Key Difference between IFRS & I GAAP

A Presentation by Rachna Jaggi
FCA, CPA(USA), IFRS(ACCA)UK

Agenda

- Presentation of Financial Statement
- Business Combinations
- Income tax
- Property Plant & equipment, Investment Property & Lease
- Related parties

Presentation of Financial Statements IAS 1 & AS 1

I: Presentation Of Financial statements (IAS 1 & AS 1)

Particulars	IFRS	Indian GAAP
Overall Guidance	IAS1 sets out overall guidance for presentation of financial statements ,their structure & minimum content requirement	Offers no standard outlining over all requirement for presentation of financial statements
Measurement basis	The four measurement basis are historical cost, current cost , realizable value & Present value. Exception to historical costs are fair valuation of financial instrument, revaluation of tangible fixed assets & Intangibles etc.	In line with IFRS , though in some situation it disregards fair valuation for e.g. investments are valued at lower of cost & market value.

I: Presentation Of Financial statements (IAS 1 & AS 1)

Particulars	IFRS	Indian GAAP
Component of Financial Statements	▪Statement of Financial statements ▪Statement of Comprehensive Income ▪Statement of Changes in equity ▪Statement of cash flows ▪Notes to Accounts ▪Statement of financial position as at the beginning of the earliest comparative period has to be presented when an entity applies an accounting policy retrospectively, or makes retrospective restatement of financial items or when it reclassifies items in financial statements	▪Balance sheet ▪Profit & Loss A/C ▪Cash flow statement ▪Notes to accounts ▪AS5 requires the impact of material changes in accounting policies to be shown in financial statements. There is no requirement to present an additional balance sheet

I: Presentation Of Financial statements (IAS 1 & AS 1)

Particulars	IFRS	Indian GAAP
Disclosures of critical judgment & capital disclosures	▪Required Disclosures of : critical judgments made by the management in applying accounting policies ▪Key sources of estimation uncertainty ▪Information that enables users of its financial statement to evaluate the entity's objectives, policies & processes of managing capital.	No such specific disclosure requirement in AS 1 or schedule VI
Extraordinary Items	Disclosure of items as extraordinary either on the face of the statement of comprehensive income or in the notes is prohibited	Nature & amount of each extraordinary items should be separately disclosed in the statement of P&L in a manner that its impact on current profit & loss can be perceived.

I: Presentation Of Financial statements (IAS 1 & AS 1)

Particulars	IFRS	Indian GAAP
Dividend	IFRS requires Dividends recognized as distribution to owners & related amount per share to be presented in the statement of changes in equity or in the notes. The presentation of such disclosures in the statement of comprehensive income is not permitted.	Under Indian GAAP , a proposed dividend is shown as appropriation of profits in the profit & loss account.

Business Combinations

Business Combination

Particular	IFRS	Indian GAAP
Scope	IFRS 3 applies to most combinations , including amalgamation & acquisition	No comprehensive standard dealing with all business combinations. AS 14: Accounting for amalgamation AS 21: Consolidated Financial statements & AS 23: Investment in Associates AS 27: Joint ventures

Business Combination

Particular	IFRS	Indian GAAP
Method of accounting	Use of the pooling of interest method is prohibited. All business Combination should be accounted under purchase method.	Permits both the purchase and the pooling of interest method in case of amalgamation. The pooling of interest method is allowed only if the amalgamation satisfies certain specified conditions
Acquisition date	The date on which the acquire effectively obtains control of the acquiree is acquisition date	The date of amalgamation as defined in the amalgamation/acquisition scheme is acquisition date.

Example

- Entity C acquires 100% of entity D for cash. The sales agreement specifies that the acquisition date is 10th March. Entity C nominates directors and appoints them in place of the existing directors on 1st April , the date when all of the conditions in the sales agreement are satisfied. The shares in entity Y are transferred to entity C when the consideration is paid on 15th April.

- What is the date of the acquisition as per IFRS.

Example

- The date of Acquisition is 1st April, the date from which entity C is able to govern entity D's financial & operating policies. This is the date C is able to appoint Directors.

- The consideration in this case is an obligation to make payment at a later date. The consideration is exchanged on 1st April when control of entity D was transferred to entity C. The payment of cash on 15th April does not effect the acquisition recognition.

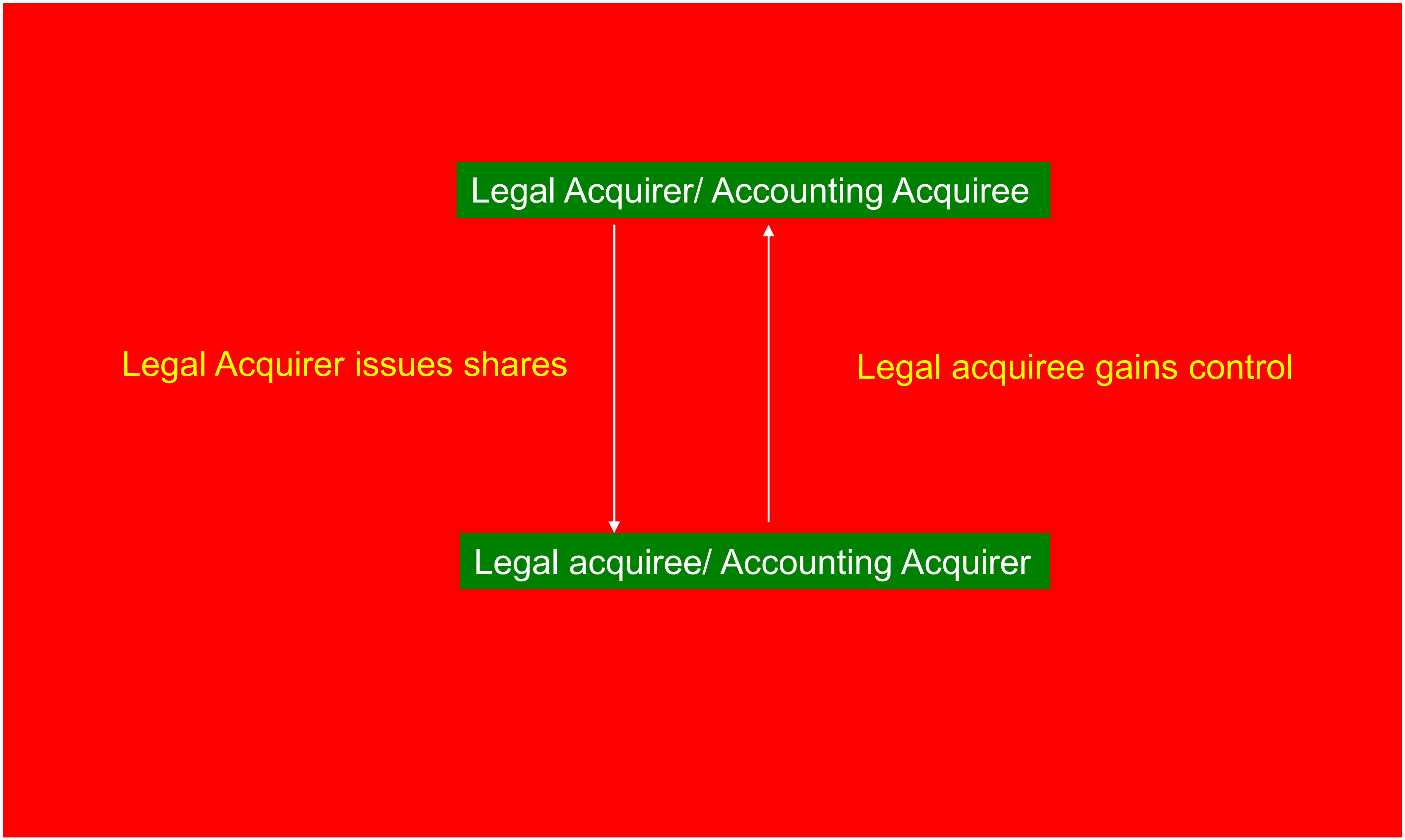
Business Combination

Particular	IFRS	Indian GAAP
Net Asset Value	IFRS 3 requires the net asset taken over including the contingent liabilities and intangible assets to be recorded at fair value	Indian GAAP requires in case of subsidiaries associates & joint ventures the recording of net asset at carrying value. Contingent liabilities of acquiree are not recorded as liabilities
Amortization of Goodwill	IFRS 3 prohibites amortization of Goodwill arising on the acquisition of the business	Indian GAAP requires amortizations of goodwill in the case of amalgamation.

Business Combination

Particulars	IFRS	Indian GAAP
Negative Goodwill	IFRS requires negative goodwill to be credited to profit & loss a/c	Negative goodwill is credited to Capital reserve.
Acquisition accounting	Acquisition accounting is based on substance Reverse acquisition is accounted assuming the legal acquirer is the acquiree	Acquisition accounting is based on the form Indian GAAP does not deal with reverse acquisition.

Reverse Acquisition



Business Combination

Particulars	IFRS	Indian GAAP
Reacquired Rights	IFRS 3 specifically deals with accounting of pre-existing relationships between acquirer & acquiree & for reacquired rights by the acquirere in a business combination	Indian GAAP does not provide guidance for such situations

Business Combination

Particulars	IFRS	Indian GAAP
Contingent Consideration	IFRS 3-R requires that contingent consideration in a business combination be measured at fair value at the date of acquisition	Under Indian GAAP, AS 14 requires that, where the scheme of amalgamation provides for an adjustment to the consideration contingent on one or more future events, the amount of the additional payment is included in the consideration if payment is probable and a reasonable estimate of the amount of additional can be made.

Business Combination:Example

- On 1st April Company A acquired a new subsidiary ,company B , purchasing all 100 million shares of company B . The terms of sale agreement include the exchange of three shares in Company A for every two shares in company B . On 1st April 2008 , the market value of a share in Company A was \$. 10 & market value of company B was \$. 13.50

- The terms of share purchase agreement included the payment of an additional \$. 1.21 per share acquired provided the profits of Company B for the two years ending 31st March 2010 exceeded a target figure. Current estimates are that it is 75% probable that the management of Company B will achieve this target. On 1st April 2008 the fair value of the contingent consideration was identified as \$100 million
- Cost of Investment ?

Business Combination:Example

- Cost of Investment:

	$m
Market value of shares issued(100 millionx3/2x$10)=	1500
Fair value of Contingent consideration on acquisition =	100
	1600

Business Combinations

Particulars	IFRS	Indian GAAP
Non Controlling Interest	IFRS 3-R provides an option to measure any non- controlling (minority) interest in an acquiree its fair value or at the non-controlling interest’s proportionate share of the acquirer's net identifiable assets.	Under Indian GAAP, AS 21 does not provide the first option and it requires minority interest in a subsidiary to be measured at the proportionate share of net assets at book value

Business Combinations

Particulars	IFRS	Indian GAAP
Business combinations achieved in stages	IFRS 3-R requires that, in a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquire at its acquisition date fair value and that it recognizes the resulting gain or loss, if any, profit and loss	There is no such requirement under Indian GAAP. Under AS 21 if two or more investments are made in subsidies over a period of time, the equity of the subsidiary at the date of investment is generally determined on a step-by-step basis.

Income taxes

Income Tax

Particulars	IFRS	Indian GAAP
Approach	IAS 12 Income Tax is based on the balance sheet liability method which focuses on temporary differences	AS 22 Accounting for Taxes on Income is based on the Income statement liability method, which focuses on timing difference
deferred taxes arising of business combination	IAS 12 requires the recognition of deferred taxes in the case of business combination. Under IFRS the cost of a business combination is allocated to the identifiable assets acquired and liabilities assumed by reference to their fair values. However, if no equivalent adjustment is allowed for tax purposes, it would give rise to a temporary difference.	Under Indian GAAP business combinations (other than amalgamation) will not give rise to a deferred tax adjustment.

Income tax

Particulars	IFRS	Indian GAAP
Recognition of deferred taxes.	under IFRS the entity recognizes a deferred tax assets rising from unused tax losses or tax credit only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available . IAS 12 does not lay down any requirement for consideration of virtual certainty	Under Indian GAAP if the entity has carried forward tax losses or unabsorbed depreciation, all deferred tax assets are recognize only to the extent that there is virtual certainly supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Property Plant & Equipment

Property plant & Equipment, Intangible assets, Investment property and leases

Particulars	IFRS	Indian GAAP
Component Accounting	IAS 16 property, plant and equipment mandates component accounting	whereas AS 10 recommends, but does not require, component accounting
Depreciation base	IFRS requires depreciation to be based on the useful economic life of n asset	In Indian GAAP, depreciation is based on higher of useful life or schedule XIV rates.

Property plant & Equipment, Intangible assets, Investment property and leases

Particulars	IFRS	Indian GAAP
Major repairs and overhaul	Major repairs and overhaul expenditure are capitalized under IFRS as replacement costs, if they satisfy the recognition criteria	in most cases Indian GAAP requires these to be charged off to the profit and loss account as incurred
Review of useful lives	IFRS requires estimate of useful lives and residual values to be reviewed at least at each financial year-end	In India GAAP there is no need for an annual review of estimates of useful lives and residual values

Property plant & Equipment, Intangible assets, Investment property and leases

Particulars	IFRS	Indian GAAP
Revaluation of assets	▪If an asset is revalued, IFRS mandates revaluation to be done for the entire class of property, plant and equipment to which that asset belongs and ▪ the revaluation to be updated periodically	▪In India GAAP revaluation is not required for all the asset of the given class, ▪ the selection of the assets to be revalued is made on systematic basis, ▪Also there is no need to update revaluation regularly under Indian GAAP
Investment Property	IFRS provide detail rules for the classification of an asset as an investment property and allows subsequent measurement of investment property at cost or at fair value	Indian GAAP requires Investment property to be recognized at cost less other than temporary diminution in value

Property plant & Equipment, Intangible assets, Investment property and leases

Particulars	IFRS	Indian GAAP
Intangible Assets- indefinite useful life	Under IFRS intangible assets can have indefinite useful life. Such assets are required to be tasted for impairment and are not amortized	Under Indian GAAP there is no concept of indefinite useful life.
Revaluation model	Under IFRS the revaluation model is allowed for accounting of an intangible asset provided an active market exists	whereas, India GAAP does not permit use of the revaluation model for intangible assets

Related Party Disclosure

Related party Disclosure

Particulars	IFRS	Indian GAAP
Definition	While defining related party under IAS 24 Related Party Disclosures the words used are "financial and operating decisions".	AS 18 Related Party Disclosures defines related party as "parties are considered to be related if at any time during the reporting period and party has the ability to control the other party or exercise significant influence over the other party in making financial and/ or operating decisions

Related party Disclosure

Particulars	IFRS	Indian GAAP
Related Parties	IAS 24 includes post employment benefit plans as related parties	AS 18 do not include post employment benefit plans as related parties
	IAS 24 includes close members of families of key management personnel as related parties. It also includes close members of the families of persons who exercise control or significant influence	AS 18 includes only relatives of key management personnel as a related parties.

Related party Disclosure

Particulars	IFRS	Indian GAAP
Closed Relatives	IAS 24 adopts substance over form based approach in defining relatives as close members of the family.	AS 18 includes specific relations as relatives
Significant Influence	IAS 24 does not give any percentage to interpret significant influence and is based on the substance	AS 18 state that holding 20% or more of the voting power of the entity is presumed to result in significant influence

Related party Disclosure

Particulars	IFRS	Indian GAAP
Control	Control is principle based. Under IAS 24 , control is the power to govern the financial & operating policies of an entity so as to obtain the benefits from its activities	As 18 defined control as: ▪Ownership directly or indirectly of more than one half of the voting power of an entity. ▪Control of composition of the board of directors or the governing body ▪A substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of an entity

Related party Disclosure

Particulars	IFRS	Indian GAAP
Exemption from Disclosure	IAS 24 does not contain any exemption from disclosure.	AS 18 provides exemption for transaction with the related parties where reporting of such disclosures would conflict with the reporting entity's duties of confidentiality as specially required in terms of a statue or buy any regulator or similar competent authority

Related party disclosure

Particulars	IFRS	Indian GAAP
Exemption from Disclosure…..	There is no exemption for state controlled enterprise as regards related party relationships with other state controlled enterprises and transactions with such enterprises	No disclosure is required in the financial statements of state –controlled enterprises as regards related party relationships with other state-controlled enterprises and transaction with such enterprises.


Impairment

Impairement

Particulars	IFRS	Indian GAAP
Impairment/ Amortization	Under IFRS an annual impairment test is required for intangible assets with an indefinite useful life or an intangible asset not yet available for use. This test can be performed at any time during the year, provided it is performed at the same time every year.	Under Indian GAAP the recoverable amount of intangible assets which are not yet available for use, or those that are amortized over a period exceeding ten years from the date when the assets is available for use need to be estimated at least at the end of each financial year.

Impairment

Particulars	IFRS	Indian GAAP
	IAS 36 Impairment of Assets require goodwill to be allocated to each of the acquirer's CGU which are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units	AS 28 Impairment of Assets employs bottom-up/ top-down approach for goodwill allocation for impairment testing. This requires goodwill to be allocated to a CGU or smallest group of CGU to which goodwill (or portion thereof) can be allocated on a reasonable and consistent basis

Impairment

Particulars	IFRS	Indian GAAP
Reversal Of Impairment Loss	Once an impairment loss is recognized for goodwill, it cannot be reversed subsequently under IFRS	In Indian GAPP, the impairment loss on goodwill is reversed in a subsequent period when the impairment loss was caused by a specific external event of an exceptional nature, that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

Impact on Debt Covenant

AMER group Ltd Year-ended 31/3/06	Previous GAAP	IFRS
Share capital	$ 200 m	$ 200 m
ADJUST: Reclassified Redeemable Cumulative Pref. Shares (cost 20m, FV 33.9m)		(20) (13.9)
Total Equity and Reserves	200	166.1
Debt	20	20
ADJUST: Reclassified Pref. Shares		33.9
Total Debt	20	53.9
DEBT-EQUITY RATIO (**D-E ratio impacted by 3.2 times)**	0.1	0.32