Narayan Lodha

Chartered Accountants

Introduction to IFRS

By
Narayan Lodha
Flat No. 139, Pocket – K, Sarita Vihar
New Delhi – 110 076
Phone: +91-9818156768
E-mail: lodhanarayan@hotmail.com

What are IFRS

International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements

What are the advantages of converting to IFRS

- By adopting IFRS, a business can present its financial statements on the same basis as its foreign competitors, making comparisons easier.
- Companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide.
- Companies also may need to convert to IFRS if they are a subsidiary of a foreign company that must use IFRS, or if they have a foreign investor that must use IFRS.
- Companies may also benefit by using IFRS if they wish to raise capital abroad.

OPPORTUNITIES

Free capital flow

It would permit international capital to flow more freely. With company seeking capital at the lowest cost any where in the world and investors seeking opportunities all over the world, there has to be a uniform set of standards to facilitate comparison.

Reduction in reporting costs

There will not be any need to reconcile financial statements from one GAAP to another GAAP. A single accounting language will eliminate the need for multiple financial reports.

Valuations

The biggest change under IFRS is to move from historical cost principles to fair valuations. The key standards that require valuations are: IFRS-1, IFRS-2, IFRS-3, IAS-16, IAS-19, IAS-32, IAS-39, IAS-36, IAS-38, IAS-40.There would be massive requirements for certified valuers to carry out various valuations required in the IFRS.

Benefits for regulators

IFRS adoption would be beneficial to regulators as the complexity associated with needing to understand various reporting regimes would be reduced.

Benefits for auditing firms

It would enable international auditing firms to standardize training and better assure the quality of their work on a global scale

CHALLENGES

Multiple regulators and changes in regulation

There are multiple regulators in the field of accounting standards, for example in India, in case of a listed bank, regulators for accounting norms are SEBI, RBI, ICAI, Companies Act and Banking Regulation Act. Some of the accounting requirements are definitely inconsistent with IFRS. If IFRS implementation has to be effective, the regulators would need to stay out of prescribing accounting norms

Shortage of resources

With IFRS convergence, accountants are most sought after globally. There is a shortage of accounting resources. Moreover, training needs of all stakeholders would need to be addressed, e.g., CFOs, auditors, audit committees, teachers, analysts, regulators, tax authorities and other users.

Management compensation and debt covenants

The amount of compensation calculated and paid under performance-based executive and employee compensation plans may be materially different under IFRS because the company's financial results may be materially different from its Indian GAAP

Performer indicators

Reported profits may be different from perceived commercial performance as a result of the increased use of fair values. Therefore educating the investment analysts to manage market expectations relative to impact of IFRS adoption would be crucial.

CHALLENGES

Valuations

The biggest challenge under IFRS is to move from historical cost principles to fair valuations. The key standards that require valuations are: IFRS-1, IFRS-2, IFRS-3, IAS-16, IAS-19, IAS-32, IAS-39, IAS-36, IAS-38, IAS-40.There would be massive requirements for certified valuers to carry out various valuations required in the IFRS which is in short supply India

Costs

The IFRS resources are very costly

Introduction to IFRS

- International Financial Reporting Standards (IFRSs) are:
- Standards and Interpretations issued by the IASB and comprise:
- IFRS, IAS AND INTERPRETATIONS
- – International Financial Reporting Standards (IFRS)
- – International Accounting Standards (IAS); and
- – Interpretations

As at 1 September 2008, there are totally

- – 8 sets of IFRS (IFRS 1 To IFRS 8)
- – 29 sets of IAS (IAS 1 TO IAS 41)
- – 24 sets of Interpretation (SIC and IFRIC Interpretations)

On top of these, IASB also has a set of:
– Framework for the Preparation and Presentation of Financial Statements

Introduction, Disclosures & Analysis

- **Framework: Principles underlying the standards.**
- **IAS 1 : Presentation of Financial Statements.**
- **IAS 8 : Accounting policies, Estimates and errors**
- **IAS 7 : Cash Flow Statements.**
- **IAS 10 : Events after the Reporting Period**
- **IAS 24 : Related Party disclosures**
- **IAS 33 : Earnings Per share**
- **IAS 34 : Interim Period Reporting**
- **IFRS 1 : First time Adoption of IFRSs.**
- **IFRS 5 : NCAs held for sale and Discounting operations**
- **IFRS 7 : Financial instruments : Disclosures**
- **IFRS 8 : Segment Reporting**

Incomes & Expenses

- IAS 18 : Revenue Recognition.
- IAS 11 : Construction contracts.
- IAS 21: The Effects of Changes in Foreign Exchange Rates
- IFRS 2: Share Based Payments

ASSETS

- IAS 2 Inventories
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 20 Government Grants
- IAS 23 Borrowing Costs
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets
- IAS 32 Financial instruments
- IAS 39 Financial instruments
- IAS 40 Investment Property
- IAS 41 Agriculture
- IFRS 4 Insurance Contracts
- FRS 6 Exploration and Evaluation of Mineral Resources

Group/ Consolidated Accounts

- IAS 27: Consolidated and Separate Financial Statement
- IAS 28: Investment in Associates
- IAS 31: Interest in joint ventures
- IFRS 3: Business Combinations

Need

- Applicability of IFRS from 1 April 2011
- Increasing investor awareness
- Good Corporate Governance is key to wealth maximisation objective
- Compliance with laws of the land
- Compliance with Standards on Auditing and Standards on Quality Control
- Facilitate quick quality reviews

IFRS Conversion

- Diagnostic Report on High Level Differences between IFRS and Indian GAAP

Sr. No.	Line Item in Annual Report	Indian GAAP Requirement	IFRS Requirement	Impact (Significant / Insignificant)

- Report on Accounting Policy Choice

Sr. No.	Line Item in Financial Statement	IFRS Title and Requirement	Accounting Policy Choices	Requirements for Accounting Policy Selection

THANK YOU