

INTRODUCTION TO IFRS



What is IFRS?

- IFRS stands for International Financial Reporting Standards
- Standards and Interpretations issued by IASB
- IFRS is a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements.

What is IASB?

IASB (International Accounting Standard Board)

The International Accounting Standard Board is an independent, private-sector body that develops and approves International Financial Reporting Standards. The IASB operates under the oversight of the International Accounting Standards Committee Foundation (IASCF). The IASB was formed in 2001.

IAS Vs IFRS

- Prior to IFRS, International Accounting Standards were used.
- The term International Financial Reporting Standards (IFRSs) has both a narrow and a broad meaning.
 - Broadly, IFRSs refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB.
 - However the IAS are still in use until they are superceded by IFRS
 - Currently 29 IAS and 8 IFRS are effective

Procedure of Issuing AS (India)

- ASB of ICAI after consultation with various study groups prepares the draft of AS
- The draft as prepared will be circulated to Council members of ICAI and to the specified bodies like ICSI, ICWAI, CBDT, FICCI, ASSOCHAM, RBI, SEBI etc for their comments.
- After the meeting with the above bodies the exposure draft is finalized and is issued to ICAI and public for their comments.
- After considering the comments received, the draft is finalized by ASB and submitted to ICAI.
- The ICAI if found necessary may with consultation with ASB make required modification and issue the final AS
- NACAS to recommend to MCA for notifying the AS as issued to be complied with

Applicability

- ICAI is of the view that IFRS to be adopted for public interest entities such listed Co, Banking Companies, Insurance entities and large size entities from the Accounting period beginning on or after April 2011. The view is further strengthened by convergence process being initiated by Ministry of Corporate Affairs.
- For this purpose, public interest entities are the entities falling under the Category-level 1 as defined by ICAI except that turnover should exceed Rs 100 Crs (Instead of Rs 50 Crs) and borrowing should exceed Rs 25 Crs (instead of Rs 10Crs)
- Even if listed company does not fulfill the above criteria for level 1 enterprises, the application of IFRS is mandatory.
- Early adoption of IFRS is encouraged but it should be the adoption of all IFRS and should not be on selective basis.
- For other entities, IFRS are not mandatory but recommendatory.

What is Convergence ?

- 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”, i.e., when the national accounting standards will comply with all the requirements of IFRS.
- But convergence doesn't mean that IFRS should be adopted word by word, e.g., replacing the term 'true & fair' for 'present fairly', in IAS 1, 'Presentation of Financial Statements'. Such changes do not lead to non-convergence with IFRS.

Convergence of AS with IFRS

- The ICAI has proposed two options for convergence
 - 1- All at once
 - 2- Stage wise Approach.

But since the stage wise approach leads to non compliance with either of IFRS or AS, hence the “**all at once approach**” has been adopted.

First Time adoption

For first time adoption, two key terms need to be understood:

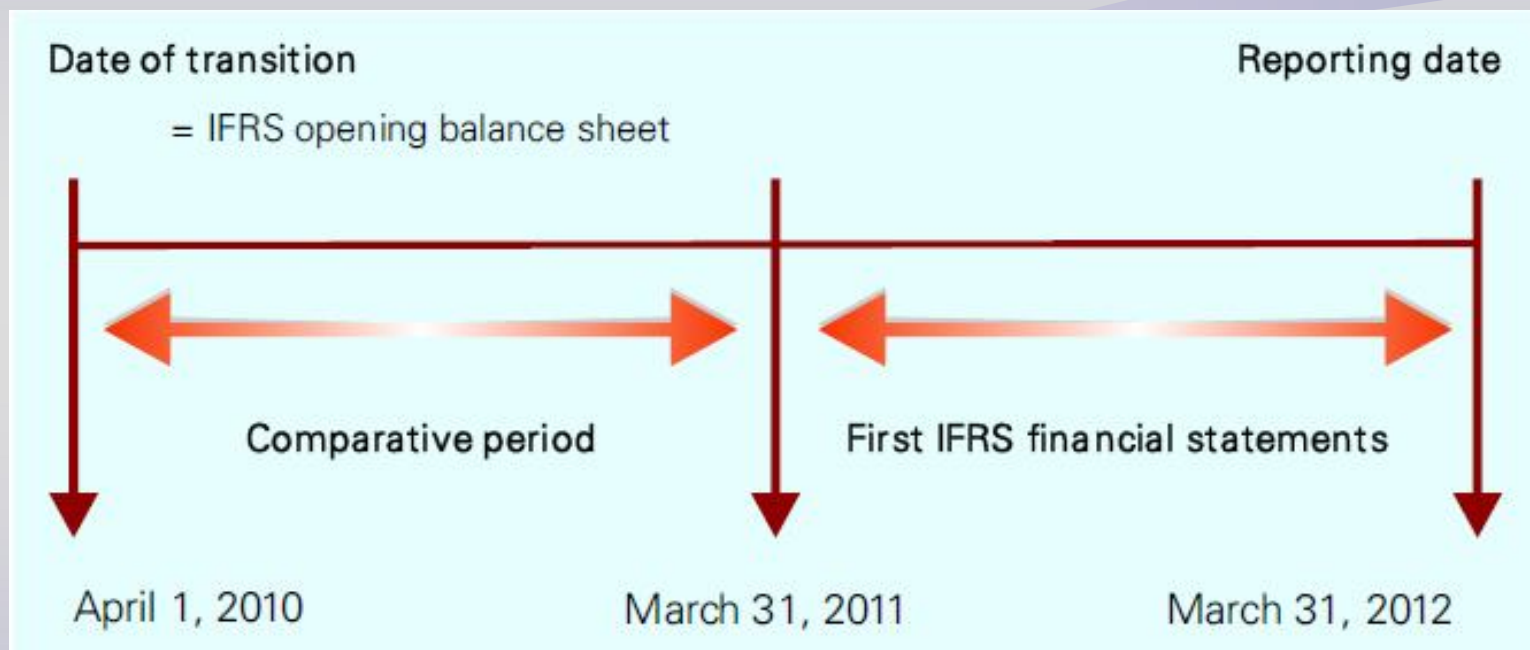
Reporting date-It is the end of latest period covered by financial statements.

Transition date- It is beginning of earliest period for which an entity presents first full IFRS compliant financial statements.

For an Indian Company, the first reporting date will be 31-03-2012 and transition date will be 01-04-2010.

Hence, first set of financials shall be for 01-04-2011 to 31-03-2012 with IFRS comparables also to be provided for 01-04-2010 to 31-03-2011.

Proposed Timelines



WHY IFRS ?

- single set of accounting standards would enable internationally to **standardize** and assure better quality on a global screen,
- it would also permit **international capital** to flow more freely, enabling companies to develop consistent global practices on accounting problems.
- It would be beneficial to **regulators** too, as a complexity associated with needing to understand various reporting regimes would be reduced.
- For **investors**, it gives a better understanding to the financial statements and assess the investment opportunities other than Home Country.
- It also benefits the **accounting professionals** in a way that they will be able to sell their services in the different part of world

IFRS compliant Nations

Currently there are over 100 nations across the world where in entities are required to or permitted to use IFRS

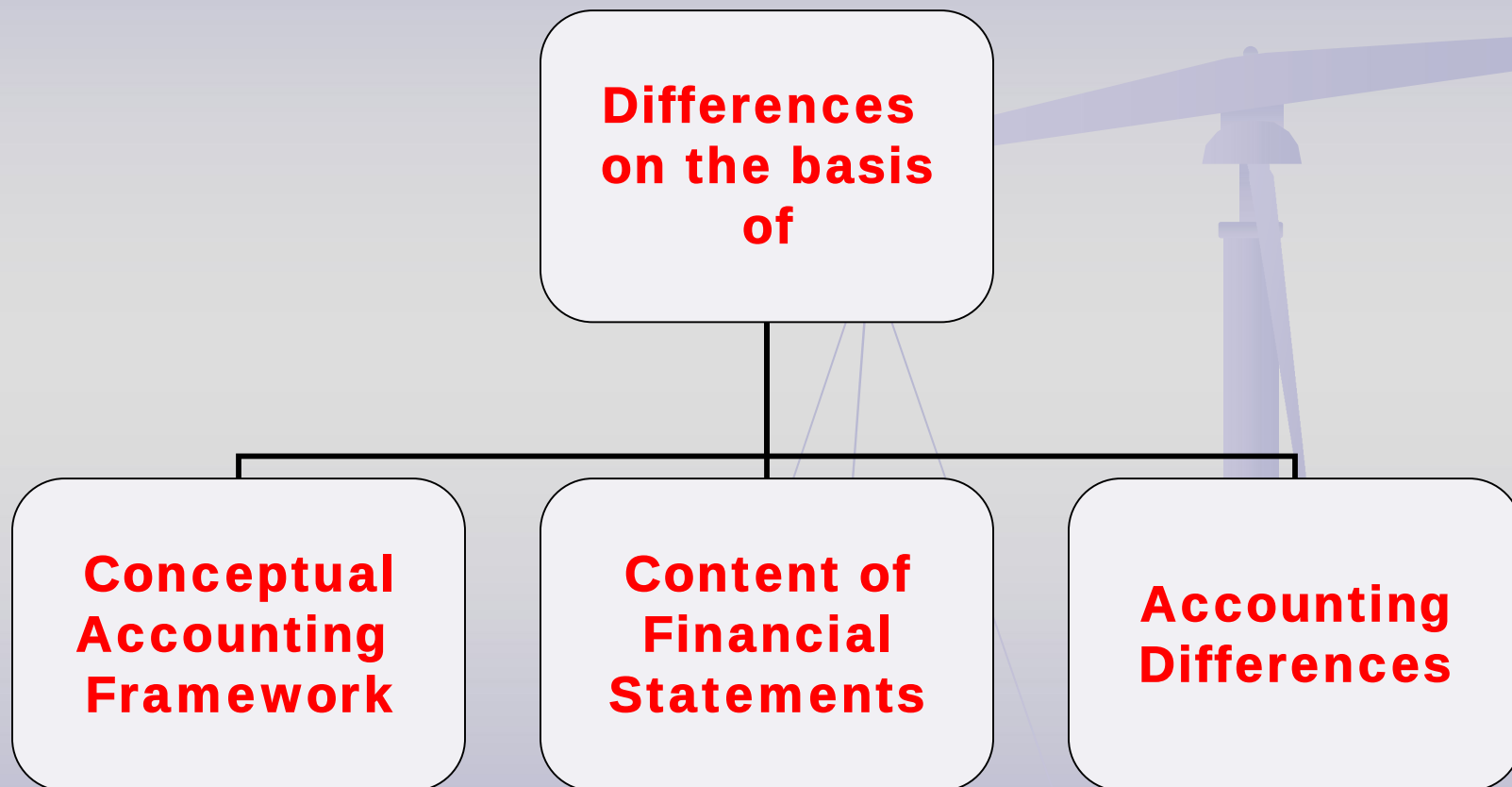
The table below provides a snapshot of IFRS acceptability globally.

Particulars	No of Nations
IFRS required for all listed Companies	85
IFRS permitted for all listed Companies	24
IFRS required for some listed Companies	4
IFRS not permitted for listed Companies	34
Total	147

Issues need to be addressed

- Right now accounting standards and other reporting requirements are governed by various regulators e.g. RBI, SEBI, tax authorities, Companies Act, High courts (for amalgamation etc) . Global standards do not recognize such override by non-standard setters. If the 2011 deadline is to be met then, all these hurdles will have to be addressed by corresponding amendments in respective laws.
- IFRS are largely fair value driven which result in unrealized gain/loss. How are these to be dealt in Income Tax?
- Further, in Fair Value accounting, fair values can bring a lot of volatility and subjectivity to the financial statements besides requiring a lot of hard work and use of valuation experts

DIFFERENCES (IFRS Vs IGAAP)



Summary of Major Differences

Subject	IFRS	Indian GAAP
First time adoption	Full retrospective application of IFRS to PL and BS. Reconciliation of PL and BS in respect of last year reported numbers under previous GAAP.	No needs to prepare reconciliation on first time adoption
Components of Financial Statements	Comprises of Balance sheet, Profit and Loss A/c. Cash flow statement, changes in equity and accounting policy and notes to Accounts	Comprises of Balance sheet, Profit and Loss A/c. Cash flow statement (if applicable), and Notes to Accounts
Balance Sheet	No particular format, a current/non current presentation of assets and liabilities is used.	As per Format Prescribed in Schedule VI for Companies, adherence to Banking Regulation for Banks etc.

Summary of Major Differences

Subject	IFRS	Indian GAAP
Income Statement	No particular format prescribed (IAS-1)	As per Format Prescribed in Schedule VI (AS-1)
Cash Flow Statements	Mandatory for all entities (IAS-7)	Level 3 entities are exempted (AS-3)
Depreciation	Over the useful life of the asset. (IAS-16)	Over the useful life of the asset, or Schedule XIV rates whichever is higher. (AS-10)

Summary of Major Differences

Subject	IFRS	Indian GAAP
Dividends	Liability to be recognized in the period when dividend is declared. (IAS-10)	Recognized as an appropriation against the profit, and recorded as liability at BS date even if declared subsequent to reporting period but before the approval of Financial statements (AS-4)
Cost of major repairs and overhaul expenditure on fixed assets	Recognized in carrying amount of the assets (IAS-16)	Expensed off. Only expenses which increases the FEB are to be capitalized. (AS-10)
Revaluation	Revaluation (if done) to be updated periodically so that carrying amount does not differ from fair value at the end period. Revaluation to be done for entire class of assets (IAS-16)	No specific requirement for revaluation. Revaluation can be done on systematic basis like for one location leaving aside the assets of other location. (AS-10)

Summary of Major Differences

Subject	IFRS	Indian GAAP
Change in the method of depreciation	Considered as a change in accounting estimate. To Be applied prospectively. (IAS-16 and IAS 8)	Considered as change in accounting policy, retrospective computation and excess or deficit is adjusted in same period. Required to be disclosed(AS-6)
Earnings Per Share	Disclosure to be made in only consolidated financials of the parent Co. (IAS-33)	Disclosure of EPS in both consolidated and separate financials. (AS-20)
Component Accounting	Required each major part of PPE with a cost that is significant in relation to total cost, should be depreciated separately (IAS-16)	No such requirement (AS-10)
Intangible Assets	Intangible assets can have indefinite useful life and hence such assets are tested for impairment and not amortized.	There is no concept of indefinite useful life. Assets have definite life. (usually 10 years)

Summary of Major Differences

Subject	IFRS	Indian GAAP
Reporting Currency	Requires the measurement of profit using the functional currency. Entities may, however, present financial statements in a different currency. (IAS-21)	Schedule VI to the Companies Act, 1956 specifies Indian Rupees as the reporting currency. (AS-11)
Key Management Personnel (KMP)	Includes Executive as well as non executive directors (IAS-24)	Excludes non executive directors. (AS-18)
Compensation to KMP	Disclosure to be made for total compensation such as short term employee benefits and post employment benefits	AS-18 does not require the break up of compensation cost.

Summary of Major Differences

Subject	IFRS	Indian GAAP
Fringe Benefits Tax	Included as part of related expense (fringe benefit) which gives rise to incurrence of the tax.	Disclosed as a separate item after profit before tax on the face of the income statement.
Uniform Accounting Policies	Prepared using uniform accounting policies across all entities in a group. (IAS-27)	Policies may differ due to impracticability. (AS-21)
Disclosure of extra ordinary items	Prohibits such disclosure (IAS-1). No such term in IFRS	Disclosure to be made in notes (AS-5)

Areas involving choices

Subject	IFRS	Indian GAAP
Cash Flow Statements	Using direct or indirect methods	Only indirect method
Borrowing Costs	Expense or capitalized	To be capitalized
Depreciation Methods	SLM, WDV, Units of Production method	SLM, WDV

Current Status of Convergence

- ICAI is under the process of issuing IFRS equivalent AS (the current status is given in next slides)
- Constitution of a Core Group to liaison with various govt and regulatory authorities to identify the inconsistencies in various laws and regulations and to make necessary amendments/ modifications to remove the differences (Refer next slides)

Progress so far in Convergence Process

S NO	Position of IFRS equivalent AS	No of Standards
1	ASs cleared by Council of ICAI and NACAS for notification.	2
2	Drafts considered by ASB and have been circulated among specified bodies for comments	20
3	ASs, which are to be issued pending insignificant modifications	5
4	Drafts which are under preparation	8
5	Accounting Standards which are not being revised as corresponding IFRSs	2

Identification of Inconsistencies Between various Laws and Regulations

- Constitution of a Group to Liaison with Governmental and Regulatory Authorities
- Group has constituted separate Core Groups to identify inconsistencies between IFRSs and
 - Companies Act
 - SEBI Regulations
 - Banking Laws & Regulations
 - Insurance Laws & Regulations

What has been done so far by the Group?

- Inconsistencies between Companies Act and IFRSs identified
 - Draft Schedule VI consistent with IFRSs formulated- should be made effective from 1-4-2011
- Inconsistencies between SEBI Mutual Fund Regulations and IFRSs identified
 - Examination of other SEBI Regulations in progress

LIST OF IFRS

- [IFRS 1](#) First-time Adoption of International Financial Reporting Standards
- [IFRS 2](#) Share-based Payment
- [IFRS 3](#) Business Combinations
- [IFRS 4](#) Insurance Contracts
- [IFRS 5](#) Non-current Assets Held for Sale and Discontinued Operations
- [IFRS 6](#) Exploration for and evaluation of Mineral Resources
- [IFRS 7](#) Financial Instruments: Disclosures
- [IFRS 8](#) Operating Segments

LIST OF IAS

- IAS-1-Presentation of Financial Statements
- IAS-2- Inventories
- IAS-7- Cash Flow Statements
- IAS-8- Accounting Policies, Change in Accounting estimates and Errors
- IAS-10- Events after balance sheet date
- IAS-11- Construction Contracts
- IAS-12- Income Taxes
- IAS-16-Property, Plant and Equipments
- IAS-17- Leases
- IAS-18- Revenue
- IAS-19- Employee Benefits
- IAs-20-Accounting for Govt Grant and Disclosure of Govt. Assistance
- IAS-21- Effect of Changes in Forex Rates
- IAS-23-Borrowing Costs
- IAS-24- Related Party Disclosures

LIST OF IAS

- IAS-26- Accounting and reporting by retirement benefit plans
- IAS-27- Consolidated and Separate Financial Statements.
- IAS-28- Investment in Associates
- IAS-29- Financial Reporting in Hyperinflationary Conditions
- IAS-31- Interest in Joint Ventures
- IAS-32- Financial Instruments- Presentation
- IAS-33- Earning Per Share
- IAS-34- Interim Financial Reporting
- IAS-36- Impairment of Assets
- IAS-37- Provisions, Contingent Liabilities and Contingent Assets
- IAS-38- Intangible Assets
- IAS-39- Financial Instruments: Recognition and Measurement
- IAS-40-Investment Property
- IAS-41- Agriculture