

IFRS

1.) Hari Co. Ltd. has decided to reconcile its financial statements in line with International Financial Reporting Standards. The statement of financial position of Hari Co. Ltd. as at 1st April, 2010 is as follows:

Assets	Rs. '000
Fixed Assets	1200
Intangible Assets	400
Financial Assets	400
Inventories	600
Trade & Other Receivables	500
Cash & Cash Equivalents	<u>100</u>
	<u>3200</u>
Liabilities	
Trade & other payables	800
10% Loans from Bank	1300
Current Tax Liability	80
Deferred Tax Liability	<u>20</u>
	<u>2200</u>
Total Assets less Liabilities	<u>1000</u>
Equity	
Issued share Capital	600
Retained Earnings	<u>400</u>
	<u>1000</u>

Other Information:

- The provision for depreciation was made as per the Indian statutes. Due to reconciliation with the IFRS provisions, the carrying amount of fixed assets needs to be increased by 2,00,000.
- All financial assets costing Rs.4,00,000 are classified as available for sale category under IAS 39. The fair value of these assets is calculated as 5,00,000 on 1st April, 2010
- A pension liability of 1,00,000 is recognized under IFRS (not provided earlier). However, no tax implication arises due to recognition of this liability.
- The value of inventories is Rs.4,00,000 as per IAS 2. The necessary adjustment needs to be done in the book value.
- Unrealized gain Rs.3,00,000 on unmatured forward foreign exchange contracts (included in receivables) which were not recognized under Indian Accounting Standards are required to be recognized under IFRS.

You are required to prepare reconciled financial statements (in convergence to IFRS), assuming tax rate of 30%. Give necessary working notes.

Answer:

Assets	Previous GAAPs	Adjustment due to Translation to IFRS	IFRS
	Rs. '000	Rs. '000	Rs. '000
Fixed Assets	1200	200	1400
Intangible Assets	400		400
Financial Assets	400	100	500
Inventories	600	(200)	400
Trade & Other Receivables	500	300	800
Cash & Cash Equivalents	<u>100</u>		<u>100</u>
	<u>3200</u>		<u>3600</u>
Liabilities			
Trade & other payables	800		800
10% Loan from bank	1300		1300
Current Tax Liability	80		80
Deferred tax liability	20	90	110
Pension liability	<u>nil</u>	<u>100</u>	<u>100</u>
(A)	<u>2200</u>		<u>2390</u>
<u>Equity</u>			
Issued Share capital	600		600
Retained Earnings	400	140	540
Investment Revaluation Reserves	<u>nil</u>	<u>70</u>	<u>70</u>
(B)	<u>1000</u>		<u>1210</u>
Total (A+B)	<u>3200</u>		<u>3600</u>

Working Notes:

1. Journal Entries

(i) Fixed Assets	Dr.	2,00,000	
To Retained Earnings			2,00,000
(ii) Financial Assets	Dr.	1,00,000	
To Investment Revaluation Reserves			1,00,000
(iii) Retained Earnings	Dr.	1,00,000	
To Pension Liability			1,00,000
(iv) Retained Earnings	Dr.	2,00,000	
To Inventories			2,00,000
(v) Trade & Other Receivables	Dr.	3,00,000	
To Retained Earnings			3,00,000
(vi) Investment Revaluation Reserves	Dr.	30,000	
To Deferred Tax Liability			30,000
(vii) Retained Earnings	Dr.	60,000	
To Deferred Tax Liability			60,000

Note: Deferred Taxes are to be created whenever Assets & Liabilities as per books of accounts change.

Balance sheet can be drafted in the format of Current Assets & Non Current Assets and Current Liabilities & Non Current Liabilities as discussed in the class.