchange Board of India, Confederation of Indian industries.

- (5) After receipts of comments and discussions from the interest groups, the ASB revise the Exposure Draft and circulate it for public comments.
- (6) Upon receipts of public comments and suggestions, the ASB finalised the standard and submit it to ICAI council for consideration.
- (7) ICAI council considers the final draft of the proposed Standard, and if necessary, modifies the same in consultation with ASB.

After approval of the standard by the Council, ICAI submits the proposed standard to the Ministry of Corporate Affairs (MCA) for issuance and entering into force. The MCA refer the proposed standard to the National Financial Reporting Authority who examine and make recommendations to MCA. The standard is then issued and regulated under the authority of Central Government in accordance with Section 133 of the Companies Act 2013.

The ASB does extensive consultation with the Securities and Exchange Board of India, the Reserve Bank of India and Insurance Commission in the development of relevant standards.

The significant role of the central government in the setting and enforcement of accounting standards in India clearly shows that the influence of government on the development of accounting standard in India is stronger than other countries such as Australia, New Zealand and the UK, which has been considered in prior studies.

4.0. Literature and hypothesis development

The question of how accounting practices and standards have harmonised across the globe has been topical in accounting research for many years. As such authors have used different methods in examining harmonisation between and among countries. However, these studies are quite old and did not cover India. Studies before the inception of IFRS in 2003 focused on harmonisation among countries whereas current trend looks at how local standards are comparable with IFRS.

Rahman et al. (1996) study on the disclosure and measurement requirements between Australia and New Zealand highlighted the high level of harmonisation between the two countries before the adoption of IFRS. In Europe, Herrmann and Thomas (1995) examined the harmonisation of accounting measurement across countries. They found that countries were similar in foreign currency translation of assets and liabilities recognition, but different in translation on revenue and expenses. They also found that inventory valuation was the same across the sample countries.

Garrido et al. (2002) longitudinal study using Euclidean distance approach indicated that IASB had improved harmonisation through the issuances of IAS. Fontes et al. (2005) used both Jaccard's coefficient and Spearman's coefficient to assess the harmonisation of Portuguese accounting standards towards IFRS. Their measure involves 3 phases, Euclidean distances used by Garrido et al. (2002), Jaccard's coefficients and Spearman's coefficient. Their study provides evidence of positive progress between Portuguese accounting standards and IFRS. Using fuzzy clustering analysis, Qu and Zhang (2010) reported that Chinese accounting standards (CAS) are significantly similar to IFRS. However, they caution that there are differences between IFRS and CAS, which can result in differences in accounting values. In Africa, Boolaky (2006) used content analysis to compare IFRS with local reporting standards of South Africa, Mauritius and Tanzania. The study compared the definition of terms,

accounting treatment and disclosures of these country's local standards with IFRS. Boolaky (2006) reported that there were similarities between the three countries. In ranking the countries local standards with IFRS, the study concluded that South African standards are more harmonised with IFRS, followed by Mauritius and Tanzania been the least harmonised country. Boolaky (2006) used a Wilcoxon matched paired test to run the statistical significance of the harmonisation score.

Joshi (2012) claim that the benefits of convergence to IFRS in India is not likely to lead to global harmonisation because of subjective and judgemental measurement. The author argues that management will use discretion to their advantage, given the weak financial market of the country. Similarly, Patro and Gupta found that management students' in India have less knowledge of IFRS and low interest in accounting harmonisation. Hence as future accounting professionals, these students are less likely to ensure effective harmonisation that comes with the adoption of Ind.AS. Parvathy (2017) also argues that the convergence to IFRS in India is likely to be a mere formality as there is limited awareness among stakeholders.

Sharma, Joshi and Kansal (2017) found that accounting professionals and bankers in India acknowledge the efforts of ICA in training people; however, these professions admitted that convergence to IFRS might not lead to harmonisation due to difficulty in interpreting the standards.

Although there is evidence of challenges in effective implementation of Ind.AS in achieving global harmonisation, I follow from prior studies that suggest convergence is an attempt to bridge the gap between local accounting standards and IFRS. For instance, Jones and Finley's (2011) investigation on the harmonisation of IFRS between Australian and EU indicated that accounting practices variability reduced after the adoption of IFRS. Consistently, Bayerlien and Al-Farooque (2012) also provided evidence that deferred tax and goodwill accounting has harmonised between Australian, Hong-Kong and the UK after the adoption of

IFRS. Catuogno and Allini (2011) also found that the level of harmonisation increased in Italian and Spanish companies after the implementation of IFRS. Nobes (2011) opines that convergence is a modification of IFRS to meet the specific needs of a country, resulting in no significant difference between IFRS and converged local standards. Further, the MCA (2015) and ICAI (2007) of India claim that the carve-ins and -outs in Ind.AS is not intended to bring any significant difference from IFRS, but rather to give options to suit the Indian business environment. Given these, it is hypothesised:

There is no significant difference between Ind.AS and IFRS in terms of Definition of Terms (DT), Measurement/Recognition (M/R), and Presentation/Definition (P/D).

5.0. Research design.

5.1. Content analysis

Content analysis is a research technique for making replicable and valid inferences from texts to the contexts of their use (Krippendoff, 2004). Content analysis provides new insights and increases a researcher's understanding of the specific situation. As a qualitative research tool, it requires the researcher to pay attention to a small amount of textual matter. It also involves the interpretation of given texts into analytical narratives that are accepted within the field of study. Besides, the analysis is conditioned on the social and cultural understanding of the researcher (Krippendoff 2004). According to Krippendoff (2004), for content analysis to be a scientific technique, it should be reliable by being replicable; thus, the findings should be same for all researchers using the same methods on the same data. Moreover, the results should be open to careful checks and be upheld in the face of available independent evidence; thus, the result should be valid. This study follows the reliability approaches suggested by Zhang and Wildemuth (2009) and Milne and Alder (1999). These approaches involve coding by one person and review by an expert.

Content analysis has been used on large qualitative data (Boolaky, 2006; Hsieh and Shannon, 2005) Boolaky (2006) used content analysis to measure de-jure harmonisation between the local accounting standards of Mauritius, South Africa, Tanzania, and the IAS. Hsieh and Shannon (2005) argued that the extensive use of content analysis had created three approaches by which data is interpreted, and these approaches differ in coding. The first approach is a conventional content analysis where codes are derived directly from the text data. The second approach is the directed content analysis, which builds the codes based on established theory and findings. The third approach is summative content analysis. With the summative approach, the researcher counts and compares the data. Following from Boolaky (2006), this study dwells on the summative content analysis, which involves counting and comparing the definition of terms, measurement and recognition, and presentation and disclosures requirements between Ind.AS and IFRS.

The summative content analysis was done in the following steps. First, an equivalent table was set-up for matching and cross-referencing the numbering and titling of the three sets of standards (AS, Ind.AS and IFRS). The objective was to make sure that comparison was of the standards on the same subject matter regardless of the differences in numbering. Next, we separated the parts of each standard into DT, M/R and P/D. At the analysis stage, each of the three parts of each standard was compared with its counterpart of the other set of standards. For instance, DT of Ind.AS 33 was compared with DT of IAS 33. After careful analysis, the differences between the set of standards were coded as D – if there were differences or S – if there were no differences. Following from Milne and Alder (1999), coding was done on a paragraph by paragraph and sentence by sentence where possible. In the final step, each of the S and D of each part is sum up to derived the harmonisation score. The higher the S score, the greater the harmonisation. The D scores were used to calculate the convergence score.

Not only is it practically difficult to scrutinise each standard word by word due to the high volume of information (Robson 1993), it is less important in the case of accounting standards. Because every accounting standard is built on three thematic areas: how transactions are defined, how they are measured and recognised, and how these transactions are presented or disclosed in the financial statements. Therefore this study focuses on the differences that relate to definition of terms (DT); measurement and recognition (M/R), and presentation and disclosures (P/D) between Ind.AS and IFRS. This study ignores textual differences.

5.2. Harmonisation score

In order to construct a harmonisation score to test the hypothesis, each standard was compared with each other on Definition of Terms (DT), Measurement/Recognition (MR) and Presentation/Disclosures (P/D) requirements. Unlike prior studies (Herrmann & Thomas 1995; Rahman et al. 1996) where individual differences in each standard are not separately captured due to binary coding (i.e., standards that have more than one difference are coded the same as standards that have only one difference), this study counts the number of differences per standard. Hence, the coding starts from 0, which indicates no differences to 1, 2, 3, 4, and so on, depending on the number of differences in the standard. Arguably, each difference within a standard can impact the values in a financial statement; hence, using dichotomous coding of similarity and difference as done in prior studies does not reflect the true harmonisation of the standards.

$$HZ = \frac{\text{total number of requirements of all standards} - \text{number of differences between Ind. AS and IFRS}}{\text{total number of requirements of all standards}} \times 100$$

The harmonisation score ranges between 0-100. Where a score of 100 means, Ind.AS is fully harmonised with IFRS with no difference between them on DT, M/R or P/D. Therefore a deviation measures how far the calculated harmonisation score is from 100. For instance, a harmonisation score of 83% means the standard is deviated from IFRS by 17% (100-83).

5.3 Convergence Index

The convergence index was used to measure how the convergence process has increased similarities between the country's reporting standards and global standards such as IFRS. In other words, the convergence index captures the extent of similarities that convergence has brought between local GAAP and IFRS. The index ranges between 0-100 where high index means, the convergence has removed more difference that existed between local GAAP and IFRS. Thus the higher the index, the more closely the converged local standard is to IFRS. Content analysis is used to count the number of identifiable differences among AS, Ind.AS, and IFRS on standard-to-standard basis. The denominator represents the number of differences between IFRS and AS. The numerator represents the number of differences between IFRS and AS that has been removed by Ind.AS. It is derived as the number of difference between IFRS and AS minus (-) the number of differences between Ind.AS and IFRS. The degree of convergence is to identify how the national standards (AS) have been converged with IFRS.

$$CI = \frac{\text{number of differences between AS and IFRS} - \text{number of differences between Ind.AS and IFRS}}{\text{number of differences between AS and IFRS}} \times 100$$

Ind.AS provides a unique setting for harmonisation to be analysed from three (3) perspectives: "with options", "without options", and "single count". *With options* - Ind.AS have some carve ins-and carve-outs, which give flexibility for firms to choose under some standards; hence, this study evaluates how closely converged Ind.AS is to IFRS if firms choose the options provided.

Under the “*without options*”- it is assumed that a preparer will prefer to be closer to IFRS; hence, they will not opt for the choices as provided in Ind.AS. That is, the differences that arise due to options are eliminated to analyse how close Ind.AS will be to IFRS.

With the “*single count*”- the study followed the traditional binary codification of 0 representing no difference and 1 representing differences irrespective of the number of differences in each standard.

This study covers all 39 Ind.AS issued as of 2015, when the MCA of India set the effective dates for their converged IFRS (Ind.AS) except for Ind.AS 101 and its equivalent IFRS 1; First-time adoption. Because its application is once in the life of a company.

6.0. Analysis and discussions

6.1. IFRS and Ind.AS

Content analysis on accounting standards usually starts with a comparison of the numbers and titles of the standards, but since both Ind.AS and IFRS have the same titles, this study ignores such comparisons.

From the harmonisation score matrix in Table 2.0, it can be seen that 90% of the DT in Ind.AS are same as IFRS, meaning that only four (4) out of the 38 sample standards have terms defined differently from IFRS. These terms are control under business combination (IFRS 3 vs Ind.AS 103), joint control in IFRS 11 vs Ind.AS 111, related party in IAS 24 vs Ind.AS 24 and Agricultural plant in IFRS 41 vs Ind.AS 41. Whereas Ind.AS includes, common control as part of a business combination which must be accounted using pooling of interest method, IFRS excludes such control hence no goodwill must be calculated on such transactions. Similarly, Ind.AS includes common control in a joint venture but IFRS scopes out joint venture under common control. (See Table 1.0 for the differences between Ind.AS and its impact).

Since the harmonisation score is the same under all three circumstances (with options, without options, and single count), it can be concluded that such differences are likely to result in a permanent difference between Ind.AS and IFRS.

Regarding Measurement/Recognition (M/R), the score of 76% of “With Option” implies that if the preparer opts for the alternatives provided in Ind.AS, their statements are likely to deviate 24% (100-76) from IFRS financial statements (see Table 2.0). However, if the preparer ignores the options and applies the same requirements as IFRS, Ind.AS statement will be about 80% similar to IFRS financial statement; that is; the harmonisation scores improve when alternative M/R in Ind.AS is eliminated.

There are more differences in the Presentation/Disclosure (P/D) than in the DT as well as the M/R. As indicated in Table 2.0, 72% of the P/D requirements of Ind.AS are similar to IFRS. However, Ind.AS is closer to IFRS when firms do not opt for the alternatives provided by Ind.AS. Ind.AS has incorporated options to cater for the dominance of family-controlled businesses, which are less likely to disclose more information.

As expected, the harmonisation score is higher under the single count of 0 and 1 regardless of the differences in each standard. While this coding provides a high score, it may be misleading because it does not capture the entire difference between the two sets of standards.

Insert Table 1.0 Some Differences between Ind.AS and IFRS with impact analysis.

Insert Table 2.0 Harmonization score matrix

The results of Wilcoxon matched paired test presented in Table 3.0 indicate that there is no significant difference between Ind.AS and IFRS on DT in all three scenarios (with options, without option and single count). However, there is a significant difference between Ind.AS and IFRS with regards to M/R and P/D requirements, implying that financial statements

prepared per Ind.AS can be significantly different from IFRS financial statement. The Wilcoxon analyses provide sufficient evidence that there is a significant difference between IFRS and Ind.AS in the M/R and P/D. Thus, the two sets of accounting standards may be similar in defining transaction or terms, but their measurement/recognition, as well as presentation/disclosures, differ.

Insert table 3.0. Results of Wilcoxon Match Paired Test.

6.2. IGAAP, Ind.AS and IFRS

A total of 252 differences were identified between the IGAAP (AS) and IFRS, while the number of identifiable differences between Ind.AS and IFRS was 34 items. From this data, the degree of convergence can be calculated as follows

$$\frac{\text{number of differences between AS and IFRS} - \text{number of differences between Ind. AS and IFRS}}{\text{number of difference between AS and IFRS}} \times 100$$
$$\frac{252 - 34}{252} \times 100 = 86.50\%$$

The convergence index (CI), which measures how a country has improved its existing local GAAP to be similar to IFRS indicates that India has bridge some differences between the local GAAP (AS) and IFRS through the convergence process. The CI demonstrates that Ind.AS has covered above 86.5% of the difference between the existing local GAAP (AS) and IFRS. The 34 differences between Ind.AS and IFRS include differences on DT, M/R and P/D of each standard. Details of the CI for DT, M/R and PD are provided in Table 4. The results of Table 4 resonate with the harmonisation score in Table 2, which measures the direct similarity between Ind.AS and IFRS. It is not surprising that Ind.AS has removed about 97% of the difference that existed between AS and IFRS on definition of terms (DT). This is because, the similarities between Ind.AS and IFRS, as measured by the harmonisation, was 90%. That is to say 90% of definition of terms in Ind.AS is same as that of IFRS. And this was only possible

because the convergence to IFRS which has removed 97 % of the differences existing between the local GAAP and IFRS.

Given that this study is on de-jure harmonisation, the CI of 86.5% does not necessarily have a direct economic interpretation. Rather the CI score gives precursor evidence of how close the financial statements of Ind.AS is to full IFRS as issued by the IASB. At best, the CI indicates that the convergence process in India as brought the country accounting system closer to the global standard

7.0. Conclusion.

With the aid of summative content analysis, this paper has measured and analysed the differences and similarities between Ind.AS (Indian converge IFRS) and IFRS as issued by IASB under three scenarios: Ind.AS “With Options”, Ind.AS “Without Options” and the “Single Count”. This study has also introduced a convergence index, which measures how a country has improved its existing local GAAP (AS in the case of India) towards international standards through convergence. Wilcoxon matched paired test was used to test the hypothesis that there is no significant difference between Ind.AS and IFRS in the three thematic areas of accounting standard; definition of terms (DT), measurement and recognition (M/R), presentation and disclosure (P/D).

The results indicate a significant difference between Ind.AS and IFRS in M/R and P/D under all three scenarios. However, the convergence index shows that Ind.AS has reduced about 86% of the difference between the existing local GAAP (AS) and IFRS.

The most interesting difference between Ind.AS and IFRS is that Ind.AS provides options where IFRS do not. Contrary, IFRS also provides options where Ind.AS does not. For example, Ind.AS gives the option for the recognition of unrealised exchange differences arising from the translation of long-term monetary items, either as separate items in the income statement or

directly in equity, whereas IFRS requires recognition in income statements only. To the contrary, IFRS gives the option for the measurement of investment property (IAS 40) at fair value or cost model, while Ind.AS requires the measurement and recognition at cost model only. However, Ind.AS eliminates most of the options given under IFRS.

Juxtaposing the harmonisation score on Ind.AS and convergence index on local GAAP (AS), we conclude that although India has not fully adopted IFRS, the implementation of Ind.AS demonstrates the country's commitment to global harmonisation of accounting standards.

Notwithstanding, the convergence of India towards IFRS, there are significant differences between Measurement/Recognition (M/R) and Presentation/Disclosure (P/D) of some transactions. Example of such differences are the presentation of gains on a business combination (IFRS 3 vs Ind.AS 103) and discounting of employee benefit obligation (IAS 19 vs Ind.AS 19). And some of these standards are found to create a difference is the reported figures of IFRS and Ind.AS (see Tawiah and Boolaky 2020).

It is worth noting that most of the differences between IFRS and Ind.AS are time- and transaction-specific. For example, differences in business combinations of IFRS 3 and Ind.AS 103 can only occur when a company acquires or merges with, another company. Further, the differences that affect accounting valuations are of high-class business transactions, usually undertaken by large and multinational companies; therefore small and medium enterprise Ind.AS financial statements will be more comparable with IFRS statements than with large and multinational entities.

As first Ind.AS financial statement rolled out in 2017, this study set grounds for future research on Ind.AS. Such studies include measurement of de-facto harmonisation and firms' compliance with Ind.AS.

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Tables

Table 1.0. Some Differences between Ind.AS and IFRS with impact analysis.

Standard	Ind.AS	IFRS	IMPACT
IFRS 3 vs. Ind.AS 103 Common control	It includes business combinations of entities under common control. Business combination under common control should be accounted for using pooling of interest method. Excess consideration is recorded as goodwill while shortfall is treated as capital gain.	Business combination under common control is excluded, hence no new goodwill. Excess and short of consideration is recognised in retained earnings.	The assets per Ind.AS will show high value in case there is goodwill under common control while there will be no effects on assets per IFRS when there is excess consideration. In the same way shortfall in consideration will not affect the retained earnings per Ind.AS but only capital reserves. This difference will not affect the total net worth of the company
Gain on bargain purchase	Requires gain from bargain purchase to be recognised in Other Comprehensive Income and accumulated in equity as capital reserves.	Gain arising from bargain purchase is recognised in Profit and Loss	The net profit of IFRS will be higher than that of Ind.AS because of the gain. But the Total Comprehensive Income as well as total equity will be same because net profit will be accumulated in equity as retained earnings
Ind.AS 109 vs. IFRS 9 Fair value of hedge interest rate	Option to apply requirements of IAS 39 for fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities as provided in IFRS 9 has been removed in Ind.AS 109	It gives option to apply requirements of IAS 39 for fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities	If an entity applies the option of fair valuation of hedge of interest rate exposure of portfolio financial assets and liabilities in IFRS, its financial assets and liabilities are likely to be higher than Ind.AS
Equity instruments	It gives option in limited circumstances that, cost may be an appropriate estimate of fair value for subsequent measurement of equity instruments and contracts	It does not give any option. All equity instruments and contracts are	If a company opt for the cost method in limited circumstances its financial assets value in the balance sheet will be less than that of IFRS.

		subsequently measured at fair value.	
Ind.AS 110 vs. IFRS 10 Measurement of investment in other entities	Per Ind.AS 40 all investment properties are to be measured at cost initially and cost less depreciation. In same way investment under Ind.AS 110 must be measured at cost.	IFRS 10 requires all investments to be measured at fair value to qualify for the exemption from consolidation available to an investment entity.	Investment measured at cost per Ind.AS is likely to be less than IFRS fair value, hence if an entity is exempted from consolidation and record at cost its total investment value will be lower than IFRS value. But this will only happen when company does not prepare consolidated statement
Ind.AS 111 vs. IFRS 11 Common control	Joint venture includes joint venture under common control	IFRS 11 scopes out joint venture under common control	Same impact as Ind.AS 103 vs. IFRS 3
Ind.AS 115 vs. IFRS 15 variation in the amount of consideration	Penalties are excluded from the examples which may cause variation in the amount of consideration. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration. In other cases, the transaction price shall be considered as fixed.	Penalties are included in list of examples which cause variation in the amount of consideration	Only penalties other than inherent penalties will bring difference in the revenue. In such case the revenue and the gross profit of Ind.AS will be higher than IFRS, but the net profit of both standards will be same because the penalties which were not reduce from the revenue under Ind.AS will be charged as expense.
Excise duty presentation	Requires an entity to present separately the amount of excise duty included in the revenue recognised in the statement of profit and loss.	Entities need not to present excise duty. Revenue can be presented net of excise duty	This will not affect the net revenue. However Ind.AS presentation of excise duty on the profit and loss will provide more details on revenue
Presentation of Revenue reconciliation for adjustments	Entities are required to present reconciliation of the amount of revenue recognised in the statement of profit and loss with the contracted price showing	This is not require in IFRS.	This is presentation difference which does not affect the recognition and measurement hence does not affect accounting values

made on contract	separately each of the adjustments made to the contract price specifying the nature and amount of each such adjustment separately.		
Ind.AS 1 vs. IAS 1 Statement of profit and loss	Requires only single statement approach i.e. (statement of comprehensive income)	Gives option for companies to choose either single statement approach or dual statements (separate profit/ loss account and separate statement of other comprehensive income	This is textual difference which will not affect accounting values. Ind.AS have an advantage of ensuring comparability among companies because all companies will use single statement approach
Statement of changes in equity	Requires the presentation of statement of changes in equity as part of balance sheet	Statement of changes in equity is prepared as separate statement	No impact on accounting values because is textual difference but IAS will provide more details and easy readable statement
Classification of expenses	Expenses are classified only by nature	Option is given for expenses to be classified either by nature or by function	No impact on accounting valuation, only textual difference. However, Ind.AS will enhance comparability of expenses among companies because of only single classification
Ind.AS 7 vs. IAS 7 Classification of interest and dividend	Requires the classification of interest paid and received, dividend received as operating activities and dividend paid as financing activities for financial entities. While other entities are required to classify interest and dividend paid as financing and interest and dividend received as investing activities	Gives option for the classification of interest and dividend as operating activities	Financial statement that opt for interest and dividend as operating activity per IAS will have difference cash flow with Ind.AS statement under operating activity. However these difference will not affect the cash balance of the two standards

Ind.AS 17 vs. IAS 17	Property interest in operating lease cannot be accounted for as investment property as the fair value model is no permissible by Ind.AS 40	Operating lease can be classified as investment properly and it should be recognised at fair value.	The fair valuation of operating lease under IFRS will lead to recognition changes in fair value in the Profit and Loss.
Ind.AS 19 vs. IAS 19 Actuarial gains an loss	Requires actuarial gain and loss for other long-term benefits to be recorded in Other Comprehensive Income	Actuarial gain and loss on other long term benefits are recognised in Profit and Loss	If an IFRS company opt to recognise actuarial gains and loss in Profit and Loss its, net profit will be higher (in case of gain) and lesser in (case of loss) than Ind.AS. The total comprehensive income of under both standard will not change
Discounting of employee benefit obligation	Requires post-employment benefit obligation to be discount using market yield on government	Deep market high quality corporate bonds rate for discounting employee benefit and government bond rate can only be used when there is no market rate.	Since the market rate yields on corporate bonds are always higher, the employee benefit of IFRS will be less than Ind.AS. This means the liabilities side of Ind.AS balance sheet will become more than that of IFRS because the lesser the rate, the higher the discounted value
Ind.AS 20 vs. IAS 20 Non-monetary grants	The measurement of non-monetary government grants is only fair value	Option to use either fair value or nominal value for measurement	In most cases, the nominal and fair value are same, but if there is difference and an IFRS reporting company opt for nominal valuation then there will be difference in the assets of with the Ind.AS company.
Recognition of grants in balance sheet	Requires the presentation of grants related to asset as deferred income in under liability	Gives option for the presentation of grants related to asset as deferred income or by deducting grant in arising at the carrying amount of the asset.	The liability as well as the asset side of Ind.AS will be higher than IFRS.
Ind.AS 21 vs. IAS 21 translation of	Unrealised exchange difference arising on translation of long-term monetary items can either be	All gains and losses arising on translation of monetary assets and	There will be difference in the net profit and total earnings of the two standards if a company opt for the recognition in equity

monetary items	recognise directly in equity and accumulated as a separate component therein or in the Profit Loss Account.	liabilities denominated in a foreign currency are recognised in Profit and Loss unless is a hedging instrument.	per Ind.AS. However the total equity value will be same for both standard
Ind.AS 24 vs. IAS 24 statue over the standard	Some related party information can be eliminated from disclosure if it conflicts with the confidentiality requirements of statute, regulator or similar competent authority	Requires the disclosure of all related party transactions with an exception due to statue	Ind.AS can be abuse for other intention because is open. Thus companies may hide under this exception not to disclose non-confidential related party information. Related party disclosure per IFRS is more detailed than Ind.AS.
Definition of close members	Defines close members or the family of a persons as the persons specified within the meaning of relative under the Companies Act 2013 and a person domestic partner children of that persons domestic partner and dependants of that person domestic partner	Defines close members of an individual as those family members who may be expected to influence or be influenced by that individual in their dealings with the entity.	The only possible impact is IFRS includes broad person which means more information is disclosed as related party as compared with Ind.AS which have less scope of related party.
Ind.AS 27 vs IAS 27	Prescribes format for presentation of consolidated financial statements or as near depending on circumstances of the entity. Minimum requirements for disclosures on the face of financial statements are set out.	Does not prescribe any specific format for presentation of consolidated financial statement	This textual difference which is not likely to have impact on accounting valuation. Ind.AS specification gives and advantage of comparability among companies
Mandate for the preparation of consolidated statements	Does not mandate presentation of consolidated financial statements as requirement to present consolidated or separate financial statements is regulated by governing statues in India	Mandate all parent companies to prepare consolidated financial statements in which they consolidate their investments in	Some parent companies per Ind.AS may not be required to prepare consolidated statement due to the fulfilment of governing statue in India. This will not ensure comparability within India and among countries. However in practice almost all parent companies prepare

		subsidiaries in accordance with IAS 27.	consolidated statement hence is a textual difference
Ind.AS 28 vs. IAS 28 Periods and polices	Maintain same conditions of IFRS but add exceptions that, reporting entity can deviate if it is impracticable to follow the conditions.	Requires that the difference between the accounting periods of investors and associates should not be more than three months and the accounting policies of the associates should be align with the reporting entity.	The impracticable threshold looks high for any difference to arise between IFRS and Ind.AS. But if such impractical situations happen, the statements of Ind.AS and IFRS cannot be comparable.
Negative goodwill	Negative goodwill (excess of net fair value over identifiable assets and liabilities) is recognise directly in equity as capital reserves in the period in which the investment is acquired.	Negative goodwill is recognised as income in the determination of investor's share of associated profit.	The total earnings/profit in the income of IFRS will be higher than that of Ind.AS. However the total equity per both standards will be same because the total earnings will be transferred to the equity in the balance sheet.
Ind.AS 29 vs. IAS 29 Duration of hyperinflation	Requires additional disclosure on the duration of hyperinflation existing in the economy.	Does not require any additional disclosures	This is textual difference with no impact on accounting values
Ind.AS 32 vs. Ind.AS32 Definition of financial liability	The exercise price of convertible bond can be fixed in any currency.	The exercise of convertible bond should be fixed in entity's functional currency	The Ind.AS provision may help to prevent fluctuations in the PL of Indian companies.
Recognition of conversion option	Conversion option to acquire fixed number of equity shares for fixed amount of cash in any currency (foreign or functional currency) is treated as equity hence not	Conversion option to acquire fixed number of equity shares at fixed amount of cash in foreign currency is treated as embedded	The fair valuation loss or gain under IFRS will bring difference in the net profit, total earnings and equity and liabilities between IFRS and Ind.AS. Thus whiles the foreign currency convertible bonds of Ind.AS will be constant value over years same will be

	required to premeasured at fair value periodically	derivatives and fair valued through Profit and Loss at the end of every reporting period.	fluctuation per IFRS due to the fair valuations.
Ind.AS 33 vs. IAS 33 EPS disclosure	Requires EPS to be disclosed for both separate and consolidated financial statements	EPS can be disclose only in consolidated financial statement if an entity prepares both separate and consolidated financial statements	The requirement of EPS for both separate and consolidated will ensure good performance evaluation and comparability under Ind.AS. But this textual difference with no impact on accounting valuations
Ind.AS 40 vs. IAS 40 fair valuation	Requires the use of the cost model only in measurement of investment property	Gives option for investment property to be recognised at either fair value or cost model	There will be difference in the total comprehensive income, equity and value of investment property if an entity opts for fair valuation when using IFRS. The IFRS value is expected to be higher than Ind.AS because fair valuation is usually higher than cost model
Ind.AS 41 and IAS 41	Scopes out bearer agricultural plants from the application of this standard as.	It includes bearer agricultural plant	IFRS covers more assets than Ind.AS, hence the value of Agricultural assets per IFRS will be higher than Ind.AS asset

Table 2..0 Harmonization Score Matrix %

Ind.AS	IFRS (100%)		
	DT	M/R	P/D
With Options			
Definitions of Terms (DT)	90	-	-
Measurement/Recognition (M/R)	-	76	-
Presentation/Disclosures (P/D)	-	-	72
Without Options			

Definitions of Terms (DT)	90	-	-
Measurement/Recognition (M/R)	-	80	-
Presentation/Disclosures (P/D)	-	-	79
Single Count			
Definitions of Terms (DT)	90	-	-
Measurement/Recognition (M/R)	-	76	-
Presentation/Disclosures (P/D)	-	-	76

Table 3.0. Results of wilcoxon match paired test.

IFRS/Ind.AS	Definitions of Terms (DT)		Measurement/Recognition (M/R)		Presentation/Disclosures (P/D)	
	Z score	Signif.Two Tailed	Z score	Signif.Two Tailed	Z score	Signif.Two Tailed
With Options	-4.65	1	-3.35	0.002	-2.89	0.001
Without Options	-4.65	1	-3.89	0.003	-3.89	0.003
Single Count	-4.65	1	-4.01	0.003	-4.01	0.003

Table 4. Convergence index %

	DT	M/R	P/D
With Options			
Definitions of Terms (DT)	95	-	-
Measurement/Recognition (M/R)	-	81	-
Presentation/Disclosures (P/D)	-	-	88
Without Options			
Definitions of Terms (DT)	93	-	-
Measurement/Recognition (M/R)	-	82	-
Presentation/Disclosures (P/D)	-	-	86
Single Count			
Definitions of Terms (DT)	96	-	-
Measurement/Recognition (M/R)	-	80	-
Presentation/Disclosures (P/D)	-	-	83