Introduction to International Financial Reporting Standards (IFRS)

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- What are IFRSs? Who issues them?

  IFRS are Global Accounting Standards which are either issued or adopted by **International Accounting Standards Board** (IASB)

- Is India Inc adopting or converging to IFRS?

  Indian Companies are **<u>only Converging</u>** to IFRS but **<u>not Adopting</u>** IFRS

- What is the difference between “Adopting” and “Converging”?

  “Adopting” implies **application** of standards **in its entirety** whereas

  “Converging” which means **modifying** the International Standards to make them **suit to Indian scenarios**.

- Then, whether the Financial Statements prepared as per converged IFRS are IFRS Compliant?

  No. As per IFRS, if the Financial Statements are said to be IFRS compliant if all the applicable standards are adopted in their entirety.

- What are the advantages of converging to IFRS?

  a) Indian Companies **need not convert** the **IGAAP** Financial Statements **into** respective **Local GAAP** Financial Statements.

  b) Indian Companies can **file IFRS Financials with Stock Exchanges of other countries** where they are listed which are accepted.

  c) Indian Companies can **access to Global markets easily**.

- Are there any classifications in IFRS?

  Yes. Like we have Accounting Standard Interpretations, Guidance Notes in Indian Scenario, we have in IFRS,

  a) IAS – International Accounting Standards

  b) IFRS – International Financial Reporting Standards

  c) SIC Interpretations – Standard Interpretation Committee

  d) IFRIC Interpretations – International Financial Reporting Interpretation Committee.

  All together are construed as IFRS.

- How many IFRS are there at present?

  There are 29 IASs; 9 IFRSs; 16 IFRIC Interpretations and 11 SIC Interpretations

  Altogether, there are 65 IFRSs.

- How many Countries permit use of IFRS?

  More than 113 countries permits the use of IFRS and allows the companies to file their Financials which are prepared as per IFRS.

GLANCE ON THE STATUS OF CONVERGED IFRS AND THEIR APPLICABILITY IN INDIA

- The Ministry of Corporate Affairs (MCA) constituted a Core Committee on IFRS Convergence which has agreed that there will be two sets of Accounting Standards which will be notified u/s 211(3C) of the Companies Act, 1956.
- First set comprises Indian AS which are converged with IFRS which are applicable to Specified Companies and second set comprises existing Indian AS which are applicable to Other Companies including SMEs
- The MCA issued a Press Release on January 21, 2010 which detailed the Phase wise applicability of IFRS in India.
- India Inc is converging to IFRS from April 01, 2011.

PHASE – I

The following Categories of companies shall convert their Opening Balance Sheet as on **April 01, 2011** with the converged Indian AS

- Companies which are part of NSE – Nifty 50
- Companies which are part of BSE – Sensex 30
- Companies whose shares or other securities are listed on stock exchanges outside India
- Companies, whether listed or not, which have a net worth in excess of Rs. 1,000 crore.

PHASE – II

The following Categories of companies shall convert their Opening Balance Sheet as on **April 01, 2013** with the converged Indian AS

- The companies, whether **listed or not**, having a **net worth exceeding Rs. 500** crore but **not exceeding Rs. 1,000 crore**

PHASE – III

The following Categories of companies shall convert their Opening Balance Sheet as on **April 01, 2014** with the converged Indian AS

Listed companies which have a **net worth of Rs. 500 crore or less**

Companies which fall in the following categories will **not be required to follow** the notified accounting standards which are converged with the IFRS

- **Non-listed companies** which have a **net worth** of **Rs. 500 crore or less** and whose shares or other securities are **not listed** on Stock Exchanges **outside India**.
- Small and Medium Companies (**SMCs**)

- All **Insurance companies** will convert their opening balance sheet as at **April 01, 2012** in compliance with the converged Indian AS.
- **Banking Companies:**
  - All **scheduled commercial banks** and those urban co-operative banks (**UCBs**) which have a **net worth in excess of Rs. 300 crore** will convert their opening balance sheet as at **April 01, 2013**
  - UCBs which have a **net worth in excess of Rs. 200 crore** but **not exceeding Rs. 300 crore** will convert their opening balance sheet as at **April 01, 2014**
  - UCBs which have a net worth not exceeding Rs. 200 crore and Regional Rural banks can continue to follow second set of AS

- **Non Banking Financial Companies (NBFCs):**

A. The following categories of NBFCs will convert their opening balance sheet as at April 01, 2013

- Companies which are part of **NSE – Nifty 50**
- Companies which are part of **BSE - Sensex 30**
- Companies, whether **listed or not**, which have a **net worth in excess of Rs. 1,000 crore**.

B. **All listed NBFCs** and those **unlisted** NBFCs which do **not fall** in the **above** categories and which have a **net worth** in **excess of Rs. 500 crore** will convert their opening balance sheet as at **April 01, 2014**

C. **Unlisted NBFCs** which have a **net worth of Rs. 500 crore or less** can continue to follow **second set** of AS

Clarifications on the above mentioned details:

- Companies covered in Phase I will present the Financial Statements of 2011-12 as per 1st Set and will **show Previous Year's figures** in **as per non converged ASs**
- The **date** for determination of the criteria for other than Banks, NBFCs and Insurance Companies is the **Balance Sheet as at March 31, 2009** or the first Balance Sheet prepared thereafter when the accounting year ends on another date.
- For Banks, NBFCs the **date** for determination of the criteria the **Balance Sheet as at March 31, 2011** or the first Balance Sheet prepared thereafter when the accounting year ends on another date.

Clarifications on details ***Cont…***

- In situations where a Parent Company is covered in Phases and either the Subsidiary or the Associate is not covered, then the Subsidiaries and Associates need not prepare their FSs as per 1st set, but the parent may need to make amendments to these accounts for the purposes of consolidation as per Converged AS.
- Once a company starts following 1st set of converged ASs, it shall continue to apply those AS even if they fail to meet the criteria subsequently.

<u>Clarifications on details</u> ***Cont…***

- **“Net worth”** means “Share Capital plus Reserves less Revaluation Reserve, Miscellaneous Expenditure and Debit Balance of the Profit and Loss Account.”
- For companies which are not in existence on March 31, 2009, the net worth will be calculated on the basis of the first balance sheet ending after that date.

STATUS OF CONVERGENCE:

- Amended Schedule VI is already submitted by the ICAI to NACAS
- Amended Schedule XIV are also in progress.
- The MCA has already **notified 7 Accounting Standards** in the 1st set of Standards.
- The ICAI has already placed the Exposure Drafts of almost 20 Accounting Standards in its Website in the 1st set of Standards for Public Comments.
- **October 31, 2010** has been set as **target date** for notification of converged accounting standards and **November 15 , 2010** for **revision of Schedule VI** and **Schedule XIV** to the Companies Act, 1956, to achieve convergence with IFRS. The **outer limit** for completing both the activities is **December 31, 2010**.

Major Changes

- **Financial statements**
  - Statement of Financial Position
  - Statement of comprehensive income
  - Statement of changes in equity
  - Statement of cash flow and notes to account
- **Significant changes in the way financial statements are presented**
  - Concept of non current assets/Liability and current assets/liability
  - Fair value concept
  - Bank overdrafts are part of cash and cash equivalents
  - Retrospective adjustments of prior period items
  - Date of authorization should be specifically mentioned
  - Proposed dividend should not be recognised as liability

Format of Financial Position

- Assets
  - Non Current Assets
  - Current Assets
- Equity and Liabilities
  - Equity attributable to owners
  - Non current liabilities
  - Current liabilities
- What is current?
  - Intends to sell or consume in normal cycle
  - Holds primarily for trading purpose
  - Expects to realize the asset in twelve months after reporting period

Format of Income Statement

- Revenue
- Cost of sales
- Gross profit
- Other income
- Distribution costs
- Finance costs
- Profit before tax
- Income tax expense
- Profit for the year
- Other comprehensive income items
- Earnings per share (Basic and Diluted)

Statement of changes in Equity

- Share Capital
- Retained Earnings
- Translation of foreign operations
- Available for sale financial assets
- Cash flow hedges
- Revaluation surplus
- Total Equity

List of EDs corresponding to IFRS issued till March 31, 2010

Converged Indian Standard (ED)	Corresponding IFRS	Standard on
AS 1	IAS 1	Presentation of financial statements
AS 2	IAS 2	Inventories
AS 3	IAS 7	Cash flow statements
AS 4	IAS 10	Events after the reporting period
AS 5	IAS 8	Accounting policies, changes in accounting estimates and errors
AS 7	IAS 11	Construction contracts
AS 10	IAS 16	PPE
AS 11	IAS 21	The effect of changes in foreign exchange rates
AS 12	IAS 20	Accounting for government grants
AS 16	IAS 23	Borrowing costs

List of EDs corresponding to IFRS issued till March 31, 2010

Converged Indian Standard (ED)	Corresponding IFRS	Standard on
AS 19	IAS 17	Leases
AS 23	IAS 28	Investment in Associates
AS 21	IAS 27	Consolidated and Separate Financial statements
AS 25	IAS 34	Interim Financial Reporting
AS 34	IAS 29	Financial reporting in hyper inflationary economies
AS 35	IFRS 6	Exploration for mineral resources
AS 37	IAS 40	Investment property
AS 27	IAS 31	Interests In Joint Ventures
AS 24	IFRS 5	Non Current Assets Held for sale and Discontinued Operations

List of EDs corresponding to IFRS issued till March 31, 2010

Converged Indian Standard (ED)	Corresponding IFRS	Standard on
AS 14	IFRS 3	Business Combination
AS 40	IFRS 9	Financial Instruments
AS 32	IFRS 7	Financial Instruments – Disclosures
AS 31	IAS 32	Financial Instruments – Presentation
AS 30	IAS 39	Financial Instruments – Recognition and Measurement
AS 41	IFRS 1	First time adoption of Indian Accounting Standard

Discussion on AS 10, IAS 16 and Converged AS 10

IAS 16 – Property, Plant and Equipment (PPE)	Converged AS 10 – Property, Plant and Equipment	AS 10 – Accounting for Fixed Assets
IAS 16 also deals with both Accounting and Depreciation of PPE	AS 10 also deals with both Accounting and Depreciation of PPE	It Covers only Accounting and Disclosure for Fixed Assets
It does not exclude	It does not exclude	It specifically excludes Accounting for Real Estate Developers (Para 3 (iii))
The following criteria are to be satisfied in order to recognise a Fixed Asset: • it is probable that future economic benefits associated with the item will flow to the entity, and • the cost of the item can be measured reliably.	The following criteria are to be satisfied in order to recognise a Fixed Asset: • it is probable that future economic benefits associated with the item will flow to the entity, and • the cost of the item can be measured reliably.	AS 10 does not lay down any specific criteria for recognition of a Fixed Asset. As per Standard, an item which meets definition can be recognised as a Fixed Asset.

Discussion on AS 10, IAS 16 and Converged AS 10

IAS 16 – Property, Plant and Equipment (PPE)	Converged AS 10 – Property, Plant and Equipment	AS 10 – Accounting for Fixed Assets
Major spare parts qualify as PPE when an entity expects to use them during more than one period and when they can be used only in connection with an item of property, plant and equipment.	Major spare parts qualify as PPE when an entity expects to use them during more than one period and when they can be used only in connection with an item of property, plant and equipment. (Para 8)	Only those spares are required to be capitalized which can be used only in connection with a fixed asset and whose use is expected to be irregular. (Para 8.2)
Each major part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.	Each major part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.	It is not Mandatory to follow Component Accounting. It says "accounting for a tangible fixed asset may be improved if total cost thereof is allocated to its various parts."

Discussion on AS 10, IAS 16 and Converged AS 10

IAS 16 – Property, Plant and Equipment (PPE)	Converged AS 10 – Property, Plant and Equipment	AS 10 – Accounting for Fixed Assets
Cost of major inspections should be capitalised with consequent derecognition of any remaining carrying amount of the cost of the previous inspection.	Cost of major inspections should be capitalised with consequent derecognition of any remaining carrying amount of the cost of the previous inspection.	No Such Concept.
Recognises revaluation of fixed assets. It does not require the adoption of fair value basis as its accounting policy or revaluation of assets with regularity. It also provides an option for selection of assets within a class for revaluation on systematic basis. (Para 27)	An entity can choose either cost model or revaluation model as its accounting policy and to apply that policy to an entire class of PPE. Revaluation shall be made with reference to Fair Value and shall be made with sufficient regularity.	An entity can choose either cost model or revaluation model as its accounting policy and to apply that policy to an entire class of PPE. Revaluation shall be made with reference to Fair Value and shall be made with sufficient regularity.

Discussion on AS 10, IAS 16 and Converged AS 10

IAS 16 – Property, Plant and Equipment (PPE)	Converged AS 10 – Property, Plant and Equipment	AS 10 – Accounting for Fixed Assets
In respect of self- constructed assets, IAS 16 specifically states that the cost of abnormal amounts of wasted material, labour, or other resources incurred in the construction of an asset is not included in the cost of the assets.	In respect of self- constructed assets, IAS 16 specifically states that the cost of abnormal amounts of wasted material, labour, or other resources incurred in the construction of an asset is not included in the cost of the assets.	AS 10 does not mention the same.
Cost of an item of PPE is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference b/w cash price equivalent & total payment is recognised as interest cost	Cost of an item of PPE is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference b/w cash price equivalent & total payment is recognised as interest cost	No such requirement

Discussion on AS 10, IAS 16 and Converged AS 10

IAS 16 – Property, Plant and Equipment (PPE)	Converged AS 10 – Property, Plant and Equipment	AS 10 – Accounting for Fixed Assets / AS 6 Depreciation Accounting
Residual value and useful life of an asset be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as change in an accounting estimate.	Residual value and useful life of an asset be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as change in an accounting estimate in accordance with AS 5.	Under AS 6, such a review is not obligatory as it simply provides that useful life of an asset may be reviewed periodically.
Change in depreciation method should be considered as a change in accounting estimate and treated accordingly.	Change in depreciation method should be considered as a change in accounting estimate and treated accordingly.	It is considered as a change in accounting policy and treated accordingly

THANK YOU