

Comparative statement on Indian GAAP and IFRS

(As on 1 January 2010)

2010 edition



Contents

i 6 Basic standards

- 7 First-time adoption
- 7 Small and medium sized entities (SMEs)/Small and medium sized companies (SMCs)
- 8 Statement of Cash Flows
- 11 Accounting policies, changes in accounting estimates and errors
- 13 Events after the reporting date

ii 14 Presentation and disclosures

- 15 Presentation of financial statements
- 18 Segment reporting/ operating segments
- 23 Related party disclosures
- 27 Earning per share (EPS)
- 30 Interim financial reporting

iii 34 Assets and liabilities

- 35 Property, plant and equipment
- 43 Leases
- 45 Borrowing costs
- 47 Impairment of assets
- 49 Intangible assets
- 53 Investment property
- 56 Inventory
- 57 Non-current asset held for sale and discontinued operations/discontinuing operations
- 58 Service concession arrangements
- 59 Provisions, contingent liabilities and contingent assets

iv 62 Revenue and expenses

- 63 Revenue
- 69 Construction contracts
- 70 Accounting for government grants
- 72 Employee benefits
- 74 Share-based payment
- 77 Income taxes
- 79 The effects of changes in exchange rates

v 82 Acquisition and consolidation

- 83 Business combinations
- 89 Consolidated and separate financial statements
- 94 Investments in associates
- 99 Financial reporting of interests in joint ventures

vi 104 Financial instruments

- 105 Financial instruments

vii 116 Industry related

- 117 Accounting for agricultural produce or biological asset
- 117 Exploration for and evaluation of natural resources

118 Appendix

- 119 Listing of IFRS
- 121 Listing of abbreviations

This comparison does not attempt to capture all of the differences between Indian GAAP and IFRS or impact on transition to IFRS, that exist or that may be material to a particular entity's financial statements. Our focus is on differences or impacts that are commonly found in practice. The existence of any differences – and their materiality to an entity's financial statements – depends on a variety of specific factors including, among others: the nature of the entity, an entity's interpretation of the more general IFRS principles, industry practices and accounting policy elections required under either Indian GAAP or IFRS. Accordingly, we recommend that readers seek appropriate advice regarding any specific issues that they encounter. This publication should not be relied on as a substitute for reading IFRS. Before reaching any conclusion as to how your specific company may be affected by a change to IFRS, you should consider your specific facts and circumstances and then consult with Ernst & Young or other professional advisors familiar with your particular factual situation for advice.

This comparison is based on pronouncements under IFRS issued by IASB and Indian accounting standards notified under the Companies Act 1956, and other pronouncements issued by ICAI up to 1 January 2010. 1 January 2010, irrespective of their dates of applicability. The ICAI has issued certain standards which are applicable from dates beyond 1 January 2010 and have not been notified under the Companies Act 1956 till that date. For example, ICAI has issued AS 30, AS 31 and AS 32 on *Financial Instruments: Recognition and Measurement*, *Financial Instruments: Presentation*, and *Financial Instruments: Disclosures*, respectively, which are recommendatory for accounting periods commencing on or after 1 April 2009 and mandatory for accounting period commencing on or after 1 April 2011. These standards have not been notified under the Companies Act 1956 as at 1 January 2010. The comparison given below is without considering the impact of these Standards. Similarly, limited revisions consequent to these standards have also not been considered in the comparison. IASB has recently issued phase I of IFRS 9 *Financial Instruments* dealing with classification and measurement of financial assets. Phase 1 of IFRS 9 will be mandatory from 1 January 2013 and earlier application is permitted. Considering future applicability, phase I of IFRS 9 has not been considered in the comparison. Exposure Drafts of new/revised standards issued by IASB/ASB (except IFRS 9) of ICAI have also not been considered in the comparison, though at appropriate places they have been referred to.



Basic
standards



IFRS	Indian GAAP
First-time adoption	
IFRS 1 (as updated in July 2009) gives guidance on preparation of the first IFRS financial statements. IFRS 1 grants four mandatory exceptions and limited voluntary exemptions from the full retrospective application.	There is no specific standard. Full retrospective application would be required.
Small and medium sized entities (SMEs)/ Small and medium sized companies (SMCs)	
IASB has issued a separate IFRS for SMEs in July 2009. IFRS for SMEs is based on the fundamental principles of full IFRS, but in many cases, it has been simplified to make the accounting requirements less complex and to reduce the cost and effort required to produce the financial statements. To achieve this, the IASB has removed a number of the accounting options available under full IFRS and attempted to simplify accounting, including recognition and measurement principles, for SMEs in certain areas. Whilst the standard provides a broad level definition of an SME to help in understanding the entities to which IFRS for SMEs is applicable, the preface to the standard indicates that the decision as to which entities are required or permitted to apply the standard will lie with the regulatory and legislative authorities in each jurisdiction.	There is no separate standard for SMEs, however, exemptions/relaxations from the specific requirement of Standards have been provided. Most of the exemptions/ relaxations pertain to presentation/ disclosure requirements. For providing exemptions/ relaxations, the Companies (Accounting Standards) Rules classify all companies into two categories, namely SMCs and non-SMCs, whereas, the ICAI has classified all non corporate entities into three levels.

Statement of Cash Flows

In 2008, the ASB of ICAI issued an Exposure Draft of revised AS 3, *Statement of Cash Flows*, to bring it in line with IAS 7, except for the removal of certain options. Since, the Exposure Draft has not been issued as final standard till 1 January 2010, the major differences between IAS 7 and the existing AS 3 are listed below.

Cash and cash equivalents

Cash comprises not only cash on hand but also demand deposits with banks or other financial institutions. An investment normally qualifies as a cash equivalent only when it has a maturity of three months or less from its acquisition date. Bank borrowings are normally part of financing activities. Nonetheless, bank overdrafts that are repayable on demand and that form an integral part of an entity's cash management are included in cash equivalents.

Indian GAAP is similar to IFRS except that there is no provision in AS 3 for classification of bank overdrafts.

Format and content of cash flow statement

The cash flow statement may be prepared using either the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net income for transactions of a non-cash nature such as depreciation). The latter is more common in practice. The cash flow should be classified into operating, investing and financing cash flow.

Indian GAAP is similar to IFRS. However, in case of listed entities SEBI requires preparation of cash flow statement using indirect method only.

Cash flow associated with extraordinary items

Separate disclosure is prohibited. The concept of extraordinary items has been removed from IFRS.

The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.

Disclosure of interest paid and received	
Interest is presented under operating activities in case of financing entities. For other entities, interest paid should be disclosed as operating or financing. Interest received is disclosed as either operating or investing cash flow.	Interest is presented under operating activities in case of financing entities. For other entities, interest paid should be disclosed as financing cash flow and interest received should be disclosed as investing cash flow.
Disclosure of dividend paid	
Operating or financing.	Financing.
Disclosure of dividend received	
Operating in case of financing entities. Operating or investing for other entities.	Operating in case of financing entities. Investing for other entities.
Disclosure of taxes paid	
Operating – unless specific identification with financing or investing activities.	Indian GAAP is similar to IFRS.
Cash paid to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary course of business	
IAS 7 was amended as part of Annual Improvement Project issued in May 2008. The amendment requires cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary course of business should be presented as part of cash flows from operating activities. Consequently, cash receipts from rent and subsequent sale of such assets should also be shown as part of operating activities.	AS 3 does not specifically deal with such assets. Cash inflows and outflows related to such fixed assets would generally be classified as investing activities.
Expenditures on unrecognized assets	
IAS 7 has recently amended as part of Annual Improvement Project issued in April 2009. The amendment explicitly provides that only expenditures that result in a recognized asset in the balance sheet are eligible for classification as investing activities. This amendment is applicable for annual periods commencing 1 January 2010.	There is no such specific requirement under AS 3.

Consolidated cash flow statement

IAS 7 deals with preparation and presentation of consolidated cash flow statement. Particularly, it provides the following guidance in this regard:

- ▶ The effects of 'undistributed profits of associates and non-controlling interests' are adjusted while determining the net cash flow from operating activities using the indirect method.
- ▶ Cash flows of a foreign subsidiary should be translated using the exchange rates at the dates of the cash flows. However, under IAS 7, an entity may use average rate as well if it approximates the actual rate.

Preparation and presentation of consolidated cash flow statement is not specifically addressed in AS 3.

Other disclosures

IAS 7 requires additional disclosure of cash payments by a lessee relating to finance lease under financing activities, additional disclosures in CFS and for acquisition of subsidiaries.

There is no such requirement under AS 3.

Accounting policies, changes in accounting estimates and errors

In July 2009, the ASB of ICAI issued an Exposure Draft of revised AS 1, *Presentation of Financial Statements*, to bring this in line with IAS 1R, *Presentation of Financial Statements*. The exposure draft of revised AS 1 refers to revised AS 5 at several places. Since the Exposure Draft of revised AS 5 has not been issued till 1 January 2010 and the revised AS 5 is yet to be issued, the major differences between existing AS 5 and IAS 8 are listed below.

Change in accounting policies

When an entity changes an accounting policy upon initial application of a Standard or an Interpretation that does not include specific transitional provisions applying to that change, or if it changes an accounting policy voluntarily, it shall apply the change retrospectively. Comparative information is restated, and the amount of the adjustment relating to prior periods is adjusted against the opening balance of retained earnings of the earliest year presented.

Any change in an accounting policy which has a material effect should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted. There is no specific guidance on how changes in accounting policies are dealt with, except few specific items, like change in the method of depreciation or change arising out of a new standard.

Prior period items

An entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred; or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

These are reported as a prior period adjustment in current year results. Comparatives are not restated.

Definition of prior period items

The definition of prior period items is much broader under IAS 8 as compared to AS 5, since IAS 8 covers all the items in financial statements.

AS 5 covers only items of income and expenses under the definition of prior period items. AS 5 does not include balance sheet misclassification, which do not have an income statement impact.

Change in accounting estimate

Changes in accounting estimates are accounted for prospectively in the income statement when identified. Change in the method of depreciation is regarded as a change in an accounting estimate and hence, the effect is given prospectively.

Indian GAAP is similar to IFRS, except that change in the method of depreciation, which is considered to be change in an accounting policy rather than a change in an accounting estimate.

Absence of standard or interpretation that specifically applies to a transaction

IAS 8 provides specific guidance on the selection of accounting policies in case where there is no IFRS or Interpretation that specifically applies to a transaction, event or condition. It refers an entity to the following sources in descending order:

- ▶ The requirements and guidance in Standards and Interpretations dealing with similar and related issues, and
- ▶ The definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.

IAS 8 also permits management to consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework in making this judgement.

There is no specific guidance under AS 5.

Additional disclosure

IAS 8 requires disclosure of an impending change in accounting policy when an entity is yet to implement a new Standard or Interpretation that has been issued but not yet come into effect.

There is no such specific requirement under AS 5.

Events after the reporting date

In December 2009, the ASB of ICAI has issued an Exposure Draft of revised AS 4, *Events after the Reporting Period*, to bring this in line with IAS 10 *Events after the Reporting Date*. Most of the proposals contained in the ED are in line with IAS 10. Since the Exposure Draft has not been issued as final standard till 1 January 2010, the major differences between IAS 10 and the existing AS 4 are listed below.

Adjusting and non-adjusting events

Amounts recognized in the financial statements should be adjusted for events that provide additional evidence of conditions that existed at the balance sheet date and should not be adjusted for events that provide evidence of conditions that did not exist at the balance sheet date. Under IAS 10, material non-adjusting events are required to be disclosed in the financial statements.

Indian GAAP is similar to IFRS, except that under AS 4, non-adjusting events are required to be disclosed in the report of the approving authority, for example, the board report.

Authorization date for issue of financial statements

The date of authorization for issue of financial statements and the authorizing authority should be specifically mentioned in the financial statements itself as required by IAS 10.

There is no such requirement.

Proposed dividend

If dividends to holders of equity instruments are proposed or declared after the balance sheet date, an entity should not recognize those dividends as a liability at the balance sheet date. An entity should disclose the amount of dividends that were proposed or declared after the balance sheet date, but before the financial statements were authorized for issue.

Companies are required to make provision for proposed dividend, even-though they are proposed after the balance sheet date.



Presentation and disclosures

IFRS	Indian GAAP
Presentation of financial statements In July 2009, the ASB of ICAI has issued an Exposure Draft of revised AS 1, <i>Presentation of Financial Statements</i> , to bring this in line with IAS 1R <i>Presentation of Financial Statements</i> . Most of the proposals contained in the ED are in line with IAS 1R. Since the Exposure Draft has not been issued as final standard till 1 January 2010, the major differences between IAS 1 and the existing AS 1 are listed below.	
Measurement basis	
The four measurement bases are historical cost, current cost, realizable value and present value. Exceptions to historical cost are fair valuation of financial instruments, other biological assets, revaluation of tangible fixed assets/intangible assets, impairment of assets, etc.	Indian GAAP is in line with IFRS, though, in some situations, it disregards fair valuation, for e.g., provisions are not allowed to be discounted or current investments are valued at lower of cost or market value.
Component of financial statements	
A set of financial statements should contain a Statement of Financial Position, a Statement of Comprehensive Income (SCI), a Statement of Changes in Equity (SOCIE), a Statement of Cash Flows and notes to the accounts. A 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 a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.	A set of financial statements contains a balance sheet, income statement, cash flow statement and notes to accounts. The concept of SOCIE and SCI does not prevail, however, the information relating to appropriation of profits, movement in capital and reserves, etc., is presented on the face of the profit and loss account and/or in the captions of share capital and reserves and surplus in the balance sheet.
Disclosure of critical judgement and capital disclosures	
IAS 1-R requires disclosure of critical judgments made by management in applying accounting policies and key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. It also requires disclosure of information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.	There is no such specific disclosure requirement in AS 1 or Schedule VI.

Statement of financial position and statement of comprehensive income format

For statement of financial position and statement of comprehensive income, there are no prescribed rigid formats. Illustrative format of statement of financial position and statement of comprehensive income have been provided under IFRS. IAS 1-R prescribes minimum information to be presented on the face of the statement of financial position and statement of comprehensive income.

Even though AS 1 does not prescribe any minimum structure of financial statements, Schedule VI to the Companies Act prescribes a detailed format for balance sheet. There is no format prescribed for income statement, however, Schedule VI specifies disclosures to be made in the income statement.

Extraordinary items

Disclosure of items as extraordinary items, either on the face of the statement of comprehensive income or in the notes, is prohibited.

Extraordinary items are defined as income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity and, therefore, are not expected to recur frequently or regularly. The nature and the amount of each extraordinary item should be separately disclosed in the statement of P&L in a manner that its impact on current profit or loss can be perceived.

Statements of Comprehensive Income (SCI)

The statement of comprehensive income presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense. Entities may either present all items together in a single statement, or present two linked statements – one displaying the items of income and expense recognized in profit or loss (the income statement), and the other statement beginning with profit or loss, and displaying all the items included in 'other comprehensive income' (the statement of comprehensive income).

The concept of 'other comprehensive income' does not prevail under Indian GAAP. All items are recognized in the income statement in accordance with AS 5, unless required otherwise by any other accounting standard. Credits for certain items are directly taken to reserves and surplus, for e.g., revaluation of fixed assets. The transitional provisions of certain standards require first-time adjustment and their consequential tax effect to be made directly into reserves and surplus.

Statements of Comprehensive Income (SCI) (cont'd.)

The components of other comprehensive income include:

- ▶ Changes in revaluation surplus,
- ▶ Foreign exchange translation differences,
- ▶ Actuarial gains and losses, if entity adopts policy of recognizing the same directly in equity,
- ▶ Gains and losses on re-measuring available for sale financial assets, and
- ▶ Effective portions of gains and losses on hedging instruments in a cash flow hedge.

Information relating to movement in reserves, etc., is generally presented in the caption reserves and surplus in the balance sheet.

Statements of Changes in Equity (SOCIE)

On the face of SOCIE, the following shall be disclosed:

- ▶ Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to minority interest,
- ▶ For each component of equity, the effects of retrospective application or retrospective restatement recognized under IAS 8,
- ▶ The amounts of transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners, and
- ▶ For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each change.

A SOCIE is not required under Indian GAAP. All items are recognized in the income statement in accordance with AS 5, unless required otherwise by any other accounting standard. Credits for certain items are directly taken to reserves and surplus, for e.g., revaluation of fixed assets. The transitional provisions of certain standards require first time adjustment and their consequential tax effect to be made directly into reserves and surplus. A schedule is given for equity and reserves and surplus, showing opening and closing position as on the balance sheet date, and movements along with other disclosures prescribed by the Schedule VI to the Companies Act. The information relating to appropriation of profit is presented on the face of the profit and loss account.

Segment reporting/operating segments

IASB had issued IFRS 8 that superseded IAS 14 on which AS 17 was based. The comparison given below with regard to segment information is based on IFRS 8.

Operating segment

An operating segment is a component of entity:

- ▶ That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity, i.e., vertical segment),
- ▶ Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- ▶ For which discrete financial information is available.

Operating segments exhibiting similar long-term financial performance if they have similar economic characteristics may be aggregated into a single operating segment.

Indian GAAP requires two sets of segments to be identified – one based on related products and services (business segment) and the other on geographical areas (geographical segment) using risk and rewards as basis for identification.

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Reportable segments

A reportable segment is an operating segment identified as above:

- ▶ Whose internal and external revenue is 10% or more of the combined revenue (internal and external), Its segment result – as an absolute percentage – exceeds 10% of greater of:
 - ▶ The combined results of all profitable segments, or
 - ▶ The combined results of all segments in loss.

A business segment or geographical segment should be identified as a reportable segment if:

- ▶ Its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments, or
- ▶ Its segment result, whether profit or loss, is 10% or more of:
 - ▶ The combined result of all segments in profit,

Reportable segments (cont'd.)

- ▶ Its assets are 10% or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments shall be identified as reportable segments until at least 75% of the entity's revenue is included in reportable segments.

Segments not identified are included in all other category with source of revenue disclosed.

Under IFRS 8, a segment identified as a reportable segment in the immediately preceding period because it satisfied the relevant 10% criteria, should continue to be a reportable segment for the current period notwithstanding that its revenue, result and assets no longer exceed the 10% criteria, if the management of the entity judges the segment to be of continuing significance.

- ▶ The combined result of all segments in loss, whichever is greater in absolute amount, or

- ▶ Its segment assets are 10% or more of the total assets of all segments.

Reporting on primary and secondary segments is required.

If reported segments are below 75% threshold of total, additional segments are reported till the 75% threshold is reached.

Additional operating segments may be considered reportable and separately disclosed where management believes that disclosure would be useful.

Segments not identified as above are included as unallocated items.

AS 17 is stricter in this regard as the option to management to make an exception of the above provision based on its judgment on continuing significance of the segment is not available.

Accounting policies/bases of preparation

IFRS 8 uses 'management approach' in reporting operating segment, i.e., the amount reported for each operating segment item is based on the same measurement basis reported to the chief operating decision maker. It may not be in accordance with accounting policies used in presenting the entity's financial statements.

Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the entity as a whole.

IFRS 8 does not define, segment revenue, segment expense, segment result, segment assets and segment liabilities. It requires an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each reportable segment.

Defines, segment revenue, segment expense, segment result, segment assets and segment liabilities, and requires reporting accordingly in for each reportable segment in segment reporting.

Disclosures

General Information should be disclosed as follows:

- ▶ The factors used to identify the entity's reportable segments, discussion of how the entity is organized and whether operating segments have been aggregated
- ▶ The types of products and services from which each reportable segment receives its revenue

There is no specific requirement to disclose general information under AS 17.

Specific information about each reportable segment is required, as follows:

- ▶ A measure of profit or loss.,
- ▶ A measure of total assets. IFRS 8 has recently been amended as part of Annual Improvement Project issued in April 2009. The amendment clarifies that segment assets need to be reported only if such an amount is regularly provided to the chief operating decision maker. This amendment is applicable for annual periods commencing 1 January 2010,
- ▶ A measure of liabilities if such an amount is regularly provided to the chief operating decision maker,
- ▶ Amounts of any of the following that are either included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to him:
 - ▶ Revenues from external customers,
 - ▶ Revenues from transactions with other operating segments within the entity,
 - ▶ Interest revenue and expenses,

Indian GAAP requires disclosure of the following for primary segment identified:

- ▶ Segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments,
- ▶ Segment result,
- ▶ Total carrying amount of segment assets,
- ▶ Total amount of segment liabilities,
- ▶ Total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets),
- ▶ Total amount of expense included in the segment result for depreciation and amortization in respect of segment assets for the period, and
- ▶ Total amount of significant non-cash expenses, other than depreciation and amortization in respect of segment assets, that were included in segment expense and, therefore, deducted in measuring segment result.

Indian GAAP requires disclosure of the following for secondary segment identified:

In case the primary segment is a business segment:

Disclosures (cont'd.)

- ▶ Depreciation and amortization, Material items of income and expense disclosed in accordance with IAS 1,
- ▶ The entity's interest in profit or loss of associates and joint ventures accounted for by the equity method, Income tax expense and income, and
- ▶ Material non-cash items other than depreciation and amortization
- ▶ Any of the following items that are either included in the measure of segment assets reviewed by or otherwise regularly provided to the chief operating decision maker:
 - ▶ Investment in equity-accounted associates and joint ventures, and
 - ▶ Total additions to non-current assets other than financial instruments, deferred tax assets, post employment benefits and rights arising under insurance contracts
- ▶ Segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10% or more of enterprise revenue.
- ▶ The total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10% or more of the total assets of all geographical segments, and
- ▶ The total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets) by geographical location of assets, for each geographical segment whose segment assets are 10% or more of the total assets of all geographical segments.

An explanation of the measurement basis of segment information, including:

- ▶ The basis of accounting for inter-segment transactions.
- ▶ If not apparent from the reconciliations described below, the nature of any differences between the measurement of the profit or loss before income tax and discontinued operations, assets and liabilities in the entity's financial statements in accordance with IFRS as well as accounting policy differences, measurement between the measurement of the profit or loss before income tax and discontinued operations, assets and liabilities in the entity's financial statements

If the primary segment is a geographical segment, it should also report the following segment information for each business segment whose revenue from sales to external customers is 10% or more of enterprise revenue, or whose segment assets are 10% or more of the total assets of all business segments:

- ▶ Segment revenue from external customers,
 - ▶ The total carrying amount of segment assets, and
 - ▶ The total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets).
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Disclosures (cont'd.)

in accordance with IFRS as well as accounting policy differences, measurement differences might include policies for allocating central costs or jointly used or shared assets and liabilities to individual segments.

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| <ul style="list-style-type: none"> ▶ The nature of any changes from prior periods in the measurement methods used to determine segment profit or loss and the effect, if any. ▶ The nature and effect of any asymmetrical allocations to reportable segments. | <ul style="list-style-type: none"> ▶ Segment revenue from external customers, ▶ The total carrying amount of segment assets, and ▶ The total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets). |
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Reconciliation between reportable segments and entity's revenue, profit or loss, segment assets, liabilities and material item of information segments should be disclosed. Also the major details of reconciliation are also required to be disclosed.

A reconciliation is required only for primary segment figures reported.

Entity-wide disclosures to the extent that this information is not provided as part of the reportable segment information:

- ▶ External revenues on an IFRS basis for each group of similar products or services,
- ▶ External revenues on an IFRS basis attributed to:
 - ▶ The entity's country of domicile
 - ▶ All foreign countries, with separate disclosure of revenue attributed to individual foreign countries, if material, the entity must disclose the basis on which revenues have been attributed to different countries.
- ▶ Non-current assets on an IFRS basis other than financial instruments, deferred tax assets, post employment benefit assets, and rights arising under insurance contracts, and

AS 17 requires disclosure of revenue for primary and geographical segments but no specific disclosure is required for revenue for each product/services or revenue based on each countries.

Disclosures (cont'd.)	
If revenue from a single external customer amount to 10% or more of the entity's revenues, the total revenues from the customer concerned and the identity of the segments reporting the revenues must be disclosed.	There is no disclosure required for customer concentration.
Restatement	
Restatement is required in case of an entity changes the structure of its internal organization, vis-à-vis reportable segment, corresponding information for earlier periods, including interim period shall be restated.	In Indian GAAP, for change in segment accounting policies, disclosure of the impact arising out of the change is required to be made, as is the case for changes in accounting policies relating to the entity as a whole. Prior period figures are not restated, i.e., no retroactive restatement is required.
Related party disclosures	
Identification of related parties	
IAS 24 uses the term 'financial and operating decisions' in defining related party.	The AS 18 definition of related party is: "Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions." Therefore, it appears that the AS 18 definition is more stringent in this regard.
IFRS includes post employment benefit plans as related parties.	Unlike IFRS, AS 18 does not include post employment benefit plans as related parties.
IAS 24 includes close members of the families of KMPs as related party as well as of persons who exercise control/ significant influence.	AS 18 covers only relatives of KMPs.

Definition of control

IAS 24 contains principle based definition of the term 'Control'. Under IAS 24, control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

AS 18 defines 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, and
 - A substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of an entity.
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Significant influence

Under IAS 24, significant influence is the power to participate in both financial and operating policy decisions of an entity, but is not control over those policies. Under IFRS, significant influence may be gained by share ownership, statute or agreement. IAS 24, however, does not specify any particular share holding or voting power which would result into significant influence.

Under AS 18, an entity is considered to have significant influence over the other entity even if it has the power to participate in either financial or operating policy decisions or both of the other entity, but not control of those policies. AS 18 specifies rebuttable presumptions that an entity is considered to have a substantial interest in another entity if that entity owns, directly or indirectly, 20% or more interest in the voting power of the other entity.

Close relatives

IAS 24 adopts a 'substance over form' based approach in defining relatives as close members of the family, i.e., they are those who influence and can be influenced by the individual in his/her dealings with the reporting entity. IAS 24 does not limit the same to any specific relations.

AS 18 includes specific relations as relatives.

Information to be disclosed

Relationships between parents and subsidiaries shall be disclosed, irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling

Name of the related party and nature of the related party relationship, where control exists, should be disclosed irrespective of whether or not there have been transactions between the related parties.

Information to be disclosed (cont'd.)

party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions, and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. At a minimum, disclosures shall include:

- ▶ The amount of the transactions,
- ▶ The amount of outstanding balances and:
 - ▶ Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and
 - ▶ Details of any guarantees given or received,
- ▶ Provisions for doubtful debts related to the amount of outstanding balances, and
- ▶ The expense recognized during the period in respect of bad or doubtful debts due from related parties.

If there have been transactions between related parties, during the existence of a related party relationship, the reporting entity should disclose the following:

- ▶ The name of the transacting related party,
 - ▶ A description of the relationship between the parties,
 - ▶ A description of the nature of transactions,
 - ▶ Volume of the transactions either as an amount or as an appropriate proportion,
 - ▶ Any other elements of the related party transactions necessary for an understanding of the financial statements,
 - ▶ The amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date, and
 - ▶ Amounts written off or written back in the period in respect of debts due from or to related parties.
-

IAS 24 provides that an entity discloses that the terms of related party transactions are equivalent to those that prevail in arm's length transactions, only if such terms can be substantiated.

AS 18 has no such stipulation on substantiation of related party transactions when the same is disclosed to be on arm's length basis.

IAS 24 requires disclosure of terms and conditions of outstanding items pertaining to related parties.

There is no such disclosure requirement under AS 18.

Definition of key management personnel

The definition of KMP under IAS 24 includes any director whether executive or otherwise.

AS 18 read with ASI 18 excludes non-executive directors from the definition of KMP.

IFRS requires disclosure of the compensation of key management personnel in total and by category of compensation.

AS 18 does not require disclosure by category. However, more elaborate disclosures are required under Schedule VI.

Exemption from disclosures

There is no exemption provided for disclosure under IFRS in cases where disclosure of information would conflict with duties of confidentiality in terms of statute or regulating authority.

Related party disclosure requirements as laid down in AS 18 do not apply in circumstances, where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority. Exemption is granted from disclosure in cases where such disclosure of information would conflict with confidentiality requirements, in terms of statute or regulating authority.

Under the current version of IAS 24, there is no exemption for state-controlled enterprises as regards related party relationships with other state-controlled enterprises and transactions with such enterprises. Recently IASB has issued an amendment to IAS 24 *Related Party Transactions*. This amendment gives an exemption from disclosures in IAS 24 for entities controlled, jointly controlled or significantly influenced by the state in specified circumstances. This amendment is applicable for annual periods beginning on or after 1 January 2011. Earlier application is permitted and should be disclosed.

No disclosure is required in the financial statements of state-controlled enterprises as regards related party relationships with other state-controlled enterprises and transactions with such enterprises.

Earning per share (EPS)

In July 2009, the IASB issued an Exposure Draft of proposed amendments to IAS 33 **Earnings Per Share**. The objective of the Exposure Draft is to reduce differences between IFRS and US GAAP that are capable of resolution in a relatively short time. Since the Exposure Draft has not been issued as final standard till 1 January 2010, the major differences between the existing IAS 33 and AS 20 are listed below.

Basic EPS

An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

Basic earnings per share should be calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. There is no requirement for calculating basic EPS for separate calculation of profit or loss from continuing operations.

Treatment of preference dividend

1. The after-tax amount of preference dividends that is deducted from profit or loss is:

- ▶ The after-tax amount of any preference dividends on non-cumulative preference shares declared in respect of the period, and
- ▶ The after-tax amount of the preference dividends for cumulative preference shares required for the period, whether or not the dividends have been declared.

The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

The amount of preference dividends for the period that is deducted from the net profit for the period is:

- ▶ The amount of any preference dividends on non-cumulative preference shares provided for in respect of the period, and
- ▶ The full amount of the required preference dividends for cumulative preference shares for the period, whether or not the dividends have been provided for.

The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

AS 20 does not provide any specific guidance on points (2) to (5). However, normally, such practices are not followed under Indian GAAP.

Treatment of preference dividend (cont'd.)

2. Preference shares that provide for a low initial dividend to compensate an entity for selling the preference shares at a discount, or an above-market dividend in later periods to compensate investors for purchasing preference shares at a premium, are sometimes referred to as increasing rate preference shares. Any original issue discount or premium on increasing rate preference shares is amortized, to retained earnings using the effective interest method and treated as a preference dividend for the purposes of calculating earnings per share.
 3. Preference shares may be repurchased under an entity's tender offer to the holders. The excess of the fair value of the consideration paid to the preference shareholders over the carrying amount of the preference shares represents a return to the holders of the preference shares, and a charge to retained earnings for the entity. This amount is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.
 4. Early conversion of convertible preference shares may be induced by an entity through favorable changes to the original conversion terms, or the payment of additional consideration. The excess of the fair value of the ordinary shares or other consideration paid over the fair value of the ordinary shares issuable under the original conversion terms, is a return to the preference shareholders, and is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.
 5. Any excess of the carrying amount of preference shares over the fair value of the consideration paid to settle them is added in calculating profit or loss, attributable to ordinary equity holders of the parent entity.
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Shares issued as part of cost of business combination, etc.

Ordinary shares issued as part of the cost of a business combination are included in the weighted average number of shares from the acquisition date. This is because the acquirer incorporates into its income statement the acquiree's profits and losses from that date.

AS 20 deals only with treatment of equity shares issued as part of consideration in an amalgamation. Under AS 20, equity shares issued as part of the consideration in an amalgamation in the nature of purchase are included in the weighted average number of shares as of the date of the acquisition because the transferee incorporates the results of the operations of the transferor into its statement of profit and loss from the date of acquisition. Equity shares issued during the reporting period as part of the consideration in an amalgamation in the nature of merger are included in the calculation of the weighted average number of shares from the beginning of the reporting period, because the financial statements of the combined entity for the reporting period are prepared as if the combined entity had existed from the beginning of the reporting period.

Therefore, the number of equity shares used for the calculation of basic earnings per share in an amalgamation in the nature of merger is the aggregate of the weighted average number of shares of the combined entities, adjusted to equivalent shares of the entity whose shares are outstanding after the amalgamation.

Treatment of share application money

There is no specific guidance under IFRS.

Share application money pending allotment or any advance share application money as at the balance sheet, which is not statutorily required to be kept separately and is being utilized in the business of the entity, is treated in the same manner as dilutive potential equity shares for the purpose of calculation of diluted earnings per share.

Written put option

Contracts that require the entity to repurchase its own shares, such as, written put options and forward purchase contracts, are reflected in the calculation of diluted earnings per share, if the effect is dilutive. If these contracts are 'in the money' during the period (i.e., the exercise or settlement price is above the average market price for that period), the potential dilutive effect on earnings per share shall be calculated.

There is no specific guidance under Indian GAAP.

Disclosures

In addition to disclosure of EPS on continuing operations, an entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either on the face of the income statement or in the notes to the financial statements. Under IFRS, disclosure of extraordinary items is prohibited.

Disclosure of basic and diluted EPS with and without extra-ordinary items is required. Basic and diluted EPS may also be provided voluntarily based on other measurements. AS 20 does not require any separate EPS disclosure for continuing and discontinued operations.

Interim financial reporting

In November 2009, the ASB of ICAI has issued an Exposure Draft of revise AS 25 *Interim Financial Reporting*, to bring this in line with IAS 34 *Interim Financial Reporting*. Most of the proposals contained in the ED are in line with IAS 34. Since the Exposure Draft has not been issued as final standard till date, the major differences between IAS 34 and the existing AS 25 are listed below.

Basis

The basis for interim financial reporting primarily requires a discrete approach, though integral approach is followed in a few cases.

Indian GAAP is similar to IFRS.

Compliance with requirements of law, etc.

IFRS does not recognize law/regulator prescribing format of financial statements. If an entity's interim financial report is described as complying with IAS 34, it must comply with all of the requirements of this Standard, including requirements relating to presentation and disclosure.	A statute governing an entity or a regulator may require an entity to prepare and present certain information at an interim date which may be different in form and/or content as required by AS 25. In such a case, the recognition and measurement principles as laid down in AS 25 are applied in respect of such information, unless, otherwise specified in the statute or by the regulator.
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Minimum content of Interim financial reporting

Condensed statement of financial position, condensed statement of comprehensive income (SCI), condensed statement of changes in equity (SOCIE), condensed statement of cash flows and selected explanatory notes and disclosures like EPS etc. are required.	Condensed balance sheet, condensed income statement, condensed cash flow statement and selected explanatory notes and disclosures like EPS etc. are required. The concept of SOCIE and SCI does not prevail
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Disclosure of compliance with IFRS/GAAP

If an entity's interim financial report is in compliance with IAS 34, that fact should be disclosed. An interim financial report should not be described as complying with IAS 34 unless it complies with all of the requirements of each applicable Standard/IFRIC.	There is no such requirement even though interim financial statements should comply with all Accounting Standards.
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Change in accounting policy

A change in accounting policy, other than one for which the transition is specified by a new Standard or Interpretation, shall be reflected by restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with IAS 8.

Revised Clause 41 of the *Listing Agreement* and AS 25 requires retroactive restatement only for all interim periods of the current year.

Accounting for leave benefits in interim financial statements

IAS 34 provides detailed guidance for accounting for leave benefits and manufacturing cost variances in interim financial statements.

There is no specific guidance under Indian GAAP.

A low-angle, upward-looking photograph of several modern skyscrapers. The buildings are made of glass and steel, with many windows reflecting the sky. The sun is shining brightly from behind one of the buildings, creating a strong lens flare and illuminating the scene. At the bottom of the frame, a train is visible on a track, moving horizontally across the image.

Assets and liabilities



IFRS	Indian GAAP
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Property, plant and equipment

In 2005, ASB of ICAI had issued an Exposure Draft of the revised AS 10 *Tangible Fixed Assets*, to bring the same in line with IAS 16. Since, the Exposure Draft has not been issued as final standard till 1 January 2010, the major differences between IAS 16 and the existing AS 10 are listed below.

Cost of PPE

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other IFRS. The costs include:

- ▶ The purchase price (less any discounts and rebates), import duties and non-refundable taxes,
- ▶ Any directly attributable costs of bringing the asset to its working condition, and
- ▶ The initial estimate of the costs of dismantling and removing the item, and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Under IAS 23 (revised 2007), borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should also be capitalized as part of the cost of that asset.

Indian GAAP is similar to IFRS except the following:

- ▶ No general guidance is given for capitalization of dismantling and site restoration cost. However, the *Guidance note on Accounting for Oil & Gas Producing Activities* states that entities involved in those activities should capitalize the dismantling and site restoration cost.
- ▶ There is no guidance under AS 10 specifying treatment of fixed assets acquired on deferred settlement terms. Generally, financing element is not separated from the total price paid even if payment is deferred beyond normal credit terms.
- ▶ There is no specific guidance on capitalization of fair value gains and losses on qualifying cash flow hedge relating to purchase of PPE in foreign currency.

Cost of PPE (cont'd.)

General and administrative overheads, and start-up costs other than those necessary to bring the asset to its working condition, can not be capitalized.

Where government grants have been received in connection with the acquisition of property, plant and equipment, the carrying amount may be reduced by the amount of the grant in accordance with the requirements of IAS 20.

Fair value gains and losses on qualifying cash flow hedges relating to purchase of PPE in foreign currency can be capitalized.

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with IAS 23.

Component accounting

IAS 16 mandates component accounting. This requires each major part of an item of property plant and equipment, with a cost that is significant in relation to the total cost of the item, to be depreciated separately.

AS 10 does not require full adoption of the component approach. It merely recognizes the approach, by stating that accounting for a tangible fixed asset may be improved if total cost, thereof, is allocated to its various parts.

Subsequent costs

IAS 16 requires the subsequent expenditure on an asset to be evaluated on the same recognition principles as the initial cost, to determine whether it should be expensed or recognized as an item of property, plant and equipment. By applying this principle, routine maintenance expenditure and costs of day-to-day servicing are expensed as incurred.

An entity recognizes, in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized simultaneously.

Costs of major inspection are recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied.

Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction, in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was, when the item was acquired or constructed.

Subsequent routine and non-routine maintenance expenditure, including the replacement of parts and major inspection or overhaul, are normally expensed immediately. Only expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value. There is no requirement as such for decapitalizing the carrying amount of the replaced part under AS 10.

Revaluation of PPE

IAS 16 requires an entity to choose either the cost model or the revaluation model as its accounting policy. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

AS 10 recognizes revaluation of fixed assets. However, the revaluation approach adopted therein is adhoc in nature. It provides that when revaluations do not cover all the assets of the given class, it is appropriate that the selection of the asset to be revalued be made on systematic basis, e.g., an entity may revalue a class of assets within one unit and ignore assets in the same class at another unit.

Depreciation on revalued portion cannot be recouped out of revaluation reserve (forming part of other comprehensive income in statement of comprehensive income).

Depreciation on revalued portion can be recouped out of revaluation reserve.

The revaluations must be kept sufficiently up to date, so that the carrying amount does not differ materially from the fair value. This requires regular revaluations of all items of the relevant class in PPE when the revaluation policy is adopted. Management must consider at each year end, whether fair value is materially different from carrying value.

There is no such requirement to perform revaluation at regular intervals.

Depreciation

An item of property, plant and equipment should be depreciated over its estimated useful life, and the depreciation charge must be recognized as an expense, unless it has to be included in the carrying amount of another asset. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, should be depreciated separately. On initial recognition, an entity allocates the amount recognized in respect of an item to its significant parts and depreciates separately each such part.

The depreciable amount of each asset should be allocated on a systematic basis over its useful life. All companies need to ensure that minimum depreciation is provided at the rates prescribed in schedule XIV to the Companies Act, 1956. Further, top-up depreciation should be charged to comply with AS 6 requirements, in case the useful life of an asset is shorter than that envisaged in Schedule XIV.

Depreciation (cont'd.)

A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge. Though not required, an entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

Apart from AS 10 recognizing component approach in one paragraph, by stating that accounting for a tangible fixed asset may be improved if total cost thereof is allocated to its various parts, there is no requirement under Indian GAAP for separate depreciation on significant parts of an asset.

The residual value and the useful life of an asset shall be reviewed at least at each financial year-end, and if expectations differ from previous estimates, the change (s) shall be accounted for as a change in an accounting estimate.

There is no need for an annual review of estimates of useful life and residual value. An entity may review the same, periodically.

A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method.

Permitted methods of depreciation are *Straight Line Method* and *Written Down Value Method*.

A periodic review of depreciation method is required.

The depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made, only if the adoption of the new method is required by statute or for compliance with an accounting standard, or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise.

Depreciation (cont'd.)

A change in depreciation method is treated as change in accounting estimate and accounted for prospectively.

A change in depreciation method is treated as change in accounting policy. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements. When such a change in the method of depreciation is made, depreciation is recalculated retrospectively.

Spare parts, servicing equipment, etc.

Spare parts are usually carried as inventory and recognized in profit or loss as consumed. However, major spare parts qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Machinery spares are usually charged to the profit and loss statement, as and when consumed. However, if such spares can be used only in connection with an item of fixed asset and their use is expected to be irregular, it may be appropriate to allocate the total cost on a systematic basis over a period not exceeding the useful life of the principal item.

Major standby equipments qualify as property, plant and equipment when an entity expects to use them during more than one period.

Indian GAAP is similar to IFRS.

Servicing equipments is usually carried as inventory and recognized in profit or loss as consumed.

Servicing equipment is normally capitalized.

Decommissioning and restoration

To the extent decommissioning and restoration relates to the fixed asset, the changes are added/deducted (after discounting) from the asset. However, the amount deducted is restricted to the carrying value of the relevant asset. The unwinding of discount, is taken to profit or loss as a finance charge.

There is no guidance under Indian GAAP. The *Guidance Note on Accounting for Oil and Gas Activities* contains more specific provision relating to such costs, to the extent it relates to oil and gas producing entities.

Retirement and disposal

IAS 16 prohibits gains or losses arising from derecognition of an item of property, plant and equipment to be classified as revenue. However, when an entity routinely sells items of property, plant and equipment held for rental in the course of its ordinary activities, it shall transfer such assets to inventories at their carrying amount, when they cease to be rented and become held for sale. The proceeds from sale of such assets shall be recognized as revenue.

Gains or losses arising from disposal of assets are recognized in profit or loss for the period. There is no specific requirement to include/exclude such gains/losses from revenue.

Compensation for impairment

Compensation from third parties for impairment or loss of items of property, plant and equipment are included in profit or loss account when compensation becomes receivable.

There is no guidance under Indian GAAP.

Transfer of assets from customers

Scope

Recently IASB issued IFRIC 18 ***Transfer of Assets from Customers***. This Interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers.

Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

No such specific guidance on transfer of assets from customers.

Recognition of asset

When an entity receives from a customer a transfer of an item of property, plant and equipment, it shall assess whether the transferred item meets the definition of an asset set out in the Framework. This requires an analysis of all facts and circumstances, such as, can the entity:

- ▶ exchange the asset for other assets to deliver the same service
- ▶ employ the asset to produce other goods or services or settle a liability
- ▶ charge a price for others to use it
- ▶ decide how the transferred asset is operated and maintained and when it is replaced

No such specific guidance on transfer of assets from customers.

If the entity concludes that the definition of an asset is met, it shall recognize the transferred asset as an item of property, plant and equipment in accordance with IAS 16 and measure its cost on initial recognition at its fair value. Consequently, the entity shall recognize revenue in accordance with IAS 18.

When an entity receives a transfer of cash from a customer, the entity shall assess whether the asset to be constructed meets the definition of an asset. If yes, it shall recognize the item of property, plant and equipment at its cost in accordance with IAS 16 and shall recognize revenue at the amount of cash received from the customer as per principles discussed later.

Leases

Initial direct costs

IAS 17 prescribes initial direct cost incurred by lessor to be included in lease receivable amount in case of finance lease, and in the carrying amount of the asset in case of operating lease. It does not mandate any accounting policy related disclosure.

AS 19 requires initial direct cost incurred by lessor with respect to a finance lease to be either charged off at the time of incurrence or to be amortized over the lease period. It requires disclosure of the accounting policy in the financial statements of the lessor. Initial direct costs incurred specifically to earn revenues from an operating lease are either deferred and allocated to income over the lease term in proportion to the recognition of rent income, or are recognized as an expense in the statement of profit and loss in the period in which they are incurred.

Sale and leaseback

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognized as income by a seller-lessee. Instead, it shall be deferred and amortized over the lease term.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognized immediately. If the sale price is below fair value, any profit or loss shall be recognized immediately, except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortized over the period for which the asset is expected to be used.

Indian GAAP is similar to IFRS, except that on a sale and leaseback arrangement which results in a finance lease, AS 19 requires excess/deficiency both to be deferred and amortized over the lease term in proportion to the depreciation of the leased asset.

Incentive on operating leases received by lessee

These are recognized over the term of the lease.

There is no guidance under Indian GAAP.

Lease of land

IAS 17 deals with lease of land (and composite leases). Till recently, IAS 17 provided that leases of land are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life. Thus, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership of land, in which case the lease of land will be an operating lease.

The Annual Improvements in April 2009 removed the above specific guidance in IAS 17. Following the amendment, IAS 17 states that when a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with the criteria laid down in IAS 17. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.

AS 19 excludes lease of land (and therefore composite leases) from its scope. As per the recent Expert Advisory Committee opinion, lease of land which is for a period of 99 years and is renewable for a similar period has the effect of passing significant rights of ownership to the parties concerned. Thus, such a lease would be in the nature of sale of plots and should be accounted for accordingly.

Determination whether an arrangement contains lease

IFRIC 4 requires an entity to determine whether an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments, is a lease. Such determination shall be based on the substance of the

There is no guidance for such arrangement. Amounts are generally recognized in accordance with the legal form of the transaction, rather than its substance. However, there is no prohibition from treating such arrangements as lease.

Determination whether an arrangement contains lease (cont'd.)

arrangement and requires an assessment of whether:

- ▶ Fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset), and
- ▶ The arrangement conveys a right to use the asset.

For example, power purchase agreements and outsourcing contracts may have the substance of lease.

Evaluating the substance of transactions involving the legal form of a lease

A series of transactions that involve the legal form of a lease is linked and should be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. This is the case, for example, when the series of transactions are closely interrelated, negotiated as a single transaction, and takes place concurrently or in a continuous sequence. In such cases, the accounting shall reflect the substance of the arrangement.

There is no specific guidance under Indian GAAP.

Borrowing costs

Recently, the ASB of ICAI has issued Exposure Draft of AS 16 (revised) *Borrowing costs* to bring this in line with IAS 23, except one difference of detail. Since, the Exposure Draft has not been issued as final standard till 1 January 2010; the major differences between IAS 23 and the existing AS 16 are given below.

Scope

An entity is not required to apply IAS 23 to borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, measured at fair value.

There is no such scope exclusion under AS16.

Definition of borrowing costs

Borrowing costs may include:

- | | |
|---|---|
| <ul style="list-style-type: none">a. Interest expense calculated using the effective interest method as described in IAS 39b. Finance charges in respect of finance leases recognised in accordance with IAS 17; andc. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. | <ul style="list-style-type: none">a. Interest and commitment charges on bank borrowings and other short-term and long-term borrowings;b. Amortization of discounts or premiums relating to borrowings;c. Amortization of ancillary costs incurred in connection with the arrangement of borrowings;d. Finance charges in respect of assets acquired under finance leases or under other similar arrangements; ande. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs |
|---|---|

Qualifying assets

Qualifying assets are those assets that require a substantial period of time to get ready for their intended use or sale .

Indian GAAP is similar to IFRS. However, the term 'substantial period of time' has been interpreted to generally mean more than 12 months.

Capitalization rate

The disclosure requirements of IAS 23 require an entity to disclose separately the capitalization rate used to determine the amount of borrowing costs.

There is no such separate disclosure required under AS 16.

Impairment of assets

When should impairment review be conducted

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity should estimate the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, an entity shall test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. In addition, goodwill acquired in a business combination is tested at least annually for impairment.

An entity should assess at each balance sheet date, whether there is any indication that an asset may be impaired. If any such indication exists, the entity should estimate the recoverable amount of the asset. However, intangible assets which are not yet available for use or intangible assets which are amortized for greater than 10 years are tested for impairment annually irrespective of, whether there are any indications for impairment.

The impairment trigger under IAS 36 is the higher of an asset's fair value less costs to sell and value in use, which incorporates discounting.

Indian GAAP is similar to IFRS, except that in AS 28, terminology used is 'net selling price' instead of 'fair value less costs to sell'. The two terms are, otherwise, defined in the same manner.

Reversal of impairment losses for goodwill

An impairment loss recognized for goodwill shall not be reversed in a subsequent period.

An impairment loss recognized for goodwill should not be reversed in a subsequent period unless 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.

Allocation of goodwill in case of a Cash Generating Unit

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's CGU, or groups of CGU, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and not be larger than an operating segment determined in accordance with IFRS 8 before aggregation.

In testing a CGU for impairment, an entity should identify whether goodwill that relates to that CGU is recognized in the financial statements. If this is the case, goodwill is allocated to the CGU based on bottom-up approach, i.e., identify whether it can be allocated to a particular CGU on consistent and reasonable basis and then, compare the recoverable amount of the CGU under review to its carrying amount and recognize any impairment loss.

However, if in performing the 'bottom-up' test, the entity could not allocate the carrying amount of goodwill on a reasonable and consistent basis to the CGU under review, the entity should also perform a 'top-down' test, that is, the entity should identify the smallest CGU that includes the cash-generating unit under review and to which the carrying amount of goodwill can be allocated on a reasonable and consistent basis (the 'larger' CGU). The entity should then compare the recoverable amount of the larger CGU to its carrying amount and recognize impairment loss.

Non-current assets held for sale

Under IFRS these are measured at lower of carrying amount and fair value less cost to sell.

Items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realizable value.

Disclosure

If “fair value less costs to sell” is determined using the discounted cash flows projections, additional disclosure are required to be made regarding the assumptions used.

There is no such disclosure under AS 28.

Intangible assets

Intangibles acquired as a part of business combination

In accordance with IFRS 3-R *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The intangible asset is recorded by the acquirer irrespective of whether the asset had been recognized by the acquiree before the business combination. For an intangible asset acquired in business combination, the requirement that the asset will generate future economic benefits is always considered to be met, since the fair value of the asset reflects such expectations. Similarly, if the asset is separable or arises from contractual or other legal rights, it is presumed that sufficient information exists to measure reliably the fair value of the asset. Thus, an entity need not evaluate future economic benefits and measurement criteria separately for recognition of intangible asset arising from business combination.

If an intangible asset is acquired in an amalgamation in the nature of purchase, the same should be accounted at cost or fair value, depending upon cost/fair value method for amalgamation under AS 14 and provided that cost/fair value can be reliably measured. If the same is not reliably measurable, it is included as a part of goodwill. Where the consideration is allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation, then intangible asset is recorded even if that intangible asset had not been recognized in the financial statements of the transferor.

Intangible assets acquired in an amalgamation in the nature of merger, or acquisition of a subsidiary are recorded at book values, which means that if the intangible asset was not recognized by the acquiree, the acquirer would not be able to record the same.

Research and development

No intangible asset arising from research shall be recognized.

Expenditure on research is recognized as an expense when it is incurred.

An intangible asset arising from development shall be recognized if, and only if, an entity can demonstrate all of the following:

- ▶ The technical feasibility of completing the intangible asset so that it will be available for use or sale,
- ▶ Its intention to complete the intangible asset and use or sell it,
- ▶ Its ability to use or sell the intangible asset,
- ▶ How the intangible asset will generate probable future economic benefits,
- ▶ The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- ▶ Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Indian GAAP is similar to IFRS.

Research or development expenditure that relates to an in-process research or development project acquired separately or in a business combination is recognized as an intangible asset.

No specific guidance given on separately acquired in-process R&D. Since consolidation is based on book values rather than fair values, in-process R&D of an acquired subsidiary is not accounted for in the CFS.

Advertising and promotional activity

IAS 38 requires that expenditure on an internally developed intangible item is recognized as an expense when it is incurred. However, there was some ambiguity as to the interpretation of this requirement. For example, some believed that an entity should recognize expenditure on advertising and promotional activities as an expense when it received the goods or services that it would use to develop or communicate the advertisement or promotion. Others believed that an entity should recognize an expense when the advertisement or promotion was delivered to its customers or potential customers.

As part of the Annual Improvement Project 2008, the IASB clarified this ambiguity to require an entity to recognize as an expense when the entity has a right to access the goods or when it receives the service. This means that all the expenditure on advertising and promotions should be expensed immediately and not deferred until they are delivered to customers.

No such guidance under Indian GAAP. Entities normally follow the practice of recognizing as an asset goods or services received for future advertising or promotional activities.

Subsequent measurement

An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets. The revaluation model is permitted only where there is an active market for the underlying intangibles.

After initial recognition, an intangible asset should be carried at its cost less any accumulated amortization and any accumulated impairment losses. Revaluation is prohibited.

Useful life

An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units, constituting, that useful life.

There is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years from the date when the asset is available for use.

Amortization

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.

IFRS permits variety of amortization methods to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight line method, the diminishing balance method and the unit of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset. If that pattern cannot be determined reliably, the straight-line method shall be used. If there is a change in the expected pattern of consumption of future economic benefits, the amortization method should be changed to reflect the changed pattern.

Amortization is charged over the useful life of the asset, but should not exceed 10 years, unless there is persuasive evidence for amortizing over a longer period.

Similar to IFRS except that AS 26 specifically states there will rarely, if ever, be persuasive evidence to support an amortization method for intangible assets that results in a lower amount of accumulated amortization than under the straight-line method.

Impairment

Intangible assets with finite lives are required to be tested for impairment, if impairment indicator exists. An intangible asset with an indefinite useful life, and which is not yet available for use should be tested for impairment annually, and whenever there is an indication that the intangible asset may be impaired.

In addition to the requirements of AS 28, an entity should estimate the recoverable amount of the following intangible assets at least at each financial year end even if there is no indication that the asset is impaired:

- ▶ An intangible asset that is not yet available for use, and
- ▶ An intangible asset that is amortized over a period exceeding 10 years from the date when the asset is available for use.

Investment property

Definition

Investment property is property (land or a building, or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes, or for sale in the ordinary course of business.

An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing entity.

Initial measurement

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model for the asset recognized. This classification alternative is available on a property-by-property basis.

There is no guidance under Indian GAAP.

Subsequent measurement

An entity has an option to apply either cost model or fair value model. If fair value model is adopted, then changes in fair value are recognized in profit or loss for the period in which it arises. In the fair value model, the carrying amount is not depreciated. In the cost model, the asset is carried at cost less depreciation.

AS 13 requires investment properties to be accounted for in the same manner as long term investments, i.e., these should be carried in the financial statements at cost, less provision for diminution to recognize other than temporary decline in the value. Depreciation on investment property is required to be provided as per DCA Circular (10) CL-VI/61 dated 27 September 1961 and under AS 6. Hence, the depreciated cost model is applied for subsequent measurement.

As per the Improvement Project 2008, applicable with effect from annual periods commencing from 1 January 2009, property that is being constructed or developed for future use as investment property is accounted for as investment property.

The fair value model is not allowed under Indian GAAP.

If an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the cost model.

Frequency/basis of revaluations

The fair value model differs from the revaluation model that is permitted for some non-financial assets. The fair value of investment property must reflect the actual market conditions and circumstances as of the reporting date. The standard does not require an independent and qualified valuer, but it is encouraged. Revaluations must be made with sufficient regularity that the carrying amount does not differ materially from fair value at the reporting date.

Revaluation is not permitted.

Transfers to/from investment property

IAS 40 provides detailed guidance for transfers to/from investment property.

There is no guidance under Indian GAAP.

Disposals

An investment property shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

There is no specific guidance, however, normally, the same or similar treatment is followed.

Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss in the period of the retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in profit or loss when the compensation becomes receivable.

Inventory

In September 2008, the ASB of ICAI has issued an Exposure Draft of revised AS 2 *Inventories*, to bring the same in line with IAS 2. Since, the Exposure Draft has not been issued as final standard till 1 January 2010, the major differences between IAS 2 and the existing AS 2 are listed below.

Cost formulae

Specific identification, FIFO and weighted average are acceptable methods of determining cost. However, same cost formula should be used consistently for all inventories that have a similar nature and use to the entity. The LIFO method is prohibited.

Similar to IFRS, except that it is not expressly mandated in AS 2 to use the same cost formula consistently for all inventories that have a similar nature and use to the entity. AS 2 provides that the formula used should reflect the fairest possible approximation, to the cost incurred in bringing the items of inventory, to their present location and condition.

Biological assets

A biological asset should be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. All changes in fair value should be recognized in the income statement in the period in which they arise.

There is no guidance available.

Inventories acquired on deferred settlement terms

IAS 2 specifically requires that where inventory is acquired on deferred settlement terms, the excess over the normal price is to be accounted as interest over the period of financing.

There is no guidance under AS 2 for treatment of inventories acquired on deferred settlement terms. Recently, the ICAI has issued AS 30 and has issued a Limited Revision to AS 2 which requires that where inventory is acquired on deferred settlement terms, the excess over the normal price is to be accounted as interest over the period of financing. The Limited Revision is recommendatory from 1 April 2009 and mandatory from 1 April 2011.

Commodity broker-traders	
IAS 2 does not apply to measurement of inventories of commodity broker-traders to the extent that they are measured at fair value less costs to sell.	AS 2 applies to commodity broker-traders too.
Inventories of a service provider	
IAS 2 includes provisions relating to the work-in-progress of a service provider. Service providers generally accumulate costs in respect of each service for which a separate selling price will be charged.	AS 2 excludes work in progress arising in the ordinary course of business of service providers.
Non-current asset held for sale and discontinued operations/ discontinuing operations	
Scope	
IFRS 5 sets out requirements for the classification, measurement, presentation and disclosure of non-current assets held for sale and the classification and presentation of discontinued operations.	There is no specific standard which prescribes classification, measurement and presentation for all non-current asset held for sale except for AS 10 which requires assets held for sale to be measured at lower of book value and net realizable value. AS 24 deals with disclosures relating to discontinuing operations.
Discontinued/discontinuing operations	
A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and ▸ Represents a separate major line of business or geographical area of operations, ▸ Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or ▸ Is a subsidiary acquired exclusively with a view to resale.	A discontinuing operation is a component of an entity that the entity, pursuant to a single plan, is disposing of substantially in its entirety, or disposing of piecemeal, or terminating through abandonment; and that represents a separate major line of business or geographical area of operations and that can be distinguished operationally and for financial reporting purposes.
Period of disposal for non-current assets held for sale	
The disposal should be completed within a year, with limited exceptions.	No time-frame is specified.

Measurement principles

The assets are measured at the lower of carrying value or fair value less costs to sell.

The entity is required to apply the relevant standards, e.g., for impairment – AS 28 is applied, for provisions – AS 29 is applied, etc.

Presentation

A single amount is presented on the face of the income statement comprising the post tax profit or loss of discontinued operations and an analysis of this amount either on the face of the income statement or in the notes for both current and prior periods. Separate classification on the balance sheet for assets and liabilities for the current period only.

The following is separately disclosed on the face of the profit and loss account separately from continuing operations:

- ▶ Pre-tax profit or loss and related taxes, from discontinued operations
- ▶ Pre-tax gain or loss on disposal.

Income/expense line items from continuing and discontinuing operations are segregated and disclosed in the notes to account; but is presented on a combined basis in the income statement.

Service concession arrangements

In November 2008, the ICAI issued Exposure Draft of *Guidance Note on Accounting for Service Concession Arrangements* in line with IFRIC 12. Since, the Exposure Draft has not been issued as Guidance Note till 1 January 2010; the same has been ignored in the comparison below.

Applicability

IFRIC 12 applies to accounting by operators for public-to-private service concession arrangements. It applies to public-to-private service concession arrangements if:

- ▶ The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price, and
 - ▶ The grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.
-

There is no specific guidance under Indian GAAP.

Recognition of assets

The operator cannot recognize infrastructure as its own asset, as the operator does not control the use of public service infrastructure, such as roads, bridges and tunnels, but is merely a service provider. Rather, it would recognize the consideration receivable as:

- a. A financial asset, or
- b. An intangible asset.

There is no specific guidance under Indian GAAP. Common practice is to recognize infrastructure as fixed asset in the balance sheet.

Revenue recognition

The operator acts as a service provider. Therefore, the operator recognizes the revenue and costs relating to construction or upgrade service in accordance with IAS 11 and revenue in accordance with IAS 18 for services it performs. The consideration receivable for construction or upgrade services is recognized at its fair value.

There is no specific guidance under Indian GAAP. Common practice is to recognize cost of developing infrastructure as construction WIP/ fixed asset in the balance sheet.

Provisions, contingent liabilities and contingent assets

Applicability to financial instruments

IAS 37 does not apply to financial instruments (including guarantees) that are within the scope of IAS 39.

AS 29 applies to financial instruments (including guarantees) that are not carried at fair value. The ICAI has recently issued accounting standards on financial instruments and limited revision to AS 29. The limited revision brings the scope in line with IFRS. The ICAI had announced that this revision is recommendatory for periods beginning on or after 1 April 2009 and shall be mandatory for periods beginning on or after 1 April 2011. However, these amendments have not been notified under the Companies (Accounting Standard) Rules 2006 till 1 January 2010.

Definitions	
IAS 37 defines the terms 'legal obligation', and 'constructive obligation' which are not there in AS 29.	AS 29 contains definitions of the terms 'present obligation' and 'possible obligation' which are not defined in IAS 37.
Measurement	
The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Detailed guidance is available on measurement.	Provisions are based on the best estimate. No detailed guidance is available.
IAS 37 employs a statistical notion of expected value in estimating the settlement value of a provision. The provision is measured before tax, as the tax consequences of the provision, and changes in it, are dealt with under IAS 12.	Provisions are based on the best estimate. There is no detailed guidance available.
Present value	
Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted.	The amount of a provision should not be discounted to its present value.
Restructuring provision	
Restructuring provision should be made based on constructive obligation.	Restructuring provision should be made based on legal obligation.
Onerous contracts	
If an entity has a contract that is onerous, the present obligation under the contract should be recognized and measured as a provision.	The guidance is similar to IFRS, except that discounting of the provision for onerous contracts is prohibited.
Contingent assets	
A contingent asset is disclosed in financial statements where an inflow of economic benefits is probable.	A contingent asset should not be disclosed in financial statements. However, it can be disclosed in Director's Report, where inflow of economic benefits is probable.

The background of the slide features a close-up, slightly blurred image of Euro currency. A 50 Euro banknote is prominent in the center, with its orange and yellow tones. Below it, a green banknote is partially visible. Several Euro coins are scattered around: a silver 1 Euro coin on the left, a copper 2 Euro coin in the foreground, and a gold 10 Euro coin on the right. The text "Revenue and expenses" is overlaid in a bold, black, sans-serif font.

Revenue and expenses

iv

IFRS	Indian GAAP
Revenue	
Measurement	
Revenue should be measured at the fair value of the consideration received or receivable. Where the inflow of cash or cash equivalents is deferred, discounting to a present value is required.	Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. Discounting of deferred revenue is normally not required. However, for installment sales, discounting would be required.
Revenue recognition – services rendered	
When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognized by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: ▸ The amount of revenue can be measured reliably, ▸ It is probable that the economic benefits associated with the transaction will flow to the entity, ▸ The stage of completion of the transaction at the balance sheet date can be measured reliably, and ▸ The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.	AS 9 recognizes both completed contract method and proportionate completion method for recognition of revenue arising from rendering of services. It provides that whichever method relates the revenue to the work accomplished should be used for recognition of revenue.

Interest, royalties and dividend

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends should be recognized when:

- ▶ It is probable that the economic benefits associated with the transaction will flow to the entity, and
- ▶ The amount of the revenue can be measured reliably.

Revenue shall be recognized on the following bases:

- ▶ Interest shall be recognized using the effective interest method,
- ▶ Royalties shall be recognized on an accrual basis in accordance with the substance of the relevant agreement, and
- ▶ Dividends shall be recognized when the shareholder's right to receive payment is established.

Guidance is similar to IFRS except that, interest is recognized based on time-proportion basis taking into account the amount outstanding and the rate applicable.

Under the requirements of Schedule VI to the Companies Act, 1956, dividends from subsidiary companies are recognized even if the same are declared after the date of the balance sheet, but pertain to the period ending on or before the date of the balance sheet.

Specific revenue recognition issues

Gross vs. Net

The Annual improvement Project 2009 amended IAS 18 to provide guidance to determine whether an entity is acting as a principal or as an agent. The amendment states that such an assessment involves judgment and consideration of all relevant facts and circumstances. Features which indicate an entity is acting as a principle include:

- a. The entity has primary responsibility for providing the goods or services to the customer or for fulfilling the order
- b. The entity has inventory risk before or after the customer order, during shipping on or return

No such guidance in Indian GAAP

Gross vs. Net (cont'd.)

- c. the entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
- d. the entity bears the customer's credit risk for the amount receivable from the customer.

An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services.

Customer loyalty programmes

Under IFRIC 13, an entity accounts for award credits as a separately identifiable component of the sales transaction(s) in which they are granted (the 'initial sale'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

The consideration allocated to the award credits shall be measured by reference to their fair value, i.e., the amount for which the award credits could be sold separately.

If the entity supplies the awards itself, it shall recognize the consideration allocated to award credits as revenue when award credits are redeemed and it fulfils its obligations to supply awards. The amount of revenue recognized shall be based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.

There is no specific guidance.

Customer loyalty programmes (cont'd.)

If a third party supplies the awards, the entity shall assess whether it is collecting the consideration allocated to the award credits on its own account (i.e., as the principal in the transaction) or on behalf of the third party (i.e., as an agent for the third party). If the entity is collecting the consideration on behalf of the third party, it shall measure its revenue as the net amount retained on its own account, i.e., the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards, and recognize this net amount as revenue when the third party becomes obliged to supply the awards and entitled to receive consideration for doing so. These events may occur as soon as the award credits are granted.

Alternatively, if the customer can choose to claim awards from the entity or a third party, these events may occur only when the customer chooses to claim awards from the third party. If the entity is collecting the consideration on its own account, it shall measure its revenue as the gross consideration allocated to the award credits, and recognize the revenue when it fulfils its obligations in respect of the awards.

Accounting for multiple-element contracts

IAS 18 provides limited guidance with respect to multiple element contracts. It states that the recognition criteria are usually applied separately to each transaction, however, in certain circumstances, it is necessary to apply the recognition criteria to separately identifiable components of a single

There is no specific guidance in AS 9 on accounting for multiple element contracts. However, an Expert Advisory Committee opinion (in the context of cargo handling) requires revenue to be recognized by attributing the fair value to individual components. In 2008, the Research Committee of ICAI

Accounting for multiple-element contracts (cont'd.)

transaction, in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognized as revenue over the period, during which the service is performed. The IASB has recently issued IFRIC 13 which deals with allocating part of the consideration received or receivable from the sales transaction to the award credits. Earlier IFRIC has mentioned that the guidance in IFRIC 13 for allocation of consideration may be applied to other multiple element contracts also.

issued an Exposure Draft of proposed *Monograph on Revenue Recognition for Arrangements with Multiple Deliverables*. The proposed Monograph is an adaptation of EITF 00-21 under US GAAP and purports to establish criteria to determine:

- ▶ Whether multiple deliverables in an arrangement qualifies as a separate unit of accounting, and
- ▶ How the arrangement consideration should be measured and allocated to separate units of accounting.

The Research Committee had not issued the above draft as final guide till 1 January 2010. However, in April 2009, it issued the *Technical Guide on Revenue Recognition for Software*. The Technical Guide deals with various aspect of revenue recognition in software industry, including, multiple-element arrangements, based on US GAAP principles.

Since US GAAP follows a rule-based approach as compared to a principle-based approach under IFRS, application of the Monograph/Technical Guide based on US GAAP requirements will significantly reduce the scope of judgement by the preparers and will limit flexibility available to them under IFRS. In addition, some of these requirements may be contrary to IFRS.

Barter transactions

When goods or services are exchanged or swapped for goods or services that are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. Revenue on exchanges of dissimilar goods or services is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents

There is no specific guidance other than in the *Guidance Note on Accounting by Dot-com Companies*. It deals with advertising barter transactions. Revenue from barter transactions should be recognized only when, the fair values of similar transactions are readily determinable from the entity's history.

Barter transactions (cont'd.)

transferred. If the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Transfer of assets from customers

When an entity receives from a customer a transfer of an item of property, plant and equipment or cash, it shall assess whether the transferred item meets the definition of an asset. If the entity concludes that the definition of an asset is met, transfer of an item of property, plant and equipment would be an exchange for dissimilar goods or services. Consequently, the entity shall recognize revenue in accordance with IAS 18.

No such specific guidance on transfer of assets from customers.

An entity may agree to deliver one or more services in exchange for the transferred item of property, plant and equipment, such as connecting the customer to a network, providing the customer with ongoing access to a supply of goods or services, or both. In accordance with paragraph 13 of IAS 18, the entity shall identify the separately identifiable services included in the agreement and the recognition criteria of IAS 18 shall then be applied to each service.

Real estate sales

IFRIC 15 provides specific guidance on determining when the agreement would be treated as construction contract or as rendering of service or as sale of goods.

If the agreement is determined to be a sale agreement, the entity recognizes revenue by reference to the stage

Under the Guidance Note on Recognition of Revenue by Real Estate Developers, issued by the ICAI, revenue for real estate sales should be recognized when all significant risks and rewards of ownership have been transferred to the buyer, and other conditions for recognition of revenue as laid down in AS 9 are satisfied.

Real estate sales (cont'd.)

of completion, using the percentage of completion method, if and only if, it transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. These conditions should be applied to the underlying real estate in its current state, not to the buyer's right to acquire the fully constructed real estate at a later date. On the other hand, if the entity transfers to the buyer control, and the significant risks and rewards of ownership, of the real estate in its entirety at a single time (e.g., at completion, upon or after delivery), it should recognize revenue only when all the criteria of IAS 18 are satisfied. When the entity is required to perform further work on real estate already delivered to the buyer, it shall recognize an expense in accordance with IAS 18. The liability shall be measured in accordance with IAS 37.

If the agreement is within the scope of IAS 11 and its outcome can be estimated reliably, the entity shall recognize revenue by reference to the stage of completion of the contract activity in accordance with IAS 11.

When the seller has transferred to the buyer all significant risks and rewards of ownership, and other conditions for recognition of revenue are satisfied, it would be appropriate for the seller to recognize, provided that the seller has no further substantial acts to complete under the contract. Under the Guidance Note, if the seller has entered into a legally enforceable agreement for a sale with the buyer, all significant risks and rewards of ownership are considered to be transferred even before passing the legal title and/or the possession of the real estate to the buyer, if certain conditions laid down in the Guidance Note are satisfied. If the seller is obliged to perform significant acts after the transfer of all significant risks and rewards, revenue should be recognized on proportionate basis as the acts are performed, i.e., by applying percentage completion method as explained in AS 7.

Construction contracts

Estimated contract losses

Estimated losses are recognized immediately, irrespective of stage of completion.

The guidance under Indian GAAP is similar to that under IFRS.

Type of construction contracts

IFRS provides different sets of conditions for determining whether the outcome of a contract can be estimated reliably, depending on whether it is a fixed-priced contract or a cost-plus contract.

The guidance under Indian GAAP is similar to that under IFRS.

Reliable estimate of the outcome of a construction contract

IFRS requires that if a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract, if separate proposals have been submitted for each asset, each asset has been subject to separate negotiation, and the costs and revenues of each asset can be identified. In addition, IFRS requires that a group of contracts, whether with a single customer or with several customers, be treated as a single construction contract, if the contracts are negotiated as a single package, closely interrelated, and performed concurrently or in a continuous sequence.

The guidance under Indian GAAP is similar to that under IFRS.

Incentive revenue

Incentive payments are recognized as contract revenue when, "it is probable that they will result in revenue and are capable of being reliably measured". IAS 11, however, does not define the term 'probable'.

The guidance under Indian GAAP is similar to that under IFRS.

Accounting for government grants

The ASB of the ICAI had issued an Exposure Draft of revised AS 12 *Accounting for Government Grants and Disclosure of Government Assistance*, for comments. Since, the Exposure Draft has not been issued as final standard till 1 January 2010, the major differences between IAS 20 and the existing AS 12 are listed below.

Grants in the form of non-monetary assets

IAS 20 provides an option to entities to account for government grants in the form of non-monetary assets, given at a concessional rate, either at their fair value or at the acquisition cost.

AS 12 does not provide such option. It requires government grants in the form of non-monetary assets, given at a concessional rate, to be accounted for on the basis of their acquisition cost only. If a non-monetary asset is given free of cost, it should be recorded at a nominal value.

Grants in the nature of promoter's contribution

IAS 20 does not recognize the concept on recognizing grants directly in reserves. Government grants shall be recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They shall not be credited directly to shareholders' interests.

AS 12 requires certain grants, viz., grants in the nature of promoter's contribution and grants related to non-depreciable assets, which do not have any conditions attached to them, to be recognized directly in 'capital reserve' which is a part of 'shareholders' funds'.

Grants deducted from carrying value of fixed asset become refundable

If government grants relating to a specific fixed asset becomes refundable, IAS 20 requires retrospective re-computation of depreciation to be done. It also requires that cumulative additional depreciation, which would have been recognized as an expense in the absence of the grant, should be recognized immediately as an expense.

If government grant relating to a specific fixed asset becomes refundable, AS 12 requires depreciation on the revised book value to be provided prospectively over the remaining useful life of the asset.

Government loan at below-market rate

IAS 20 has been amended as part of Annual Improvement Project 2008. As per the amendment, the benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognized and measured in accordance with IAS 39. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IAS 39 and the proceeds received.

AS 12 or AS 30 is silent on the matter.

Disclosures

IAS 20 requires additional disclosure of unfulfilled conditions and other contingencies attached to government assistance that has been recognized

AS 12 does not require any such additional disclosure.

Employee benefits

Accounting for defined benefit plan discount rate

The discount rate to be used for determining the defined benefit obligation is by reference to market yields at the balance sheet date on high quality corporate bonds (or, in countries where there is no deep market in such bonds, government bonds) of a currency and term consistent with the currency and term of the post-employment benefit obligations.

The discount rate to be used for determining the defined benefit obligation is by reference to market yields at the balance sheet date on government bonds of a currency and a term consistent with the currency and term of the post-employment benefit obligations.

Actuarial gains and losses

IAS 19 provides options to recognize actuarial gains and losses as follows:

- ▶ All actuarial gains and losses can be recognized immediately in profit or loss for the period,
- ▶ All actuarial gains and losses can be recognized immediately in Other Comprehensive Income, or
- ▶ Actuarial gains and losses below the 10% corridor need not be recognized and those above the 10% corridor can be deferred over the remaining service period of employees or on accelerated basis.

Actuarial gains or losses are recognized immediately in profit or loss for the period.

Past service cost	
IFRS requires the recognition of past service cost as an expense on a straight-line basis over the average period, until the benefits become vested. If benefits are vested immediately following the changes to a defined benefit plan, an entity should recognize past service cost immediately.	The guidance under Indian GAAP is similar to that under IFRS.
Asset ceiling	
If the net amount determined to be recognized in the balance sheet is negative (an asset), the recognition of the asset is limited to the lower of: ▶ The asset resulting from applying the standard, and ▶ The net total of any unrecognized actuarial losses and past service cost and the present value of any available refunds from the plan or reduction in future contributions to the plan. IFRIC 14 provides further guidance on certain issues relating to recognition of an asset under defined benefit plans.	If the net amount determined to be recognized in the balance sheet is negative (an asset), recognition of the asset is limited to the lower of: ▶ The asset resulting from applying the standard, and ▶ The present value of any economic benefits available in the form of refunds from the plan or reductions, in future contributions to the plan. Guidance similar to IFRIC 14 is not available under Indian GAAP.
Termination benefits	
An entity should recognize termination benefits as a liability and an expense only when it is demonstrably committed to either: ▶ Terminate the employment of an employee before the normal retirement date, or ▶ Provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.	An entity should recognize termination benefits as a liability and an expense when, and only when: ▶ The entity has a present obligation as a result of a past event, ▶ It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and ▶ A reliable estimate can be made of the amount of the obligation.
An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan	Where termination benefits fall due more than 12 months after the balance sheet date, they should be discounted using the

Termination benefits (cont'd.)

for the termination, and is without realistic possibility of withdrawal. If the termination benefits fall due more than one year after the balance sheet date, they should be discounted using a rate determined by reference to the market yields on high quality corporate bonds, at the balance sheet date. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used.

discount rate determined by reference to market yields at the balance sheet date on government bonds of a currency and term consistent with the currency and term of the benefit.

Under IFRS, option to defer the termination benefit expenditure is not available.

The transitional provision of AS 15 provides an option to defer termination benefits incurred before 1 April 2009 and amortize the same over the pay-back period. However, the expenditure cannot be carried forward to accounting periods commencing on or after 1 April 2010.

Share-based payment

Scope

IFRS 2 applies to both employee and non-employee stock based payments.

The Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI, covers only employee share based payments. Non-employee share based payments are covered by other Accounting Standards, e.g., AS 10 deals with fixed assets acquired against issuance of shares.

For listed entities, the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, prescribe the treatment to be followed for such schemes. Thus, listed entities are required to follow these Guidelines instead of the Guidance Note issued by the ICAI. Though, there is no major difference between the principle requirements of the SEBI Guidelines and ICAI Guidance, there are differences of detail between the two.

Measurement

For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired, and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

The guidance is similar to IFRS except that *Guidance Note on Accounting for Employee Share-based Payments* permits the use of intrinsic value method also to account employee share-based payment.

Graded vesting

Entities need to determine the vesting period for each portion of the option separately, and amortize the compensation cost of each such portion on a straight-line basis, over the vesting period of that portion. The option to recognize the expense over the service period for the entire award period is not available.

The ICAI Guidance Note and the SEBI Guidelines provide the following two options in this regard:

- ▶ Determine the vesting period for each portion of the option separately, and amortize compensation cost of each such portion on a straight-line basis over the vesting period of that portion.
 - ▶ The amount of employee compensation cost shall be accounted for and amortized on a straight-line basis over the aggregate vesting period of the entire option (that is, over the vesting period of the last separately vesting portion of the option). Provided that the amount of employee compensation
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Graded vesting (cont'd.)

cost recognized, at any date, at least equals the fair value or the intrinsic value, as the case may be, of the vested portion of the option at that date.

Group and treasury share transactions

IFRS 2 discusses various issues arising from such transactions. It requires the subsidiary, whose employees receive such compensation to measure services received from its employees in accordance with the requirements of IFRS 2 with a corresponding increase recognized in equity as a contribution from the parent.

Recently amended IFRS 2 also clarifies the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Detailed guidance on issues arising from such transactions is not available. Common practice is that the entity whose employees receive such compensation does not account for any compensation cost because it does not have settlement obligation.

Income taxes

On 31 March 2009, the IASB published an Exposure Draft of IFRS intended to replace the current IAS 12 Income Taxes. The Exposure Draft proposes sweeping changes to IAS 12 especially in the areas of:

- Definitions of 'tax basis' and 'temporary difference'
- Exceptions to the 'temporary difference' approach
- Allocation of tax to components of comprehensive income or equity (backward tracing)
- Uncertain tax positions
- Measurement of deferred tax assets and liabilities
- Transitional and first-time adoption provisions

Since the Exposure Draft has not been issued as final standard on 1 January 2010, the major differences between existing IAS 12 and AS 22 are listed below.

Approach

IAS 12 requires entities to account for taxation using the balance sheet liability method, which focuses on temporary differences in accounting for the expected future tax consequences of events.

Deferred tax is accounted using the Income Statement approach, which focuses on timing differences.

Recognition of deferred tax assets

Deferred tax assets should be recognized to the extent that it is probable that future profits will be available against which the deductible temporary difference can be utilized. The existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits 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 against which the unused tax losses or unused tax credits can be utilized by the entity.

Except when enterprise has unabsorbed depreciation or carry-forward of losses under tax laws, deferred tax assets should be recognized and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. However, if an entity has unabsorbed depreciation or carry forward of losses under tax laws, recognition of deferred tax assets is based on different criterion. In such a case all deferred tax assets are recognized only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Recognition of deferred tax on investment made in subsidiaries, branches, associates and joint ventures (undistributed profits)

An entity should recognize a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is not recognized.

Deferred tax arising on business combination

Deferred tax is provided on difference between fair value of assets recorded in books and tax base of those assets, unless tax base is also stepped up to fair value.

There is no single standard that comprehensively deals with business combinations. AS 21, which deals with acquisition of a subsidiary, requires acquisition accounting in the CFS based on book values rather than fair values. Hence, question of re-measuring deferred tax in CFS does not arise.

If the potential benefit of the acquiree's income tax loss carry-forwards or other deferred tax assets does not satisfy the recognition criteria for separate recognition when a business combination is initially accounted for but is subsequently realized, the acquirer shall recognize that benefit as income in accordance with IAS 12.

There is currently no specific guidance available on the matter. ICAI had earlier issued ASI 11 on the matter. Under ASI 11, if any deferred tax asset was not recognized by the acquiree at the time of initial recognition because the recognition criteria was not met and the same is subsequently satisfied, the treatment of resulting deferred tax assets in the books of the amalgamating company would depend upon whether the amalgamation is in the nature of merger or in the nature of an acquisition and whether the criteria are satisfied by the first annual balance sheet date following the amalgamation or after the first annual balance sheet date. It may be noted that, ICAI had withdrawn ASI 11.

Recognition of deferred tax on elimination of intra-group transactions

Deferred tax should be recognized on temporary differences that arise from the elimination of profits and losses resulting from intra-group transactions.	Deferred tax is not recognized. The deferred taxes in the CFS are a simple aggregation of the deferred tax recognized by the group entities.
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Recognition of deferred tax on foreign non-monetary assets/liabilities when the tax reporting currency is not the functional currency

Deferred tax is recognized on the difference between the carrying amount determined using the historical rate of exchange and the tax base determined using the balance sheet date exchange rate.	No deferred tax is recognized.
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Fringe Benefits Tax (FBT)

Included as part of the related expense which gave rise to FBT.	Disclosed as a separate line item after PBT on the face of the P&L. In other words, FBT is treated at par with income tax.
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The effects of changes in exchange rates

Integral and non-integral foreign operations

No distinction is made between integral and non-integral foreign operations under IAS 21. All entities are required to prepare their financial statements in functional currency. Any exchange gain/loss to record a transaction in its functional currency is recognized in profit or loss for the period. In translating the financial statements from functional currency to presentation currency, the reporting entity should use the following procedures: ▸ Assets and liabilities, both monetary and non-monetary, should be translated at the closing rate,	AS 11 distinguishes between integral and non-integral foreign operations and accordingly prescribes separate accounting treatment for integral and non-integral operations. The financial statements of an integral foreign operation should be translated using the principles and procedures as if the transactions of the foreign operation had been those of the reporting entity itself. In translating the financial statements of a non-integral foreign operation for incorporation in its financial statements, the reporting entity should use the following procedures:
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| <ul style="list-style-type: none"> ▶ Income and expense items should be translated at exchange rates at the dates of the transactions, and ▶ All resulting exchange differences should be accumulated in foreign currency translation reserve, until the disposal of the net investment. | <ul style="list-style-type: none"> ▶ Assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation should be translated at the closing rate, ▶ Income and expense items of the non-integral foreign operation should be translated at exchange rates at the dates of the transactions, and ▶ All resulting exchange differences should be accumulated in foreign currency translation reserve until the disposal of the net investment. |
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Concept of functional currency

Functional currency is defined as the currency of the primary economic environment in which the entity operates. Under IAS 21, when a reporting entity prepares financial statements, each individual entity included in the reporting entity- whether it is a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch) has to determine its functional currency, and measure its results, and financial position in that currency.

There is no concept of determining the functional currency by the entities involved AS 11. The reporting entity has to follow the prescribed methods given, for conversion based on integral or non-integral operations of the respective entity. Foreign currency is defined as a currency other than the reporting currency of the entity.

Foreign exchange differences

Exchange differences arising on translation of all monetary items, whether long-term or short-term, except monetary item that in substance forms part of an entity's net investment in a foreign operation, are recognized immediately in the income statement.

On 31 March 2009, AS 11 was amended by the Ministry of Corporate Affairs (MCA). Through this amendment, a new paragraph has been inserted in the transitional provision of AS 11 that provides an option to adopt the following treatment as an alternate to immediate recognition of foreign exchange gain/ loss on long-term foreign currency monetary item:

- i. If the long-term foreign currency monetary item relates to other than an acquisition of a depreciable capital asset, exchange differences should be accumulated in the "Foreign Currency Monetary Item Translation Difference Account" and amortized over the life of the monetary item but not beyond 31 March 2011.
- ii. If the long-term foreign currency monetary item relates to acquisition of a depreciable capital asset, exchange differences arising on such monetary items should be added to or deducted from the cost of the asset.

A company that chooses to adopt the above treatment needs to do it with retrospective effect for accounting periods commencing on or after 7 December 2006 and this choice is irrevocable. Further, transitional provisions do not apply to exchange differences on monetary item that in substance forms part of a company's net investment in a non-integral foreign operation.



Acquisition and
consolidation

V

IFRS	Indian GAAP
Business combinations	
Scope	
IFRS 3-R applies to most business combinations – both amalgamations (where the acquiree loses its existence) and acquisition (where the acquiree continues its existence). IFRS 3-R does not apply to business combinations under common control transactions, formation of joint ventures and acquisition of asset/group of assets that does not constitute a business.	There is no comprehensive standard dealing with all business combinations. AS 14 applies only to amalgamation, i.e., where acquiree loses its identity. AS 21, AS 23 and AS 27 apply to accounting for investments in subsidiaries, associates and joint ventures, respectively in CFS. AS 10 applies where a demerged division is acquired on a lump-sum basis by another entity.
Method of accounting	
Use of the pooling of interest is prohibited. All business combinations should be accounted under purchase method. There is no guidance under IFRS for business combination scoped out of IFRS 3-R, and therefore, these could be accounted for in a number of ways.	Amalgamations are accounted for by applying either the purchase method or the pooling of interest method. There are five conditions all of which need to be fulfilled for application of the pooling method. In addition to amalgamation, one company may purchase the shares of another company. In the stand-alone accounts of the investor, the same would be accounted for as an investment. In the CFS of the investor, the same would be accounted for as subsidiary (AS 21), joint venture (AS 27), associate (AS 23) or investment (AS 13), as the case may be. Acquisition accounting under AS 21, 23 and 27 are done on book value basis. Acquisition accounting under AS 10 for lump-sum purchase is done on fair value basis. Acquisition accounting under AS 14 in respect of 'amalgamation in the nature of purchase' is done on the basis of either fair value or book value. The pooling method is required for an 'amalgamation in the nature of merger'.

Acquisition date	
The date on which the acquirer effectively obtains control of the acquiree is the acquisition date.	The date of amalgamation as defined in the amalgamation/acquisition scheme is the acquisition date.
Cost of acquisition	
The acquirer shall measure the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree.	The consideration for the amalgamation may consist of securities, cash or other assets. In determining the value of the consideration, an assessment is made of the fair value of its elements.
Acquisition-related costs	
An acquirer should recognize acquisition-related costs as an expense in the period incurred. However, the costs relating to the issue of debt or equity securities shall be recognized in accordance with IAS 32 and IAS 39.	There is no specific guidance on acquisition related costs. There is an EAC Opinion which requires that due diligence cost incurred for acquiring business should be expensed immediately in the period incurred.
Contingent consideration	
When a business combination agreement provides for an adjustment to the cost of the combination that is contingent on future events, the acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree. Subsequent adjustments to the contingent consideration are generally not adjusted to goodwill, other than for changes resulting from additional information about the facts and circumstances existing at the acquisition date, provided such additional information is obtained within a twelve month period from the date of acquisition. Other IFRS's govern subsequent accounting for contingent consideration. For example, if contingent consideration is	Under AS 14, "many amalgamations recognize that adjustments may have to be made to the consideration in the light of one or more future events. When the additional payment is probable and can reasonably be estimated at the date of amalgamation, it is included in the calculation of the consideration. In all other cases, the adjustment is recognized as soon as the amount is determinable." There is no guidance relating to contingent consideration in situations other than amalgamation. However the practice is to adjust the goodwill amount.

Contingent consideration (cont'd.)

classified as equity, it is not remeasured subsequently. If contingent consideration is classified as derivative or financial instrument, it is measured at fair value at each reporting date and gain/loss is recognized in profit or loss for the period.

Accounting for identifiable assets and liabilities taken over

The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date, except for non-current assets (or disposal groups) that are classified as held for sale which shall be recognized at fair value less costs to sell. It is irrelevant if the acquiree had recorded those assets/liabilities.

The acquirer shall determine the classification and designation of all assets acquired and liabilities assumed at the date of acquisition, based on the contractual terms, economic conditions, its operating or accounting policies and other relevant factors as at that date. However, in the case of leases and insurance contracts, such classification shall happen on the basis of contractual terms and other conditions at inception of contract.

Under purchase method, the transferee entity accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor entity on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor entity. No specific guidance is given for accounting of contingent liabilities and assets held for sale. However, the normal practice is not to record contingent liability in books of acquirer. Under pooling of interest method, the transferee accounts for the amalgamation by incorporating the assets/liabilities at their carrying values.

Acquisition accounting under AS 21, AS 23 and AS 27 are done on book value basis. Acquisition accounting under AS 10 is done on fair value basis.

Step acquisitions

At the date of obtaining control, the acquirer re-measures any previously held equity interest to fair value and recognizes any resulting gain/loss in profit or loss for the period.

AS 21 recognizes step acquisitions; however at each step the valuation is done on the basis of book values rather than fair values.

Reverse acquisitions	
Acquisition accounting is based on substance. Accordingly, in a reverse acquisition, a legal acquirer may be treated as acquiree and legal acquiree may be treated as acquirer for IFRS 3-R purposes.	Acquisition accounting is based on legal form. Legal acquirer is treated as acquirer and legal acquiree is treated as acquiree for legal as well as accounting purposes.
Restructuring provisions	
The acquirer recognizes the liability as part of the acquisition accounting only if the acquiree has an existing liability at the acquisition date in accordance with IAS 37.	Provisions are based on legal liability rather than constructive liability.
Contingent liabilities	
The acquiree's contingent liabilities are recognized separately by the acquirer at the acquisition date as part of acquisition accounting, if they are present obligation arising from past events and their fair values can be measured reliably.	Contingent liabilities are not recognized.
Minority interests at acquisition	
Minority interest is stated either at acquisition-date fair value or at non-controlling interest's proportionate share of acquiree's identifiable net assets.	Minority interest is valued at its proportionate share of historical book value of net assets.
Accounting for goodwill	
At the acquisition date, the acquirer shall recognize goodwill as an asset and measure the same as below: Cost of acquisition Plus amount of non-controlling interest Plus if business combination is achieved in stages, the acquisition-date fair value of previous equity interest in the acquiree Less net acquisition-date amount of assets acquired and liabilities assumed	Firstly, contingent liabilities are never considered for purposes of determining goodwill in business combinations. Secondly, treatment of goodwill differs in different accounting standards. Goodwill arising on amalgamation in nature of purchase is amortized to P&L A/c over a period not exceeding five years. Goodwill arising under AS 10, AS 21, AS 23 and AS 27 need not be amortized though there is no prohibition. In case of amalgamation in nature of merger, excess consideration over net assets taken over is adjusted against revenue reserves. After initial

Accounting for goodwill (cont'd.)

After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less any accumulated impairment losses. Goodwill amortization is prohibited.

recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortization, if any, and accumulated impairment losses.

Bargain purchase

If the goodwill as computed per IFRS 3-R is negative, the acquirer needs to reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. If negative goodwill remains, this should be recognized immediately in profit or loss.

If the acquirer's interest in the net book/ fair value of the identifiable assets and liabilities recognized exceeds the cost of the business combination, the excess shall be disclosed as 'capital reserve'.

Subsequent adjustments to assets and liabilities

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the financial statements are prepared using provisional amounts for the items for which the accounting is incomplete. Revised IFRS 3 permits adjustments to items recognized in the original accounting for a business combination, for a maximum of one year after the acquisition date, where new information about facts and circumstances existing at the acquisition date is obtained. Any such adjustments are made retrospectively as if those adjustments had been made at the acquisition date.

No adjustment is permitted, except for certain deferred tax adjustment.

Deferred taxation

A DTL/DTA should be recognized for differences between the assigned values and the tax base of assets/liabilities taken over. Under IAS 12, if a DTA of an acquiree, which was not recognized at the time of the combination, is subsequently recognized, the resulting credit is taken to income for the period, except for adjustments arising from new information about the facts and

There is currently no specific guidance available on the matter. ICAI had earlier issued ASI 11 on the matter. ASI 11 prescribed separate treatment depending upon whether the amalgamation is in the nature of merger or in the nature of an acquisition. It may be noted that ICAI had withdrawn ASI 11.

Deferred taxation (cont'd.)

circumstances existing at the acquisition date, and provided the initial accounting for income-taxes was provisional.

Pre-existing relationships, re-acquired rights, indemnification assets and replacement share-based payment awards

IFRS 3-R specifically deals with initial recognition as well as subsequent accounting for pre-existing relationships, re-acquired rights, indemnification assets, and replacement share-based payment awards. It requires a reacquired right/pre-existing relationship to be recognized separately from goodwill.

There is no specific guidance under Indian GAAP.

An indemnification asset is initially measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible items.

Accounting for replacement SBP depends on whether acquirer is under an obligation to replace the acquiree awards. If it was not obliged to replace those awards and does so voluntarily, none of the market-based measure of the awards is included in measuring the consideration transferred in the business combination. If it was obliged to replace, a portion of the replacement is consideration for the combination and remainder is a post-combination remuneration expense.

Consolidated and separate financial statements

In December 2008, the IASB issued an Exposure Draft (ED 10) of proposed IFRS on *Consolidated Financial Statements*. The objective of ED is to replace the consolidation requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation—Special Purpose Entities*. The objective of the ED is also to improve the definition of control and related application guidance so that a control model can be applied to all entities, and to improve the disclosure requirements about consolidated and unconsolidated entities. Since the Exposure Draft has not been issued as final standard till 1 January 2010, the major difference between IAS 27/ SIC 12 and AS 21 are given below.

Presentation of Consolidated Financial Statements (CFS)

Each parent shall present CFS in which it consolidates its subsidiaries except the parent which satisfies certain conditions.	It is not mandatory for entities to prepare CFS under AS 21. However, SEBI requires all listed entities to prepare and present CFS.
CFS includes all subsidiaries.	Preclude consolidation of a subsidiary when: ▶ Control is intended to be temporary because it is acquired and held exclusively with a view to its subsequent disposal in the near future (i.e., twelve months), or ▶ It operates under severe long term restrictions, which significantly impair its ability to transfer funds to the parent. In the CFS, such subsidiaries are accounted under AS 13 and the reasons for not consolidating are disclosed.

Meaning of subsidiary

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent). Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Under IAS 27-R, control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. The definition of 'control' is based on substance rather than form and an entity can obtain control over the other entity without holding more than one-half of the voting power of the other entity and without having control of the composition of the board of directors, e.g., it can have control pursuant to agreement with other shareholders.

SIC 12 states that a Special Purpose Entity (SPE) should be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

A subsidiary is an entity that is controlled by another entity (known as the parent). Control means,

- a. The ownership, directly or indirectly through subsidiary/subsidiaries, of more than one-half of the voting power of an entity, or
- b. Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case for any other entity so as to obtain economic benefits from its activities.

Under ASI 24, an entity can be subsidiary of two entities when, as per the definition of the term 'control' the entity is controlled by both entities – one by control over the governing body and other through majority in voting power.

There is no specific guidance available for consolidation of SPE.

Determination of control – potential voting rights

The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

Under ASI 23, potential voting rights are not considered for determining significant influence in the case of an associate. An analogy can be drawn that they are not to be considered for determining control in the case of a subsidiary, as well.

Separate financial statements

An entity which is exempt from preparing CFS is specifically required to prepare separate financial statements. IAS 27-R requires that a parent's investment in a subsidiary be accounted for in the separate financial statements:

- At cost, or
- As available-for-sale financial assets as described in IAS 39.

Under Indian GAAP, all entities are required to prepare and present separate financial statements, without any exception. Under AS 21, in a parent's separate financial statements, investments in subsidiary should be accounted for in accordance with AS 13. AS 13 requires such investments to be valued at cost as adjusted for any diminution, other than temporary in the value of those investments. Recently with the issuance of accounting standards on financial instruments, the ICAI has also made a limited revision to AS 21. As per the revision, a parent's investment in a subsidiary is to be accounted for in the separate financial statements:

Separate financial statements (cont'd.)

- At cost, or
- Under AS 30.

The ICAI had announced that this revision is recommendatory for periods beginning on or after 1 April 2009 and shall be mandatory for periods beginning on or after 1 April 2011. However, these amendments have not been notified under the Companies (Accounting Standard) Rules 2006 till 1 January 2010.

Consolidation procedures

Intra-group elimination

Intra-group balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intra-group transactions that are recognized in assets, such as inventory and fixed assets, are eliminated. Intra-group losses may indicate an impairment that requires recognition in the CFS. Deferred tax should be calculated on temporary differences that arise from the elimination of profits and losses resulting from intra-group transactions.

Similar to IFRS, except no deferred tax is recognized on elimination of intra-group transactions.

Losses of subsidiary

Under IAS 27-R, losses incurred by the subsidiary have to be allocated between the parent and non-controlling interests, even if this results in deficit balance of non-controlling interest.

The losses attributable to the minority but exceeding the minority interest in the equity of the subsidiary, have to be adjusted against the majority interest, except to the extent that the minority has a binding obligation to, and is able to make good the losses.

Reporting periods

The financial statements of the parent and its subsidiaries used in the preparation of the CFS shall be prepared as at the same reporting date. When the financial statements of a subsidiary used in the preparation of CFS are prepared as of a reporting date different from that of the parent, adjustments shall be made

Similar to IFRS, except that the difference between reporting dates should not be more than six months.

Reporting periods (cont'd.)

for the effects of significant transactions or events, that occur between that date and the date of the parent's financial statements. In any case, the difference between the reporting date of the subsidiary and that of the parent shall be no more than three months.

Uniform accounting policies

Compliance with uniform accounting policies is mandatory.

CFS should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the CFS, that fact should be disclosed together with the proportions of the items in the CFS to which the different accounting policies have been applied.

Non-controlling interest

Non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Non-controlling interests in the comprehensive income of the group shall also be separately presented.

Minority interests should be presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interests in the profit or loss of the group should also be separately presented.

Changes in ownership interest that does not result in loss of control

Changes in the ownership interest of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to gain or loss in the statement of comprehensive income.

No specific guidance under AS 21 is available. However, the common practice is to account for gain/loss on such transactions as adjustment to goodwill or capital reserve on acquisition.

Loss of control

In calculating the gain/loss arising from the loss of control, retained interest in the former subsidiary is measured at its fair value at the date when control is lost.

The carrying amount of the investment at the date on which an entity ceases to be its subsidiary is regarded as cost for subsequent accounting

Investments in associates

Mutual funds and venture capital organizations

IAS 28 does not apply to investments in associates held by mutual funds, or venture capital organizations, etc., that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39.

There is no such exemption under AS 23. Thus, entities such as mutual funds and venture capital organizations would be required to account for their investments in associates under AS 23 in their CFS. With the issuance of accounting standards on financial instruments, ICAI made a limited revision to AS 23. As per the revision, a similar exclusion was provided in AS 23 also. The ICAI had announced that this revision is recommendatory for periods beginning on or after 1 April 2009 and shall be mandatory for periods beginning on or after 1 April 2011. However, these amendments have not been notified under the Companies (Accounting Standard) Rules 2006 till 1 January 2010.

Significant influence

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. If an investor holds, directly or indirectly (e.g., through subsidiaries), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case.

Under AS 23, significant influence is the power to participate in the financial and/or operating policy decisions of the investee but not control over those policies. The word 'or' is not there in IAS 28.

Therefore, under IFRS, to have significant influence, the entity needs to have the power to participate in both the financial and operating policies, whereas, under AS 23, either one would suffice to determine significant influence. The other aspects of definition are the same as IFRS.

The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence.

Under ASI 23, potential voting rights are not considered for determining significant influence in the case of an associate.

Method of accounting

An investment in associate should be accounted using equity method of accounting. Goodwill determination is based on fair values of the assets and liabilities of the investee. Goodwill relating to associate is included in the carrying amount of investment. If this calculation results in gain, i.e., an investor's share of the fair value of the associate's net assets exceeds the cost of the investment, the excess is included as income in determination of the investor's share of the associate's profit or loss for the period in which the investment is acquired.

Indian GAAP is similar to IFRS, except that goodwill determination is based on carrying values rather than fair values of the assets and liabilities of the investee. Any gain arising on the acquisition of an investment is accounted for as capital reserve and included in the carrying amount of investment.

Profits and losses resulting from transactions between an investor and an associate are recognized in the investor's financial statements only to the extent of unrelated investor's interest in the associate. Therefore, the investor's share in the associate's profits and losses resulting from these transactions is eliminated.

In using the equity method for accounting for an investment in an associate, unrealized profits and losses resulting from transactions between the investor (or its consolidated subsidiaries) and the associate should be eliminated to the extent of the investor's interest in the associate. Unrealized losses should not be eliminated if and to the extent the cost of the transferred asset cannot be recovered.

In separate financial statements, investments are carried at cost or in accordance with IAS 39.

In separate financial statements, investments are carried at cost less other than temporary decline in value of investments. With the issuance of accounting standards on financial instruments, ICAI made a limited revision to AS 23. As per the revision, investment in an associate be accounted for in the separate financial statements either:

- ▶ At cost, or
- ▶ In accordance with AS 30.

The ICAI had announced that this revision is recommendatory for periods beginning on or after 1 April 2009 and shall be mandatory for periods beginning on or after 1 April 2011. However, these amendments have not been notified under the Companies (Accounting Standard) Rules 2006 till 1 January 2010.

Method of accounting (cont'd.)

After applying the equity method, the investor applies the requirements of IAS 39 to determine whether it is necessary to recognize any impairment loss with respect to the investor's net investment in the associate. Whilst IAS 39 is used to determine whether it is necessary to recognize any further impairment, the amount of any impairment is calculated in accordance with IAS 36. An investment in an associate is treated as a single asset for the purpose of conducting impairment test, including any reversal of impairment. Therefore, any impairment is not separately allocated to any assets including goodwill included in investment.

There is no specific requirement for impairment testing of an investment in associate after applying the equity method.

Exceptions to equity accounting

An investment in an associate shall be accounted for using the equity method except when:

- ▶ An investment in associate held for sale is accounted in accordance with IFRS 5;
- ▶ The reporting entity is also a parent and is exempt from preparing CFS under IAS 27-R;
- ▶ The reporting entity is not a parent, and
 - ▶ The investor is a wholly owned subsidiary itself (or a partially owned subsidiary), and its other owners, including those not entitled to vote, have been informed about and do not object to the investor not applying the equity method,
 - ▶ The investor's debt/equity are not publicly traded.

Equity method is required to be applied only if the entity prepares CFS. Where the reporting entity is not a parent, but has associates, it should not apply the equity method to its associates.

The equity method is also not applied when:

- ▶ The investment is acquired and held with a view to its subsequent disposal in the near future, or
- ▶ The associate operates under severe long term restrictions which significantly impair its ability to transfer funds to the investor.

An investment in such associates is accounted for under AS 13.

Exceptions to equity accounting (cont'd.)

- ▶ the investor is not planning a public issue of any of its class of instruments;; and
- ▶ the ultimate or any immediate parent of the investor produces CFS available for public use that comply with IFRS.

Where the reporting entity is not a parent, but has associates, it will need to apply equity method to its associates in its own financial statements, if any of the above exemptions does not apply. These financial statements are not separate financial statements.

Reporting periods

The most recent available financial statements of the associate are used by the investor in applying the equity method. When the end of the reporting periods of the investor and the associate are different, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so. The financial statements of an associate used in applying the equity method, if prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. In any case, the difference between the end of the reporting periods of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.

The most recent available financial statements of the associate are used by the investor in applying the equity method. They are usually drawn up to the same date as the financial statements of the investor. When the reporting dates of the investor and the associate are different, the associate often prepares, for the use of the investor, statements as at the same date as the financial statements of the investor. When it is impracticable to do this, financial statements drawn up to a different reporting date may be used. The consistency principle requires that the length of the reporting periods, and any difference in the reporting dates, are consistent from period to period. When financial statements with a different reporting date are used, adjustments are made for the effects of any significant events or transactions between the investor (or its consolidated subsidiaries) and the associate that occur between the date of the associate's financial statements and the date of the investor's consolidated financial statements. Unlike IFRS, there is no limit of three months for difference between the reporting dates.

Uniform accounting policies

The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.

Investor usually prepares CFS using uniform accounting policies for the like transactions and events in similar circumstances. If it is not practicable to do so, that fact is disclosed along with a brief description of the differences between the accounting policies.

Display of goodwill

Goodwill included within the investment amount is not required to be separately identified.

Goodwill or capital reserves within the investment amount are required to be separately identified.

Disposition of associate

An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with IAS 39 from that date, provided the associate does not become a subsidiary or a joint venture. On the loss of significant influence, the investor shall measure any retained interest in its former associate at fair value and consider the same for calculation of gain/loss arising on disposition. The fair value of the investment at the date is regarded as fair value on initial recognition in accordance with IAS 39. If an investor loses significant influence over an associate, the investor shall also account for all amounts previously recognized in other comprehensive income in relation to that associate in profit or loss for the period.

The carrying amount of the investment at the date on which an entity ceases to be its associate is regarded as cost thereafter.

Financial reporting of interests in joint ventures

The IASB issued an Exposure Draft (ED 9) of proposed IFRS on *Joint Arrangements*. The objective of ED is to enhance the faithful representation of joint arrangements that an entity provides in its financial statements. It proposes to do that by requiring an entity (a) to recognize its contractual rights and obligations that arise from a joint arrangement; and (b) to provide enhanced disclosures about its interests in joint arrangements. The ED provides that a party should recognize its interest in a joint venture by using the equity method. As per the proposals contained in ED, proportionate consolidation would not be permitted.

Since the Exposure Draft has not been issued as final standard till 1 January 2010, the major difference between IAS 31/ SIC 13 and AS 27 are given below.

Mutual funds and venture capital organizations

IAS 31 does not apply to interests in joint ventures held by mutual funds or venture capital organizations, etc., that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39.

There is no such exemption under AS 27. Thus, entities such as mutual funds and venture capital organizations would be required to account for their interests in joint ventures under AS 27 in their CFS.

With the issuance of accounting standards on financial instruments, ICAI made a limited revision to AS 27. As per the revision, a similar exclusion was provided in AS 27 also. The ICAI had announced that this revision is recommendatory for periods beginning on or after 1 April 2009 and shall be mandatory for periods beginning on or after 1 April 2011. However, these amendments have not been notified under the Companies (Accounting Standard) Rules 2006 till 1 January 2010.

Definition of joint venture

A joint venture is a contractual arrangement, whereby, two or more parties undertake an economic activity that is subject to joint control. Activities that have no contractual arrangement to establish joint control are not joint ventures.

The guidance is similar to that in IFRS. However, sometimes though a contractual arrangement may suggest a joint venture, the investee is accounted as a subsidiary if the investor's share in the investee's equity is greater than 50%.

Accounting for Jointly Controlled Entities (JCEs)

IAS 31 prescribes proportionate consolidation method or equity method for recognizing interest in a jointly controlled entity in CFS. Equity method prescribed in IAS 31 is similar to that prescribed in IAS 28. However, the proportionate method of accounting is the more recommended approach.

Accounting for jointly controlled entities is required to be done using proportionate consolidation method.

Exceptions to JV accounting

Proportionate consolidation/equity accounting for interests in a JCE is required except for the venturer which satisfies certain specified conditions. Where the reporting entity is not a parent, but has JCE, it will need to equity account or proportionately consolidate its joint ventures in its own financial statements.

Proportionate consolidation is required to be applied only if the entity prepares CFS. Where the reporting entity is not a parent, but has JCE, it should not apply proportionate consolidation to its JCE. The proportionate consolidation is also not applied when:

- The interest is acquired and held with a view to its subsequent disposal in the near future, or
- The JCE operates under severe long term restrictions which significantly impair its ability to transfer funds to the venturer.

An investment in such JCE is accounted for under AS 13.

Reporting periods

The financial statements of the JCE used in applying proportionate consolidation/ equity method are usually drawn up to the same date as the financial statements of the venturer. When it is impracticable to do this, the most recent available financial statements of the JCE are used by the venturer. In any case, the difference between the reporting date of the JCE and that of the venturer shall be no more than three months.

The financial statements of the JCE used in applying proportionate consolidation method are usually drawn up to the same date as the financial statements of the venturer. When it is impracticable to do this, the most recent available financial statements of the JCE are used by the venturer. In any case, the difference between the reporting date of the JCE and that of the venturer shall be no more than six months.

Uniform accounting policies

The venturer's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.

The venturer usually prepares consolidated financial statements using uniform accounting policies for like transactions and events in similar circumstances. If it is not practicable to do so, that fact is disclosed together with the proportion of the items in the CFS to which different accounting policies have been applied.

Disposing of a joint venture

When an investor ceases to have joint control over an entity, it shall account for any remaining investment in accordance with IAS 39 from that date, provided that the former jointly controlled entity does not become a subsidiary or associate. On the loss of joint control, the venturer shall measure any retained interest in its former JCE at fair value and consider the same for calculation of gain/loss arising on disposition. The fair value of the investment at the date is regarded as fair value on initial recognition in accordance with IAS 39.

From the date of discontinuing the use of the proportionate consolidation, interest in a jointly controlled entity should be accounted for:

- ▶ In accordance with AS 21, if the venturer acquires unilateral control over the entity and becomes parent within the meaning of that Standard, and
 - ▶ In all other cases, as an investment in accordance with AS 13, or in accordance with AS 23, as appropriate. For this purpose, cost of the investment should be determined as under:
 - ▶ The venturer's share in the net assets of the jointly controlled entity as at the date of discontinuance of proportionate consolidation should be ascertained, and
 - ▶ The amount of net assets so ascertained should be adjusted with the carrying amount of the relevant goodwill/capital reserve as at the date of discontinuance of proportionate consolidation.
-

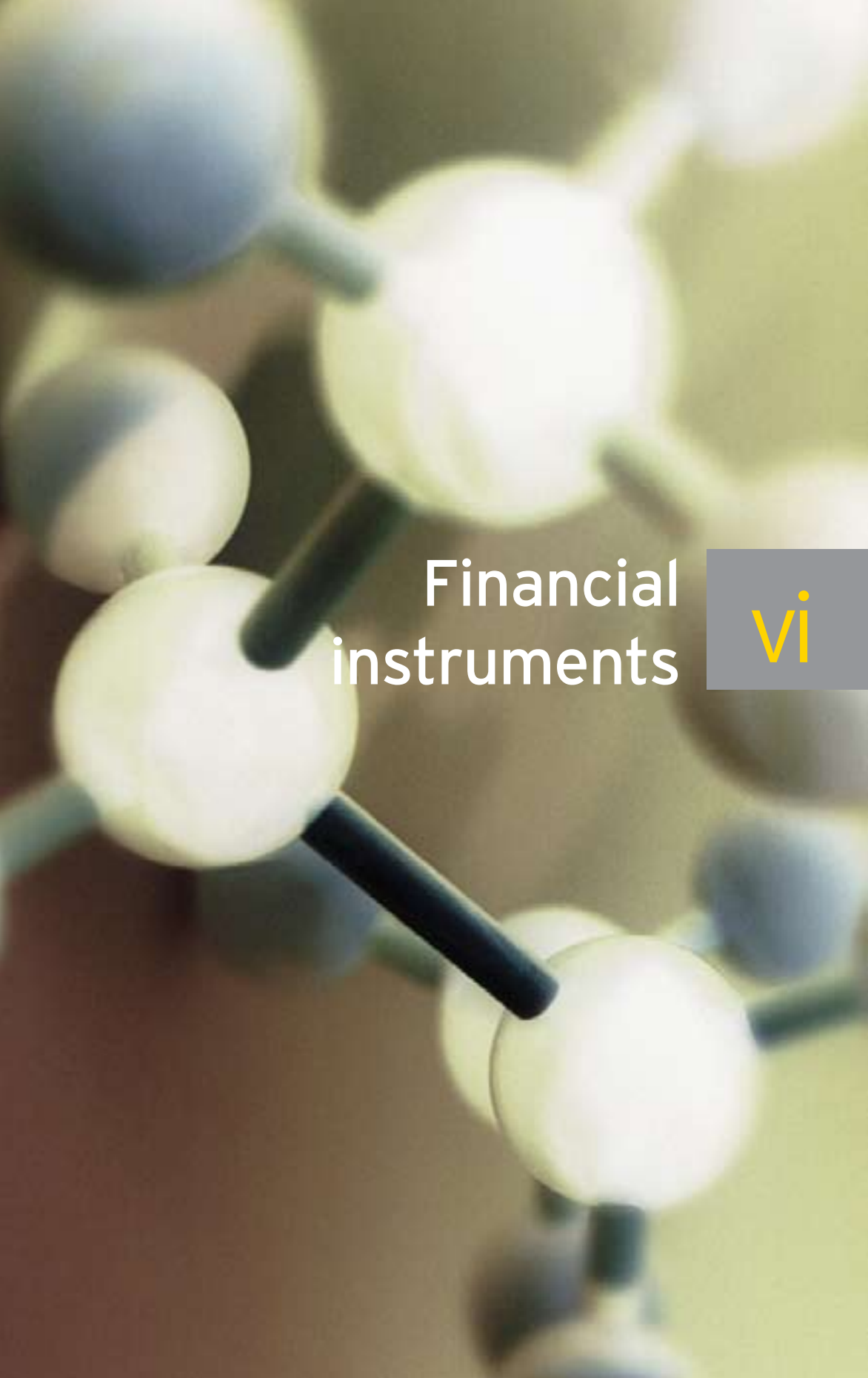
Separate financial statements

In separate financial statements, JCE are accounted at cost or in accordance with IAS 39.

In separate financial statements, JCE are accounted at cost less other than temporary decline in value of investments. Recently, with the issuance of accounting standards on financial instruments, ICAI has also made a limited revision to AS 27. As per the revision, interest in JCE be accounted for in the separate financial statements either:

- ▶ At cost, or
- ▶ In accordance with AS 30.

The ICAI had announced that this revision is recommendatory for periods beginning on or after 1 April 2009 and shall be mandatory for periods beginning on or after 1 April 2011. However, these amendments have not been notified under the Companies (Accounting Standard) Rules 2006 till 1 January 2010.



Financial instruments

vi

Financial instruments

Under Indian GAAP, until recently, there was no accounting standard dealing with accounting for financial instruments in a comprehensive manner. To deal with the accounting of such instruments, the ICAI has issued AS 30, AS 31 and AS 32. The ICAI has announced that these standards are recommendatory from accounting period commencing on or after 1 April 2009 and will be mandatory only for accounting periods commencing on or after 1 April 2011. Also, these standards have not been notified under the Companies Act, 1956, till 1 January 2010. Keeping this in view, the comparison given below for financial instruments is without considering the impact of these standards. The comparison, however, has considered *ICAI Announcement – Accounting for Derivatives* issued on 29 March 2008.

Under IFRS, the IASB had undertaken a project to rewrite the financial instrument standards on a priority basis. In order to expedite the process, the IASB has divided the entire project into several phases such as classification and measurement of financial assets, impairment, hedge accounting, financial liabilities and derecognition. The aim is to replace IAS 39 in its entirety by the end of 2010. As part of this and with a view to address fair value issues, the IASB has issued the following new IFRS/ Exposure Drafts/Discussion Papers:

- ▶ Phase 1 IFRS 9 *Financial Instruments* (deals with classification and measurement of financial assets)
- ▶ Exposure Draft: *Financial Instruments: Amortized Cost and Impairment*
- ▶ Exposure Draft: *Derecognition – Proposed amendments to IAS 39 and IFRS 7*
- ▶ Exposure Draft of proposed IFRS on *Fair value Measurements*
- ▶ IASB Discussion Paper: *Credit Risk in Liability Measurement*

IFRS 9 will be mandatory from 1 January 2013. However, entities have been given an option to early adopt phase 1 of IFRS 9. Considering the future applicability and the fact that the Exposure Drafts/ Discussion Papers have not been issued as final standards till 1 January 2010, the comparison given below is without considering the impact of phase 1 of IFRS 9 and other proposals stated above.

Definition of financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

No specific standard on financial instruments.

A financial asset is any asset that is:

- ▶ Cash,
- ▶ An equity instrument of another entity,
- ▶ Contractual right:
 - ▶ To receive cash or another financial asset from another entity, or
 - ▶ To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity, or
- ▶ A contract that will or may be settled in the entity's own equity instruments, and is:
 - ▶ A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or
 - ▶ A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

A financial liability is any liability that is:

- ▶ A contractual obligation:
 - ▶ To deliver cash or another financial asset to another entity, or
 - ▶ To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity, or
-

Definition of financial instrument (cont'd.)

- ▶ A contract that will or may be settled in the entity's own equity instruments, and is:
 - ▶ A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or
 - ▶ A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments

For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Classification of financial instrument between liability and equity

The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

The instrument is an equity instrument if, and only if, both conditions mentioned below are met:

1. The instrument includes no contractual obligation:
 - ▶ To deliver cash or another financial asset to another entity, or
 - ▶ To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer

There is no specific standard on financial instruments. Classification based on form rather than substance. Preference shares are treated as capital, even though, in many cases, in substance, it may be a liability.

Classification of financial instrument between liability and equity (cont'd.)

2. If the instrument will or may be settled in the issuer's own equity instruments, it is a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments, or a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Treasury shares

If an entity reacquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity. No gain or loss shall be recognized in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received shall be recognized directly in equity.

There is no specific standard on financial instruments. When an entity's own shares are repurchased, the shares are cancelled and shown as a deduction from shareholders' equity (they cannot be held as treasury stock). If the buy back is funded through free reserves, amount equivalent to buy-back should be credited to Capital Redemption Reserve. Various alternatives are available for accounting premium payable on buy-back- adjusting the same against securities premium, etc.

Financial assets

Financial assets are classified in four categories:

- ▶ Financial asset at fair value through profit or loss,
- ▶ Held to maturity,
- ▶ Loans and receivables, and
- ▶ Available for sale.

There is no specific standard on financial instruments. AS 13 classifies investments into long-term and current investments.

Traded category and those designated as FVPL are mark-to-market with changes taken to the income statement.

Under AS 13, current investments are measured at lower of cost or market value.

Financial assets (cont'd.)

For held-to-maturity investments, initial measurement is at fair value plus transaction cost. Subsequent measurement is at amortized cost using effective interest method.

There is no specific standard on financial instruments. Long-term investments are carried at cost less provision for diminution for decline, other than temporary, in the value of investments. Interest, if any, is recognized on time proportion basis.

For loans and receivables, initial measurement is at fair value plus transaction cost. Subsequent measurement is at amortized cost using effective interest method.

There is no specific standard on financial instruments. Loans and receivables are stated at cost, less provision to the extent considered doubtful of recovery. Interest income on loans is recognized on time-proportion basis at the rates mentioned in loan agreement.

For AFS investments, initial measurement is at fair value plus transaction cost. Subsequent measurement is at fair value. Changes in fair value are accounted in equity and are recycled to income statement when investments are realized or impaired.

There is no specific standard on financial instruments. No such classification. All investments are classified into long-term and current investments.

Reclassification of financial assets

Reclassifications between categories are relatively uncommon under IFRS and are generally prohibited into and out of the fair value through profit or loss category.

However, an entity may, on certain conditions being met, reclassify some non-derivative financial assets out of the held-for-trading category:

- ▶ Into loans and receivables, or
- ▶ In rare circumstances, into available-for-sale or held-to-maturity category.

There is no specific standard on financial instruments. Where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. Where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

Reclassification of financial assets (cont'd.)

Reclassifications from the held-to-maturity category as a result of a change of intent or ability are treated as sales and, other than in exceptional circumstances, result in the whole category being 'tainted'. The most common reason for a reclassification out of the category, therefore, is when the whole category is tainted and has to be reclassified as available-for-sale for two years.

Recognition of impairment

An entity shall assess at each balance sheet date whether there is any objective evidence, that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss has been incurred on financial assets carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

Where there is an objective evidence of impairment on AFS investments, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement - is removed from equity and recognized in the income statement.

Current investments are recorded at lower of cost or market price. On long term investments, diminution other than temporary is provided for.

Reversal of impairment

For assets carried at amortized cost and AFS debt securities, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. IAS 39 prohibits the reversal of an impairment charge on AFS equity securities through profit or loss. IFRS prohibits reversal of impairment on unquoted equity instruments which are carried at cost because their fair value can not be measured reliably.

Any reversal of reduction in impairment loss are credited to the profit and loss account.

Derecognition

An entity shall derecognize a financial asset when:

- ▶ The contractual rights to the cash flows from the financial asset expire,
- ▶ When the entity has transferred substantially all risks and rewards from the financial assets, or
- ▶ When the entity has:
 - ▶ Neither transferred substantially all, nor retained substantially all, the risks and rewards from the financial asset, but has transferred control of the asset.

The ICAI Guidance Note on Accounting for Securitisation required derecognition of financial asset if the originator loses control of the contractual rights that comprise the securitized assets. As per the ICAI Announcement on applicability date of financial instruments standards, the said Guidance Note had been withdrawn from the date of AS 30 becoming recommendatory, viz., 1 April 2009.

Financial liability

Classification and measurement

Financial liabilities are classified into two categories:

1. Financial liability at fair value through profit or loss, and
2. Residual category.

Initial measurement is at fair value, less transaction cost in case of financial liabilities not at fair value through profit or loss. Subsequently, financial liabilities at fair value through profit or loss are measured at fair value and the change is recognized in the income statement for the period. All other (non-trading) liabilities are carried at amortized cost. Gains or losses are recognized in the income statement through the amortization process.

There is no specific standard on financial instruments. Liabilities are normally carried at amount received. Interest expense on liabilities is recognized on time-proportion basis at the rates mentioned in the loan agreement.

Derecognition

IAS 39 provides detailed guidance on derecognition of a financial liability.

There is no specific standard on financial instruments.

Derivatives and hedging

Definition

IAS 39 provides definition of derivative.

The Announcement on 'Disclosures regarding Derivative Instruments', issued by the ICAI, explains the meaning of derivatives in the same manner as IAS 39.

Measurement of derivatives

Derivatives are initially recognized at fair value. After initial recognition, an entity shall measure derivatives at their fair values, without any deduction for transaction costs. Changes in fair value are recognized in income statement unless it satisfies hedge criteria. Embedded derivatives need to be separated and fair valued. If an entity is unable to measure the

AS 11 deals with forward exchange contracts. As required by the ICAI Announcement on Accounting for Derivatives, losses are required to be recognized on all derivatives not covered under AS 11, keeping in view the principle of prudence as enunciated in AS 1. No specific guidance on embedded derivatives.

Measurement of derivatives (cont'd.)

embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid (combined) contract as at fair value through profit and loss.

Hedge accounting

Criteria for hedge accounting

Hedge accounting is permitted if at the inception of the hedge and on an ongoing basis, the hedge will be highly effective within the 80% to 125% range. Stringent documentation criteria have also been prescribed.

No specific standard on financial instruments. In India, presently, AS 11 deals with forward exchange contracts entered into for hedging foreign currency risk of foreign currency assets and liabilities. AS 11 does not lay down any specific guidelines for determining hedge effectiveness, rather, the treatment is based on the purpose for which such contracts are entered into.

Hedged items, hedging instruments and hedge relationships

IAS 39 provides detailed guidance on hedged items, hedging instruments and hedge relationships.

No specific standard on financial instruments.

Measurement

IAS 39 provides detailed guidance on hedge accounting.

Under AS 11, the premium or discount arising at the inception of a forward exchange contract entered into for hedging purposes should be amortized as expense or income over the life of the contract.

Exchange differences on such a contract should be recognized in the statement of profit and loss of the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract should be recognized as income or as expense for the period.

Financial instruments: disclosures

IFRS 7 require entities to provide detailed disclosures in their financial statements that enable users to evaluate:

- ▶ The significance of financial instruments for the entity's financial position and performance, and
- ▶ The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks

The disclosures required under IFRS 7 include quantitative as well as qualitative information.

These disclosures were recently amended to require fair value measurements to be disclosed by the source of inputs, using following three-level hierarchy:

- ▶ Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1)
 - ▶ Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2)
 - ▶ Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).
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The announcement on 'Disclosure regarding Derivative Instruments', issued by the ICAI, requires the following disclosures to be made in the financial statements:

- ▶ Category-wise quantitative data about derivative instruments that are outstanding at the balance sheet date,
- ▶ The purpose, viz., hedging or speculation, for which such derivative instruments have been acquired, and
- ▶ The foreign currency exposures that are not hedged by a derivative instrument or otherwise.



Industry
related

vii

IFRS	Indian GAAP
Accounting for agricultural produce or biological asset	
Biological asset or agricultural produce	
IAS 41 provides detailed guidance on recognition and measurement of agricultural produce or biological asset at their fair value less estimated point-of-sale cost.	There is no specific guidance under Indian GAAP.
Exploration for and evaluation of natural resources	
Measurement at cost	
Exploration and evaluation assets shall be measured at cost. An entity shall determine a policy, specifying which expenditures are recognized as exploration and evaluation assets, and apply the policy consistently.	There is no specific standard apart from the <i>Guidance Note on Accounting for Oil and Gas Producing Activities</i> .
Measurement after recognition	
After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied, it shall be consistent with the classification of the assets.	There is no specific standard apart from <i>Guidance Note on Accounting for Oil and Gas Producing Activities</i> .

Appendix



Listing of IFRS

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
IFRS 9	Financial Instruments

IAS

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Reporting Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits

IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 33	Earnings 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

IFRIC

- IFRIC 1** Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 2** Members' Shares in Co-operative Entities and Similar Instruments
- IFRIC 4** Determining whether an Arrangement contains a Lease
- IFRIC 5** Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6** Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
- IFRIC 7** Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 9** Reassessment of Embedded Derivatives
- IFRIC 10** Interim Financial Reporting and Impairment
- IFRIC 12** Service Concession Arrangements
- IFRIC 13** Customer Loyalty Programmes
- IFRIC 14** IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 15** Agreements for Construction of Real Estate
- IFRIC 16** Hedges of a Net Investment in a Foreign Operation

IFRIC 17 Distributions of Non-Cash Assets to Owners

IFRIC 18 Transfer of Assets from Customers

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

SIC

- SIC 7** Introduction of the Euro
- SIC 10** Government Assistance - No Specific Relation to Operating Activities
- SIC 12** Consolidation - Special Purpose Entities
- SIC 13** Jointly Controlled Entities - Non-Monetary Contributions by Venturers
- SIC 15** Operating Leases – Incentives
- SIC 21** Income Taxes – Recovery of Revalued Non-Depreciable Assets
- SIC 25** Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
- SIC 27** Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- SIC 29** Disclosure – Service Concession Arrangements
- SIC 31** Revenue – Barter Transactions Involving Advertising Services
- SIC 32** Intangible Assets – Website Costs

Listing of abbreviations

AFS	Available-for-Sale	FVPL	Fair Value through Profit or Loss
ARO	Asset Retirement Obligations	GAAP	Generally Accepted Accounting Principles
ASB	Accounting Standards Board	GBP	Great British Pounds
AS	Indian Accounting Standards	HFT	Held-for-Trading
ASI	Accounting Standards Interpretation	HTM	Held-to-Maturity
BPO	Business Process Outsourcing	IAS	International Accounting Standards
CESR	Committee of European Securities Regulators	IASB	International Accounting Standards Board
BPO	Business Process Outsourcing	IASC	International Accounting Standard Committee
CESR	Committee of European Securities Regulators	IBA	Indian Bankers' Association
CFS	Consolidated Financial Statements	IBNR	Incurred But Not Recognized
CFO	Chief Finance Officers	ICAI	The Institute of Chartered Accountants of India
CGU	Cash-Generating Unit	IFRIC	International Financial Reporting Interpretations Committee
CODM	Chief Operating Decision Maker	INR	Indian Rupees
DCA	Department of Corporate Affairs	IFRS	International Financial Reporting Standards
DP	Discussion Paper	IRDA	Insurance Regulatory and Development Authority
DTA	Deferred Tax Asset	IRU	Indefeasible Right to Use
DTL	Deferred Tax Liability	KPO	Knowledge Process Outsourcing
EAC	Expert Advisory Committee of ICAI	IT	Information Technology
ESOP	Employee Stock Option Plan	JCE	Jointly Controlled Entity
EPS	Earning Per Share	JV	Joint Venture
ERP	Enterprise Resource Planning	KMP	Key Managerial Personnel
ED	Exposure Draft	KPO	Knowledge Process Outsourcing
EU	European Union	L&R	Loans & Receivables
FBT	Fringe Benefit Tax	LIFO	Last In First Out
FCCB	Foreign Currency Convertible Bonds		
FIFO	First In First Out		
EU	European Union		

M&E	Media and Entertainment
MCA	Ministry of Corporate Affairs
MIS	Management Information Systems
MCA	Ministry of Corporate Affairs
NACAS	National Advisory Committee on Accounting Standards
NPA	Non- Performing Asset
PPE	Property, Plant and Equipment
OCI	Other Comprehensive Income
PBT	Profit Before Tax
OCI	Other Comprehensive Income
RBI	Reserve Bank of India
ROI	Return on Investments
R&D	Research and Development
SBP	Share Based Payments
SEBI	Securities and Exchange Board of India
SEC	US Securities and Exchange Commission
SIC	Standing Interpretations Committee
SOCIE	Statement of Changes in Equity
SORIE	Statement of Recognized Income and Expenses
SCI	Statement of Comprehensive Income
SCODA	SEBI Committee on Disclosures and Accounting Standards
SOX	Sarbanes-Oxley
SME	Small and Medium Enterprise
SMC	Small and Medium Company
SPE	Special Purpose Entities
SPV	Special Purpose Vehicle
VCF	Venture Capital Funds
VCC	Venture Capital Company
VRS	Voluntary Retirement Scheme
US GAAP	United States Generally Accepted Accounting Practice
VRS	Voluntary Retirement Scheme

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