

An abstract graphic featuring three blue circles of varying sizes (large, medium, and small) arranged diagonally from the top right towards the bottom left. Two thin, light blue diagonal lines intersect the circles, creating a sense of depth and movement. The circles are composed of concentric rings of different shades of blue.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Back ground, Objective, Coverage, Need of Convergence,
Strategy for Convergence and Implementation

International Financial Reporting Standard (IFRS)

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Background

Convergence with International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) (collectively referred to as IFRSs), issued by the International Accounting Standards Board (IASB) has gained momentum in recent years all over the World. More than 100 countries currently require or permit the use of or have a policy of convergence with IFRSs. Certain other countries have announced their intention to adopt IFRSs from a future date, e.g., Canada from the year 2011, and China from the year 2008. Financial Accounting Standards Board (FASB) of USA and IASB are also working towards the convergence of the US GAAPs and the IFRSs. The Securities & Exchange Commission (SEC) has mooted a proposal to permit filing of IFRS-compliant financial statements without requiring presentation of a reconciliation statement between US GAAPs and IFRSs in near future. In this scenario, India being an important emerging economy in the World is yet to adopt the IFRSs. Internationally, insofar as cross-border investments are concerned, a non-IFRSs compliant country is perceived as an additional risk factor. Within India also, in recent times, the issue of convergence with IFRSs has been raised time and again at various forums.

About IFRS

A set of financial reporting standards issued by the international Accounting standard board is recognised under the brand name IFRSs. IFRSs are a trademark of the international accounting standards committee foundation. IFRS comprises of: =

- 1) International Financial Reporting Standards
- 2) International Accounting Standards
- 3) Interpretation originated by International Financial Reporting Interpretation Committee (IFRIC) and
- 4) Interpretation issued by the former Standing Interpretation Committee (SIC)

Presently there are 8 *IFRS's*, 29 *IAS's*, 17 *IFRIC interpretations* and 11 *SIC Interpretations*

Objectives of IFRS

- **To develop**, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
- **To promote the use and rigorous application** of those standards;
- In fulfilling the objectives associated with (1) and (2), **to take account of**, as appropriate, the special needs of small and medium-sized entities and emerging economies.
- **To bring about convergence** of national accounting standards and International Accounting standards and IFRS to high quality solutions.

IFRS in respect of Indian context

A financial reporting system supported by strong governance, high quality standards, and firm regulatory framework is the key to economic development. The ICAI as the accounting standards-formulating body in the country has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. Indian Accounting Standards have withstood the test of time. As the world continues to globalise, discussion on convergence of national accounting standards with IFRSs has increased significantly. The forces of globalisation prompt more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognise the benefits of having commonly accepted and understood financial reporting standards. In this scenario of globalisation, India cannot insulate itself from the developments taking place worldwide. In India, so far as the ICAI and the Governmental authorities such as the National Advisory Committee on Accounting Standards established under the Companies Act, 1956, and various regulators such as SEBI and RBI are concerned, the aim has always been to comply with the IFRSs to the extent possible with the objective to formulate sound financial reporting standards. The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRSs and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. Accordingly, the Accounting Standards issued by the ICAI are based on the IFRSs. However, where departure from IFRS is warranted keeping in view the Indian conditions, the Indian Accounting Standards have been modified to that extent.

Converge or Adopt

Adoption would mean that the Indian ASB sets a specific timetable when publicly listed companies would be required to use IFRS as issued by the IASB. Convergence means that the Indian ASB and the IASB would continue working together to develop high quality, compatible accounting standards over time. More convergence will make adoption easier and less costly and may even make adoption of IFRS unnecessary.

In general terms, 'convergence' means to achieve harmony with IFRSs; in precise terms convergence can be considered "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs". In this context, attention is drawn to paragraph 14 of International Accounting Standard (IAS) 1, Presentation of Financial Statements, which states that financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs. It does not imply that financial statements prepared in accordance with national accounting standards which draw unreserved statement of compliance with IFRSs said to IFRS compliant only when IFRSs are adopted word by word. The IASB accepts in its 'Statement of Best Practice: Working Relationships between the IASB and other Accounting Standards-Setters' that "adding disclosure requirements or a removing optional treatment does not create noncompliance with IFRSs. Indeed, the IASB aims to remove optional treatments from IFRSs." This makes it clear that if a country wants to add a disclosure that is considered necessary in the local environment, or removes an optional treatment, this will not amount to non-compliance with IFRSs. Thus, for the purpose of Concept Paper issued by ICAI, 'convergence with IFRSs' means adoption of IFRSs with the aforesaid

exceptions, where necessary. The ICAI has already issued a Convergence Report with IFRS that lays out a roadmap for convergence — the ICAI also does not use the term adopt. However, in the summary of the convergence strategy the ICAI states thus: "Keeping in view the complex nature of IFRSs and the extent of differences between the existing ASs and the corresponding IFRSs and the reasons therefore, the ICAI is of the view that IFRSs should be adopted for public interest entities such as listed entities, banks and insurance entities and large-sized entities from the accounting periods beginning on or after April 1, 2011." The use of the word adopt here seems to convey convergence and not adoption.

Need for convergence with IFRS (PROS)

In the present era of globalisation and liberalisation, the World has become an economic village. The globalisation of the business world and the attendant structures and the regulations, which support it, as well as the development of e-commerce make it imperative to have a single globally accepted financial reporting system. Adopting IFRS by Indian corporates is going to be very challenging but at the same time could also be rewarding. There are many beneficiaries of convergence with IFRSs such as the economy, investors, industry and accounting professionals.

The Economy

As the markets expand globally the need for convergence increases. The convergence benefits the economy by increasing growth of its international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby economic growth. It encourages international investing and thereby leads to more foreign capital flows to the country.

Investors

The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. So Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. For better understanding of financial statements, global investors have to incur more cost in terms of the time and efforts to convert the financial statements so that they can confidently compare opportunities. Investors' confidence would be strong if accounting standards used are globally accepted. Convergence with IFRSs contributes to investors' understanding and confidence in high quality financial statements.

The Industry

The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. With the diversity in accounting standards from country to country, enterprises which operate in different countries face a multitude of accounting requirements prevailing in the countries. The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the

individual and group financial statements and thereby reduces the costs of preparing the financial statements using different sets of accounting standards.

The Accounting Professionals

Convergence with IFRSs also benefits the accounting professionals in a way that they are able to sell their services as experts in different parts of the world.

A recent decision by the US Securities and Exchange Commission (SEC) permits foreign companies listed in the US to present financial statements in accordance with IFRS. This means that such companies will not be required to prepare separate financial statements under US GAAP. Therefore, Indian companies listed in the US would benefit from having to prepare only a single set of IFRS compliant financial statements, and the consequent saving in financial and compliance costs.

Reasons for departure from IFRS (CONS) /Challenges

However, the perceived benefits from IFRS adoption are based on the experience of IFRS compliant countries in a period of mild economic conditions. The current decline in market confidence in India and overseas coupled with tougher economic conditions may present significant challenges to Indian companies.

1. **Fair Value Principle:** One common criticism about IFRS is that it is heavily loaded in favour of **fair valuation principles** and these principles are very subjective and would result in significant volatility in periodic results. IFRS is fair-value driven and this often produces unrealized gains and losses. How will income tax treat these unrealized gains and losses? Besides, can unrealized gains be distributed as dividends within the contours of Companies Act 1956 are the debatable point?

2. **Awareness:** Indian companies will have to build **awareness amongst investors and analysts** to explain the reasons for this volatility in order to improve understanding, and increase transparency and reliability of their financial statements.

3. **Training:** This situation is worsened by the **lack of availability of professionals** with adequate valuation skills, to assist Indian corporates in arriving at reliable fair value estimates. This will render some of the benefits of IFRS adoption ineffective.

4. **Amendment in law:** **legal and regulatory requirements in India are at variance** from the IFRSs and, therefore, in such cases, Indian Accounting Standards diverge from IFRSs because otherwise various legal problems may arise. For example, keeping in view the requirements of the law governing the companies in India, Accounting Standard (AS) 21, *Consolidated Financial Statements*, defines 'control' as ownership of more than one-half of the voting power of an enterprise or control over the composition of the governing body of an enterprise. This definition of 'control' is based on the definitions of 'holding company' and 'subsidiary company' as per the Companies Act, 1956. However, IAS 27, *Consolidated and Separate Financial Statements*, defines 'control' as "the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities".

5. Another concept is recognition of "**constructive obligation**" in the books as opposed to "**contractual obligations**". This involves provision for even unknown and unascertainable

liabilities. Simply stated, a contingency liability provision (AS 29) which is recognized as a fact has to be recognized as a figure. Seemingly an over cautious approach, this could have the effect of distorting the actual financial health of an enterprise. However, when it comes to events after the Balance Sheet like proposed dividend etc., IFRS talks in a different tone.

6. **Time Value of Money** is another concept that is under IFRS. Let me explain. If you sell goods worth Rs. 10 lakhs and give a credit period of 90 days, you have to take only the value of that Rs. 10 lakhs, as it would be valued after 90 days that is after giving the discounting factor, in your Sundry Debtors. Here it is not even a fact but a fiction that gets translated in to a figure.

Strategy for Convergence with IFRS

Formulation of convergence strategy to achieve the objective requires cognisance of reasons for departure of Indian Accounting Standards from the corresponding IFRSs as well as the complexity of the recognition and measurement requirements and the extent of disclosures required in the IFRSs with a view to enforce these on various types of entities, viz., public interest entities and other than public interest entities (hereinafter referred to as 'small and medium-sized entities'). ICAI in its convergence report has defined the strategy for convergence where IFRS will be applicable to only public interest entities. In respect of entities other than public interest entities, namely, 'small and medium-sized entities' (SMEs), a separate standard may be formulated based on the IFRS when finally issued by the IASB, after modifications, if necessary.

A Public Interest Entity defined as an entity:

- (i) whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India; or
- (ii) which is a bank (including a cooperative bank), financial institution, a mutual fund, or an insurance entity; or
- (iii) whose turnover (excluding other income) **exceeds rupees one hundred crore** in the immediately preceding accounting year; or
- (iv) which has public deposits and/or borrowings **from banks and financial institutions in excess of rupees twenty five crore** at any time during the immediately preceding accounting year; or
- (v) which is a holding or a subsidiary of an entity which is covered in (i) to (iv) above.

Even if the Public Interest Entity does not fulfil the criteria of 100 crores in case of turnover and 25 crores of borrowings still those entities have to follow the IFRS as once an entity gets listed on a stock exchange it assumes the character of a public interest entity and, therefore, it would not be appropriate to exempt such entities from the application of IFRSs.

The ICAI is of the view that since the IASB itself recognises that the IFRSs are too onerous for small and medium-sized entities, it would not be appropriate to apply the IFRSs with exemptions/relaxations to SMEs. The ICAI is also of the view that to continue to apply the existing Accounting Standards in India to SMEs with the existing exemptions/relaxations would not be appropriate as it would mean that the ICAI/the Government would have to keep on modifying the existing Accounting Standards as soon as a change is made in the corresponding IFRSs after considering the appropriateness thereof in the context of Indian SME conditions.

The ICAI is, therefore, of the view that it may be appropriate to have a separate standard for SMEs. In this context, it is noted that in order to be an IFRS-compliant country, it is not necessary to adopt the IFRS for Small and Medium-sized Entities to be issued by IASB

The Issues which Indian companies need to address before implementing IFRS

There are three key challenges for India in the changeover to IFRS.

Firstly, understanding the accounting and regulatory landscape that will prevail in 2011. Accounting framework in India has multiple influencers and accounting standard-setters, such as the ICAI, SEBI, Companies Act, NACAS, income-tax authorities, and industry regulators such as the RBI, IRDA, etc. All of them need to work in tandem and see the broader picture of the proposed accounting landscape in 2011 and work towards that in a concerted manner. This obviously is easier said than done considering the Indian environment.

Secondly, the availability of a large pool of trained resources. The changeover to IFRS brings about significant changes in terms of complexities of accounting standards, requiring significant use of judgment in applying new and complex requirements. To achieve the end objective of comparability in financial reporting, all of these requirements need to be understood and applied in a consistent manner by a wide group of accountants, both within the industry and the profession.

Bringing such a large group of people to speed-on IFRS is a big challenge and time is certainly not on our side. In the US, which could possibly move to IFRS in 2014, the educational institutions are already revamping the academic curricula to include IFRS learning and the professional bodies are already carrying out significant continuing education programmes in IFRS — that's the level of preparedness that the US is aiming for. In contrast, in India, we are yet to see any significant steps to get this level of preparedness.

Thirdly, India is working towards a moving target — IFRS is expected to undergo change between now and 2011. Since the US is looking to adopt IFRS, there will be several changes that will be made to IFRS before the US fully accepts and commits to adopt IFRS. Accordingly, significant changes can be expected in the guidance on areas such as revenue recognition, financial instruments, etc., between now and 2011-2012. This puts countries which are moving to IFRS around 2011, such as India, Brazil, and Canada, at a comparative disadvantage, as they still don't know what would be the IFRS requirements to apply in 2011.

When do they (companies) actually start moving towards implementation of IFRS? At what stage of preparedness are the Indian companies for implementation of IFRS?

All companies need to start planning for this transition early. Most companies have still not woken up to realise what changeover to IFRS means. Several have started talking about IFRS, but very few have taken active steps to understand how it impacts them. Most still think it is only an accounting change impacting a few accounting policy requirements. However, the impact of IFRS is on all stakeholders — investors, lenders, customers, employees, regulators, etc.

As a first step, all companies must at least start with carrying out a **diagnostic review** to understand how IFRS would impact them. This would give them a sense of what changes would be required and how much time they would require to make this change. It is important to note that there is no standard formula that can be applied to all companies — the needs, the extent of impact and resultant change would vary from company to company. Factors impacting this would include, industry/sector-specific factors, size of the organisation, sustainability of the changes planned, etc. Once this diagnostic review is done, companies would have a better sense of how much time and resources they would require to make a smooth transition and can plan their activities better.

At second step, Companies will have to **modify their IT systems, evaluate tax liability and assess IFRS implications on performance indicators**. The biggest mistake Indian firms can make is underestimate the efforts involved in converting to IFRS. Sufficient time and IFRS trained staff and advisors are needed for a smooth transition. IFRS should not be looked at as a mere technical exercise, since converting to it would also have major business implications such as:

- a) The **amount of compensation** calculated and paid under performance-based executive and employee compensation plans may be materially different under IFRS since the company's financial results may be considerably different.
- b) Under IFRS, redeemable preference capital is treated as a liability rather than equity. This would substantially change the debt-equity ratio of companies, and may result in violation of debt covenants. Therefore, these companies may have to **re-negotiate contracts with their bankers** to deal with these unexpected changes

What is the next stage after the implementation of IFRS?

Moving to IFRS is only the first step. It would certainly be a few years before these standards are consistently applied and result in highly comparable financial reporting. Also considering that IFRS has very limited industry-specific guidance, initial reporting by companies would show an Indian flavour, which over time would vanish to give way to global industry-specific patterns on IFRS reporting.

Once global comparability of financial reporting is achieved, Indian companies would start seeing the benefits of using IFRS, including easier access to global capital markets, more transparent and consistent valuation multiples, better aligned internal and external reporting.

How many chartered accountants would we need for the implementation of IFRS?

There are over 10,000 listed companies in India and possibly an equal number of unlisted companies that would be required to apply IFRS as per the currently planned thresholds. Even if one were to apply a simplistic approach and say that each of these companies would require on an average four chartered accountants, it adds to a whopping 80,000 chartered accountants who would need to be trained and made competent in IFRS in a very short period of time. This would have to cover the chartered accountants working in companies as well as those in the auditing and accounting profession and those with regulators, etc. The reality however is that several companies would require far more resources and therefore the number required might be far in excess of this 'guesstimate' of 80,000 CAs.

How will the adoption of IFRS change financial reporting by companies?

Use of IFRS would significantly change financial reporting in India. For most of us, this clearly would be the single most important change to financial reporting during our lifetime. IFRS financial information is presented very differently from the Indian reporting that we have been used to.

There is much **more relevance and transparency** in the financial reporting through extensive disclosures. There will also be **significant changes to earnings of entities** — some of these include, revenue recognition norms getting stricter, use of fair values bringing more volatility to earnings, recognition of several financial instruments as liabilities increasing finance costs, share options being recognised as compensation cost using fair values, etc.

In summary, the use of IFRS for financial reporting would have significant **impact on key stakeholders** — it would impact performance-linked compensation structures of **employees and management**, it would impact key debt and borrowing covenants of **lenders**, it would impact key performance metrics such as net income, EPS, etc., and how **investors and analysts** perceive them.

Therefore companies would need to start communicating with and educating users of financial information in a timely manner to ensure a smooth transition to IFRS.

Whether the IFRSs should be adopted for Public Interest Entities stage-wise or all at once from a specified future date

In view of the difficulties in adopting IFRS stage-wise, the ICAI is of the view that it would be more appropriate to adopt all IFRSs from a specified future date as has been done in many other countries. After considering the current economic environment, expected time to reach the satisfactory level of technical preparedness and the expected time to resolve the conceptual differences with the IASB, **the ICAI has decided that IFRSs should be adopted for public interest entities from the accounting periods commencing on or after 1st April, 2011**. This will give enough time to all the participants in the financial reporting process to help in building the environment supporting the adoption of IFRSs. Insofar as the legal and

regulatory aspects are concerned, the ICAI is of the view that, on adoption of those IFRSs, having certain requirements in conflict with the laws/regulations, the latter will prevail.

The ICAI is further of the view that this approach is appropriate because to wait for full convergence until the relevant laws/regulations are amended would not be practicable as such amendments may not take place for many years.

The ICAI also examined whether an entity should have a choice to become fully IFRS compliant before 1st April, 2011. The ICAI is of the view that an early adoption of IFRSs should be encouraged. However, such an adoption should be for all IFRSs and that it cannot be on selective basis.

List of IAS, IFRS, SIC, IFRIC

From 1973 till year 2001, the committee laid down various standards known as International Accounting Standards (IAS). However post 2001, all the new standards are called IFRS. Some of the IAS, which was redrafted and came out, as IFRS and the rest of the IAS are still known as IAS. To interpret the application of IFRS and provide guidance on various unresolved issues, The International Financial Reporting Interpretation Committee (IFRIC) provides support to the board. All the interpretation issued by this committee also become part of IFRS and are given same status as standards.

List of IAS	List of IFRS
IAS 1, <i>Presentation of Financial Statements</i>	IFRS 1, <i>First-time Adoption of International Financial Reporting Standards</i>
IAS 2, <i>Inventories</i>	IFRS 2, <i>Share-Based Payment</i>
IAS 7, <i>Cash Flow Statements</i>	IFRS 3, <i>Business Combinations</i>
IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	IFRS 4, <i>Insurance Contracts</i>
IAS 10, <i>Events After the Balance Sheet Date</i>	IFRS 5, <i>Noncurrent Assets Held for Sale and Discontinued Operations</i>
IAS 11, <i>Construction Contracts</i>	IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>
IAS 12, <i>Income Taxes</i>	IFRS 7, <i>Financial Instruments: Disclosures</i>
IAS 14, <i>Segment Reporting</i>	IFRS 8, <i>Operating Segments</i>
IAS 16, <i>Property, Plant, and Equipment</i>	
IAS 17, <i>Leases</i>	
IAS 18, <i>Revenue</i>	
IAS 19, <i>Employee Benefits</i>	
IAS 20, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	
IAS 21, <i>The Effects of Changes in Foreign Exchange Rates</i>	
IAS 23, <i>Borrowing Costs</i>	
IAS 24, <i>Related-Party Disclosures</i>	
IAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i>	
IAS 27, <i>Consolidated and Separate Financial Statements</i>	

IAS 28, <i>Investments in Associates</i>	
IAS 29, <i>Financial Reporting in Hyperinflationary Economies</i>	
IAS 31, <i>Interests in Joint Ventures</i>	
IAS 32, <i>Financial Instruments: Presentation</i>	
IAS 33, <i>Earnings per Share</i>	
IAS 34, <i>Interim Financial Reporting</i>	
IAS 36, <i>Impairment of Assets</i>	
IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	
IAS 38, <i>Intangible Assets</i>	
IAS 39, <i>Financial Instruments: Recognition and Measurement</i>	
IAS 40, <i>Investment Property</i>	
IAS 41, <i>Agriculture</i>	
List of SIC Interpretations	List of IFRIC Interpretations
SIC 7, <i>Introduction of the Euro</i>	IFRIC 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
SIC 10, <i>Government Assistance—No Specific Relation to Operating Activities</i>	IFRIC 2, <i>Members' Shares in Cooperative Entities and Similar Instruments</i>
SIC 12, <i>Consolidation—Special-Purpose Entities</i>	IFRIC 3, <i>Emission Rights</i> (withdrawn)
SIC 13, <i>Jointly Controlled Entities—Nonmonetary Contributions by Venturers</i>	IFRIC 4, <i>Determining Whether an Arrangement Contains a Lease</i>
SIC 15, <i>Operating Leases—Incentives</i>	IFRIC 5, <i>Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
SIC 21, <i>Income Taxes—Recovery of Revalued Nondepreciable Assets</i>	IFRIC 6, <i>Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment</i>
SIC 25, <i>Income Taxes—Changes in the Tax Status of an Entity or Its Shareholders</i>	IFRIC 7, <i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>
SIC 27, <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	IFRIC 8, <i>Scope of IFRS 2</i>
SIC 29, <i>Disclosure—Service Concession Arrangements</i>	IFRIC 9, <i>Reassessment of Embedded Derivatives</i>
SIC 31, <i>Revenue—Barter Transactions Involving Advertising Services</i>	IFRIC 10, <i>Interim Financial Reporting and Impairment</i>
SIC 32, <i>Intangible Assets—Web Site Costs</i>	IFRIC 11, <i>IFRS 2—Group and Treasury Share Transactions</i>
	IFRIC 12, <i>Service Concession Arrangements</i>
	IFRIC 13, <i>Customer Loyalty Programmes</i>
	IFRIC 14, <i>IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction</i>

Overview of Significant Differences between IFRS and Indian GAAP

Differences with respect to:

- ✓ Conceptual Accounting Framework
- ✓ Content of Financial Statements
- ✓ Accounting Differences

ACCOUNTING FRAMEWORK

1) Historical cost

IFRS:: Historical cost, but intangible assets, property plant and equipment (PPE) and investment property may be revalued. Derivatives, biological assets and most securities must be revalued.

Indian GAAP:: Historical cost, but fixed assets, other than intangibles, may be revalued.

2) First-time adoption of accounting frameworks

IFRS:: Full retrospective application of all IFRS's effective at the reporting date for an entity's first IFRS financial statements, with some optional exemptions and limited mandatory exceptions.

Indian GAAP:: Standards specify the transitional treatment upon the first-time application of those standards.

3) Concept

IFRS:: Provide scope for judgement and require information to be presented on basis of substance rather than rule. Eg. Redeemable NCPS are treated as liability bcz of its nature.

Indian GAAP:: More Rule based and less flexible Eg. Pref. Shares are part of Share capital.

4) Law v/s Standard

IFRS:: While applying IFRS, usage by investor is kept in mind and requirement of law and management takes back seat.

Indian GAAP:: Law overrides Standards

5) Framework

IFRS:: Provide clear guidance for setting standards. Component like Asset, Liability and equity are defined in the framework.

Indian GAAP:: Standards do not have such clear direction for setting standard on basis of investor need.

FINANCIAL STATEMENTS

1) Contents of financial statements

IFRS:: Two years' balance sheets, income statements, cash-flow statements, changes in equity, accounting policies and notes.

Indian GAAP:: Two years' balance sheets, profit and loss accounts, accounting policies and notes. Listed entities are required to give their consolidated financial statements and the related notes along with the standalone financial statements. (Financial Statements should also include cash flow statements in certain cases)

2) Balance Sheet

IFRS:: Does not prescribe a particular format; an entity uses a liquidity presentation of assets and liabilities, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Certain items must be presented on the face of the balance sheet

Indian GAAP:: The Indian Companies Act and other industry-specific laws like banking, insurance, etc. specify respective formats

3) Income Statements

IFRS:: Does not prescribe a particular format. However, expenditure must be presented in one of two formats (function or nature). Certain items must be presented on the face of the income statement.

Indian GAAP:: The Indian Companies Act does not prescribe a particular format. The Company law and accounting standards however, prescribes certain disclosure norms for income and expenditures. For certain industries, industry specific laws specify formats.

4) Reporting currency

IFRS:: Requires the measurement of profit using the functional currency. Entities may, however, present financial statements in a different currency.

Indian GAAP:: Schedule VI to the Companies Act, 1956 specifies Indian Rupees as the reporting currency.

5) Statement of changes in shareholders' equity

IFRS:: Statement showing capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. The statement must be presented as a primary statement.

Indian GAAP:: Changes in shareholders' equity are disclosed by way of a schedule.

Accounting Differences

1) Consolidated and Separate F/S

Indian GAAP:: Goodwill/Capital reserve is calculated by computing the difference between the cost to the parent of its investment in the subsidiary and the parent's portion of equity in the subsidiary in AS 21

IFRS:: Fair value approach is followed.

2) Non-consolidation of subsidiaries

Indian GAAP:: Only if acquired and held for resale or there are severe long-term restrictions to transfer funds to the parent.

IFRS:: Dissimilar activities or temporary control are not a justification for non-consolidation.

3) Investments:

IFRS:: Depends on the classification of investment – if held to maturity or loan or receivable, then carry at amortised cost, otherwise at fair value. Unrealised gains/losses on fair value through profit or loss classification (including trading securities) recognised in the income statement and on available-for-sale investments recognised in equity. **

Indian GAAP:: Carry long-term investments at cost (with provision for other than temporary diminution in value). Current investments carried at lower of cost or fair value determined on individual basis or by category of investment but not on overall (or global) basis. Specific guidance exists for banking industry.

4) Depreciation

Indian GAAP:: Depreciation is provided based on the useful lives of assets or the minimum rates prescribed by the Indian Companies Act, whichever is higher. Asset lives are not prescribed by the Companies Act, but can be derived from the depreciation rates.

IFRS:: Allocated on a systematic basis to each accounting period over the useful life of the asset

5) Share based Employees Benefits

Indian GAAP:: Either Fair Value Method or Intrinsic Value Method can be used.

IFRS:: Only Fair Value Method can be used.

6) Acquired intangible assets

Indian GAAP:: Capitalise if recognition criteria are met; intangible assets must be amortised over useful life with a rebuttable presumption of not exceeding 10 years. Revaluations not permitted.

IFRS:: Capitalise if recognition criteria are met; intangible assets must be amortised over useful life. Intangibles assigned an indefinite useful life must not be amortised but reviewed annually for impairment. Revaluations are permitted in rare circumstances.

7) Extra ordinary Item

IFRS:: Disallows any EO item to be presented separately.

Indian GAAP:: Require separate disclosure.

8) Land Leases

IFRS:: Classified as operating lease unless title passes to the lessee at the end of lease term.

Indian GAAP:: No direct guidelines are available .Disclosed as part of fixed asset.

9) Convertible debt

Indian GAAP:: Convertible debt is recognised as a liability based on legal form without any split.

IFRS:: Account for convertible debt on split basis, allocating proceeds between equity and debt

10) Financial liabilities - classification

Indian GAAP:: All preference shares are classified as shareholders' funds.

IFRS:: Mandatory redeemable preference shares are classified as liabilities.

11) Preliminary expenses

Indian GAAP:: Deferred and written off over the period of 5 years.

IFRS:: Charged to income statement.

12) Changes in accounting policies

Indian GAAP:: Include effect in the income statement of the period in which the change is made except as specified in certain standards where the change resulting from adoption of the standard has to be adjusted against opening retained earnings.

IFRS:: Restate comparatives and prior-year opening retained earnings.

13) Cash Flow Statement

Indian GAAP:: Mandatory only for listed companies and companies meeting certain turnover conditions.

IFRS:: Mandatory for all the entities.

14) Dividend

Indian GAAP:: Dividends are reflected in the financial statements of the year to which they relate even if proposed or approved after the year end.

IFRS:: Dividends are classified as a financial liability and are reported in the income statement as an expense. If dividends are declared subsequent to the balance sheet date, it is not recognized as a liability.