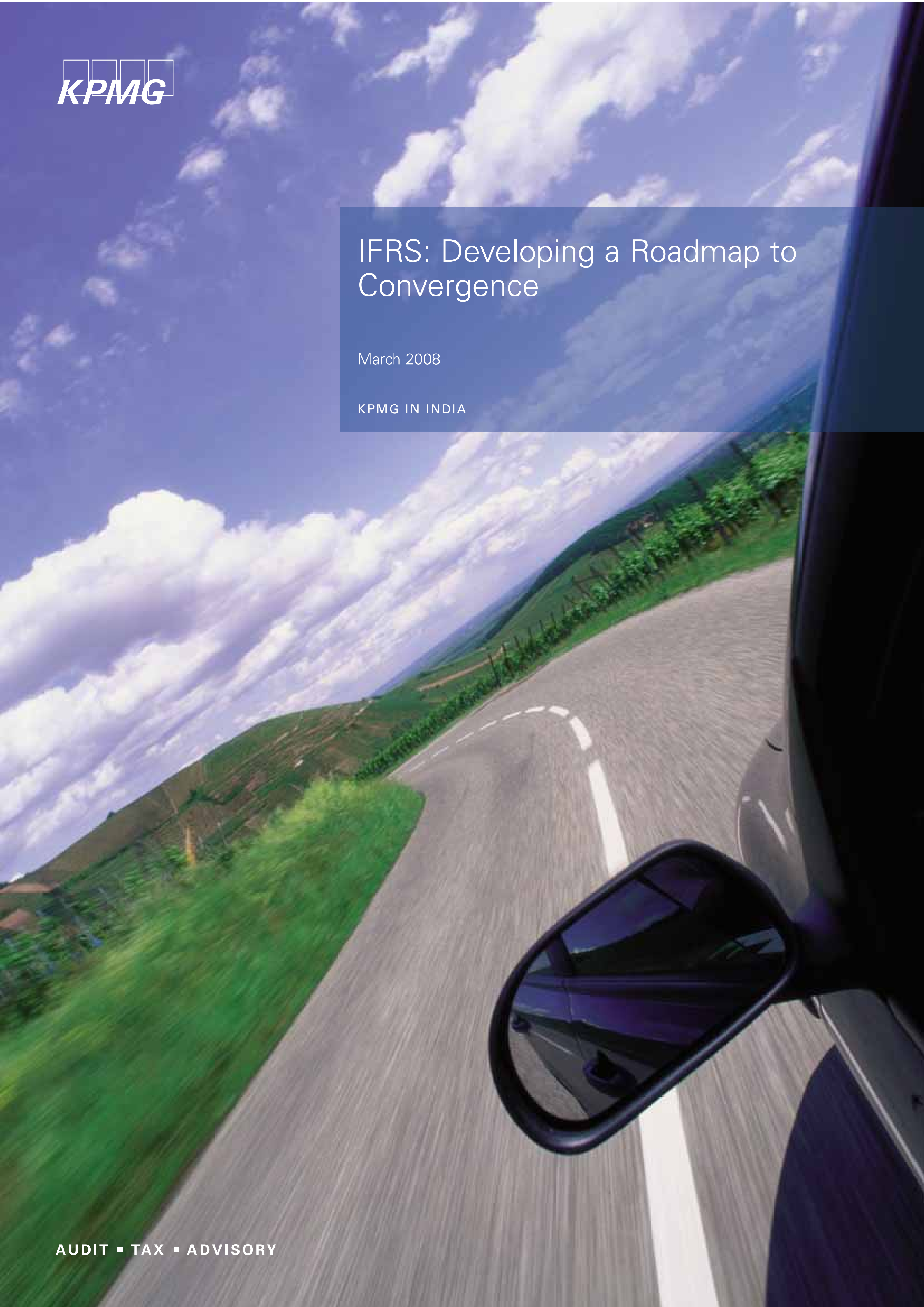

KPMG

IFRS: Developing a Roadmap to Convergence

March 2008

KPMG IN INDIA

AUDIT ▪ TAX ▪ ADVISORY

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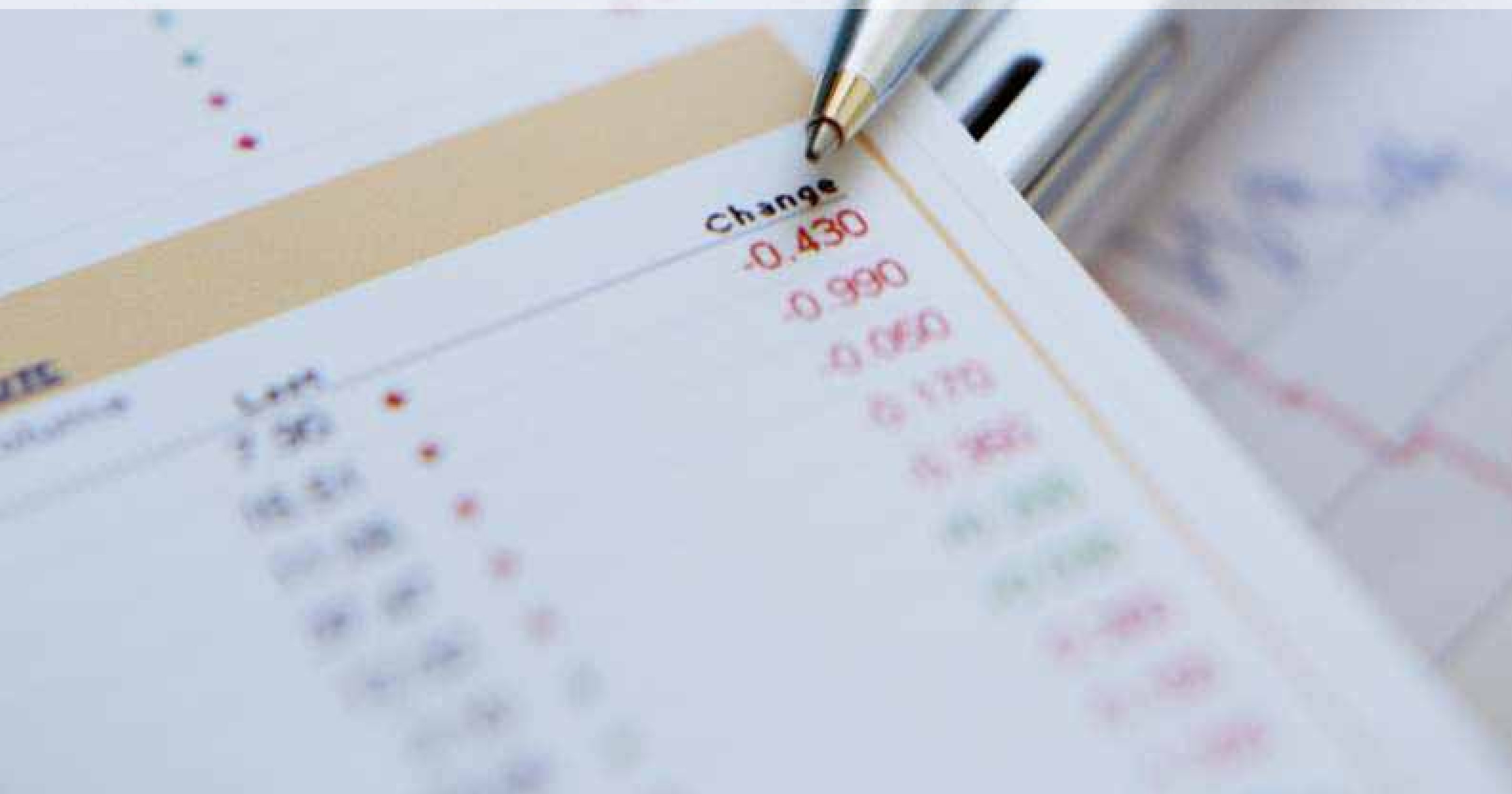


IFRS: Developing a Roadmap to Convergence

Convergence of accounting standards across the globe is gaining increasing momentum. Thus, while the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) continue to work closely on converging International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Standards in the United States (U.S. GAAP), the Institute of Chartered Accountants of India (ICAI) has released a 'Concept Paper on Convergence with IFRSs in India', which details the strategy and roadmap for convergence of Generally Accepted Accounting Standards in India (Indian GAAP) with IFRS effective April 1, 2011. Most standard-setting bodies have acknowledged that the ultimate goal of convergence is to have a single globally accepted financial reporting system. A combination of proposed convergence of national standards with IFRS and the direct use of IFRS in more than 100 countries means that the accounting languages of the world may ultimately converge to IFRS.

The convergence momentum has been accelerated by the decision of the U.S. Securities and Exchange Commission (SEC) to permit foreign companies listed in the U.S. to present financial statements in accordance with IFRS and a Concept Release by the SEC to permit U.S. domestic companies a choice to adopt IFRS.

These developments have triggered an emerging debate amongst corporate preparers, professionals, standard-setters and regulators in India, on the impact of these developments on corporate India. For example, the following questions have been raised and are being debated:

- What are the potential benefits of converging to IFRS?
- Is convergence realistic and feasible and what are the challenges to convergence in India?
- How would converging with IFRS affect the financial position and financial performance reported by corporate India and what are the significant areas of impact?
- How will companies consider the impact of these differences for internal business performance measurement and how will the investor community react to the impact due to adoption of IFRS?
- Are corporate India and individual companies geared to meet the April 1, 2011 deadline?
- What approach should be followed by individual companies to transition to IFRS?

- What expertise and resources are needed to ensure a successful conversion and is there sufficient technical expertise within corporate India and the accounting profession in India? How should India generate a sustainable pool of trained IFRS resources in the medium-term?

- What are the efforts and costs relating to conversion (both internal and external)?

KPMG has worked closely with organisations around the globe to answer similar questions and we are currently working with several Indian companies as they seek to address these questions in the Indian context. Through this publication, we seek to provide our perspective on several of these issues.

Our experience indicates that IFRS is more than just a technical accounting exercise and needs to be viewed as an important business priority. For many businesses, the IFRS revolution will have a significant impact on their financial position and financial performance, directly affecting the outcomes of valuation metrics that analysts use to measure and evaluate company performance. Major areas impacted will be business combinations, share-based payments, derivatives, investments and matters relating to correction of errors and changes in accounting policies.

Our experience also indicates that if large Indian companies need to publish IFRS financial statements for 2011-12 (which would require comparatives for 2010-11); work needs to start now. KPMG can assist you to make the start to develop a roadmap to convergence.

Russell Parera
Chief Executive Officer
KPMG in India

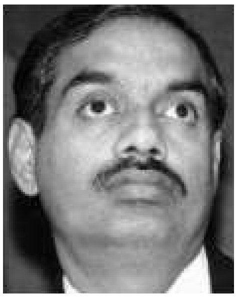
Jamil Khatri
Head - U. S. GAAP & IFRS Services
KPMG in India

Overview of IFRS and the global perspective

Overview of IFRS and global convergence developments

The IASB is a stand-alone, privately funded accounting standard-setting body established to develop global standards for financial reporting. It is the successor to the International Accounting Standards Committee (IASC), which was created in 1973 to develop International Accounting Standards (IAS). Based in London, the IASB assumed accounting standard-setting responsibilities from the IASC in 2001. Since that time, the standards that the IASB develops and approves have been known as IFRS. The term IFRS comprises IFRS issued by IASB; IAS issued by IASC; and Interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

IFRS are generally principles-based standards and seek to avoid a rule-book mentality. Instead, the application of IFRS requires exercise of judgment by the preparer and the auditor in applying principles of accounting on the basis of the economic substance of transactions. The IASB Framework establishes a general requirement to account for transactions in accordance with their substance, rather than only their legal form. This principle comes through very vividly in many IFRS. The IASB intends not to permit choices in accounting treatment, as its objective is to require like transactions and events to be accounted for and reported in a like way, and unlike transactions and events to be accounted for differently. Over a period, most accounting alternative choices are being eliminated from IFRS.



"The framework under IFRS is principles-based compared to U.S. GAAP (which is rule-book based) and provides greater flexibility on certain accounting policies like revenue recognition. At this stage, we are presenting our financial statements, for SEC purposes, under U.S. GAAP and we are comfortable reporting as per U.S. GAAP. Allowing foreign filers report under IFRS will provide them more flexibility as they are principle based."

Mr. Balakrishnan V - Chief Financial Officer of Infosys Technologies Limited

Over the years, the use of IFRS has increased throughout the world. More than 100 countries now require or allow the use of IFRS, and many other countries are replacing their national standards with IFRS. The European Union (EU), for example, under a regulation adopted in 2002, required companies incorporated in its member states and whose securities are listed on an EU regulated market, to report their consolidated financial statements using IFRS beginning with the 2005 financial year. It has been estimated that these requirements affected approximately 7,000 companies in the EU. In addition to financial statement

issuers in the 27 EU member states, these IFRS requirements apply in the three European Economic Area countries of Iceland, Lichtenstein and Norway. Other countries, including Australia and New Zealand have similar requirements mandating the use of IFRS by public companies. More countries have plans to adopt IFRS as their national accounting standards in the future. For example, diverse countries such as China and Canada have announced their plans to adopt IFRS from 2008 and 2011 respectively. By 2011, the number of countries requiring or permitting IFRS is expected to reach 150. The IASB co-operates with national accounting standards to achieve convergence in accounting standards around the world.

The U.S. SEC and the FASB have long advocated reducing disparity between the accounting and disclosure practices of the U.S. and other countries as a means to facilitate cross-border capital flow while ensuring adequate disclosure for the protection of investors and the promotion of fair, orderly and efficient markets. The FASB and the IASB signed a memorandum of understanding in 2002 that reflects the desire of the two boards for tangible progress on convergence of their respective standards. Both the boards are working on specific long-term and short-term projects towards convergence. Due to the convergence efforts of the IASB and the FASB, over the last five years, several conceptual and application differences between IFRS and U.S. GAAP have been eliminated.

The convergence of global accounting standards to IFRS gained further momentum when, in August 2007, the SEC permitted foreign companies that access capital in the U.S. capital markets and are listed on U.S. stock exchanges to file financial statements using IFRS without a reconciliation to U.S. GAAP. This permission is available with immediate effect for financial statements for calendar 2007. Additionally, the SEC issued a Concept Release that seeks inputs on whether domestic U.S. companies should be given a similar choice to adopt IFRS. In addition to the fundamental question of whether domestic U.S. companies should be given a choice to follow IFRS, the Concept Release sought inputs on several related matters. The SEC also organised Roundtable discussions in December 2007, to further discuss these matters. Panelists at these Roundtables generally agreed that the SEC should establish a timetable ending in a specific date at which U.S. public companies would be required to file IFRS financial statements, and strongly supported the goal of globally-accepted, high-quality IFRS.

These developments mark an important turning point in global financial reporting and standard-setting and are an important step to the ultimate objective of several standard-setters, to have a single globally accepted financial reporting system, which most likely would be IFRS.

"Convergence is going to happen; we are going to have one set of global accounting standards. And if I were a betting person, I would say it's a whole more likely that it's going to be IFRS, rather than U.S. GAAP. "

KPMG International's Chairman Timothy Flynn in his interview to The Business Times on December 26, 2007

Learning from the global experience

With the objective of analysing the adoption of IFRS by European companies, the EU commissioned a survey on the implementation of IFRS in the EU. The results of the survey indicated that IFRS implementation in Europe had been challenging, but successful and IFRS implementation was generally seen as a positive development for EU financial reporting. Specifically, there was a widespread agreement that IFRS made financial statements easier to compare (across countries, competitors within the same industry sector and across industry sectors), and improved the overall quality of the consolidated financial statements. The survey also indicated that larger companies especially had prepared early, and had devoted considerable resources to educating and training their boards, staff and investors. The experience of smaller companies was often very different from the larger companies, because of limited resources and lack of prior experience of IFRS.

The survey indicated several concerns and challenges along the path to IFRS adoption. Key concerns and challenges identified included:

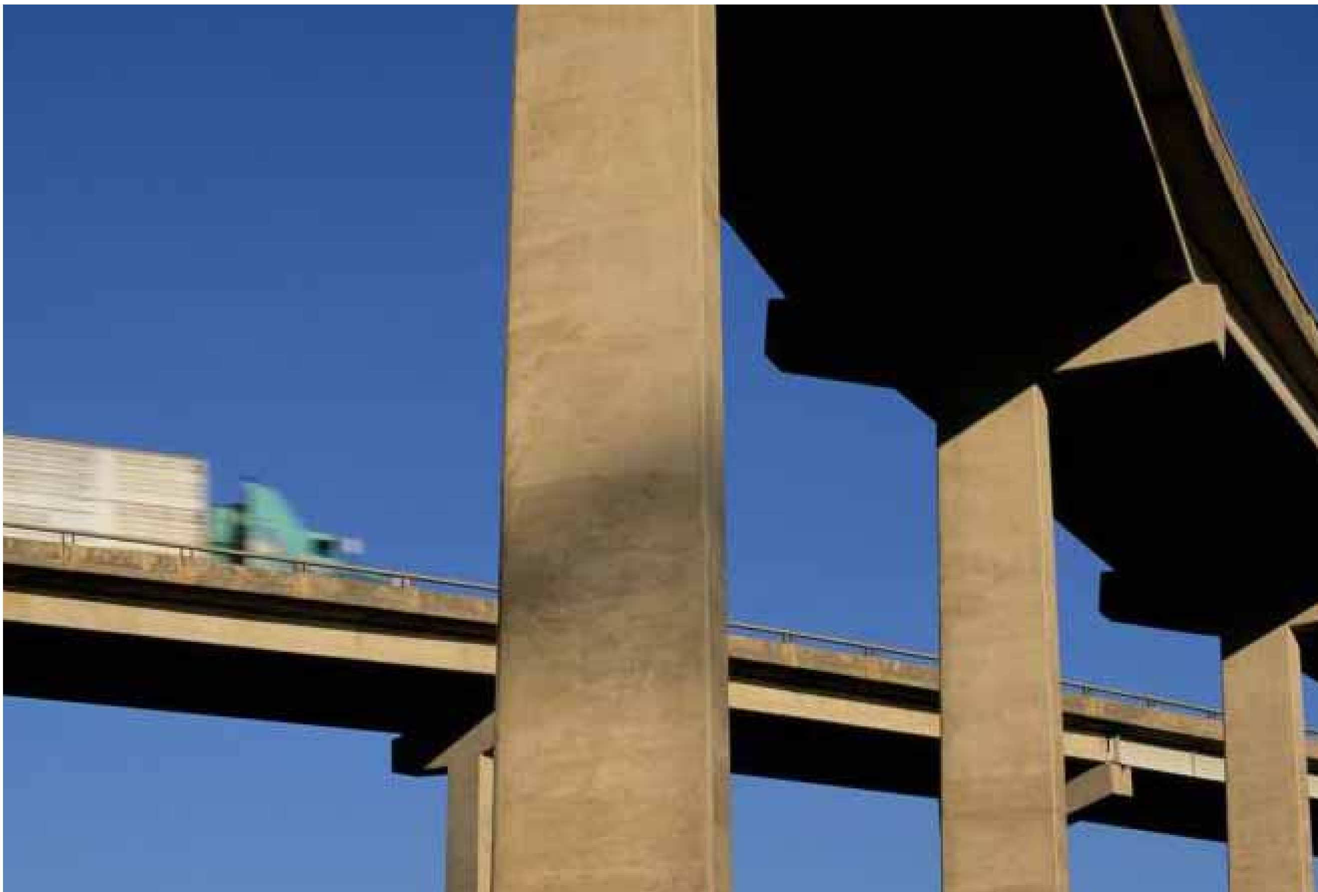
- Extensive training required for staff, investors and board members;
- Complexity of the new requirements as compared to legacy local standards making the IFRS financial statements more difficult to understand;
- Increased amount of judgment by preparers and auditors to apply the principle-based standards;
- Concerns about consistency of application;
- Extensive reliance on fair value measurements for standards relating to financial instruments and business combinations;

- Lack of internal knowledge and expertise and consequent reliance on external advisors and auditors; and

- Significant one-time costs of converting to IFRS (including costs of internal personnel time, adapting IT systems, implementing revised reporting policies and processes, training personnel and educating investors, analysts and members of the board).

The benefits and challenges to IFRS adoption were also discussed by panelists at the Roundtables organised by the SEC to seek inputs on adoption of IFRS by U.S. companies. The views of the panelists in the U.S. were generally similar to the experience of companies, investors and auditors in Europe. Panelists foresaw that adopting IFRS would facilitate comparing U.S. companies' financial statements to their global competitors, reduce the cost of capital formation for U.S. companies by giving them access to global capital and increase the competitiveness of U.S. capital markets. However, the panelists foresaw challenges relating to significant one-time costs and training and education requirements.

The above experiences and debates provide useful insight into benefits and challenges that Indian companies will face as they adopt IFRS.



India's roadmap to convergence

"Convergence means to achieve harmony with IFRSs; in precise terms convergence can be considered "to design and maintain national accounting standards in a way that the financial statements prepared in accordance with the national accounting standards draw unreserved statement of compliance with IFRSs."

As stated in the 'Concept paper on Convergence with IFRSs in India' issued by the ICAI

In line with the global trend, the ICAI has recently proposed a plan for convergence with IFRS for certain defined entities (listed entities, banks and insurance entities and certain other large-sized entities) with effect from accounting periods commencing on or after April 1, 2011. Large-sized entities are defined as entities with turnover in excess of Rs.1 billion or borrowings in excess of Rs.250 million. For other small and medium sized entities (SME), the ICAI has proposed the application of the proposed International Financial Reporting Standard for SME's (with or without modifications). The proposed standard represents a simplified set of standards for SME's with disclosure requirements reduced, methods for recognition and measurement simplified and topics not relevant to SME's eliminated. The convergence plan and strategy proposed by the ICAI is detailed in its Concept Paper on Convergence with IFRSs in India.

Given that accounting standard-setting in India is subject to direct or indirect oversight by several regulators such as the National Advisory Committee on Accounting Standards (NACAS) established by the Ministry of Corporate Affairs, Government of India, the Reserve Bank of India (RBI), the Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI), the ICAI would need to work closely with these regulators on the roadmap to convergence. Adoption of IFRS in India would accordingly require changes to the regulatory environment and the ability of the ICAI to move towards its planned full convergence by 2011 would be directly dependent on the pace of required regulatory change.

Even though the ICAI has been gradually issuing additional accounting standards and harmonising existing standards with IFRS, there are significant existing differences between Indian GAAP and IFRS. These differences can broadly be classified into:

- Differences due to the legal and regulatory environment: For example, while the IFRS require depreciation of all assets over their estimated useful lives, Indian GAAP mandates that the depreciation rates cannot be lower than the rates prescribed under the law;

- Differences due to the economic environment: For example, several IFRS that deal with investments, derivatives and other financial instruments; and business combinations extensively use the fair value concept and are based on the fair value approach, while corresponding Indian standards are generally based on the cost/carrying value approach;

- Differences due to the level of preparedness: For example, accounting for deferred taxes under IFRS is based on the balance sheet approach, but due to the fact that the concept of deferred taxes was newly introduced in India, the current Indian standard prescribes the income statement approach, which is easier to understand and implement; and

- Conceptual differences: For example, the Indian standard on intangibles is based on the concept that all intangible assets have a definite life, which cannot generally exceed 10 years; while IFRS acknowledge that certain intangible assets may have indefinite lives and useful lives in excess of 10 years are not unusual.

Additionally, certain differences between Indian standards and IFRS reflect the fact that the Indian standards were initially based on international standards, which have been subsequently updated and modified. Similarly, certain Indian standards eliminate and remove alternatives that are permissible under IFRS (for example, IFRS permit interest paid to be disclosed either as financing cash flows or as operating cash flows. The Indian standards eliminate this alternative and require that interest paid be reflected as a financing cash flow).

Elimination of these differences on adoption of IFRS may have a significant impact for corporate India. Major areas of differences are discussed later in this publication and a more detailed description of differences between Indian standards and the international standards (IFRS and U.S. GAAP) is provided as an Appendix to this publication.

Full and immediate adoption of IFRS would be a challenge in the Indian environment in view of the conflicting legal and regulatory requirements, and the technical preparedness of industry and accounting professionals. Accordingly, as part of its convergence strategy, the ICAI has classified IFRS into the following broad categories:

- Category I: IFRS which can be adopted immediately or in the immediate future in view of no or minor differences (for example, construction contracts, borrowing costs, inventories);

- Category II: IFRS which may require some time to reach a level of technical preparedness by the industry and professionals keeping in view the existing economic environment and other factors (for example, share-based payments, retirement benefits);

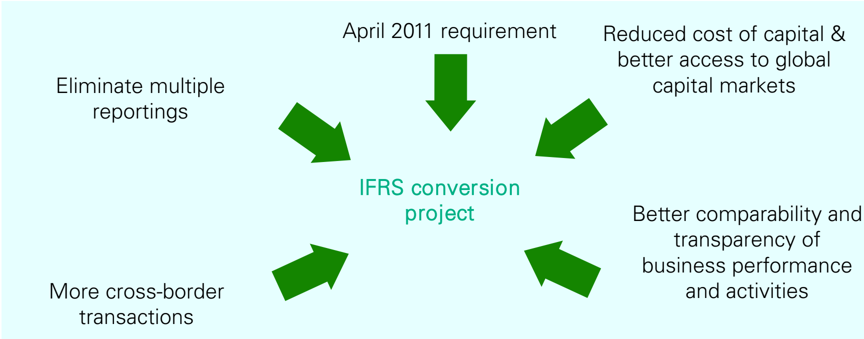
- Category III: IFRS which have conceptual differences with the corresponding Indian Accounting Standards and where further dialogue and discussions with the IASB may be required (consolidation, associates, joint ventures, provisions and contingent liabilities)

- Category IV: IFRS, the adoption of which would require changes in laws/regulations because compliance with such IFRS is not possible until the regulations/laws are amended (for example, accounting policies and errors, property and equipment, first-time adoption of IFRS)

The ICAI examined whether a stage-wise approach to convergence should be followed whereby certain IFRS are adopted immediately (Category I) and certain other IFRS are adopted within a short period of time, say two years (Category II and III) and the balance standards are adopted only when the laws and regulation are changed. However, the ICAI concluded that such a stage-wise approach may result in several application complexities and accordingly, consistent with the practice in several other countries and considering the challenges to transition, the ICAI has opted for an approach whereby all IFRS should be adopted for the defined entities for accounting periods commencing on or after April 1, 2011. The ICAI believes that this transition period till April 1, 2011 will enable all participants in the financial reporting process to help in building the environment supporting the adoption of IFRS. For example, preparers and auditors can reach the technical preparedness during this period; the ICAI can work with the IASB on the conceptual differences and can work with the regulators on necessary changes to the laws and regulations. The ICAI acknowledges that it is possible that all laws and regulations may not be amended to support adoption of IFRS by 2011 and in such cases where requirements of the IFRS are inconsistent with the laws and regulations, the latter will prevail. This approach ensures that while all participants have sufficient time to prepare for the transition, the transition is not indefinitely delayed just because certain laws and regulations have not been amended.

Benefits of convergence to IFRS

There is more to be gained from convergence to IFRS than just the approval of potential investors and compliance with legislative requirements. Companies in the European Union and across the globe that have adopted IFRS have realised a number of other advantages.



Drivers of IFRS conversion projects

IFRS significantly improves the comparability of entities

IFRS provides more comparability among sectors, countries and companies. Due to its universal appeal, it can both improve and initiate new relationships with investors, customers and suppliers across the globe, since financial statements in accordance with IFRS cut across borders. IFRS will facilitate better comparability of performance with other businesses and reporting under IFRS may also result in greater transparency about a company's activities to outsiders such as investors, customers and other business partners. As Indian businesses become more global in terms of their operations and investor base, IFRS would enable a comparison of Indian companies with global peers.

"IFRS reporting will improve comparability of reported business performance of Indian companies with comparable companies in other countries.   However, to be effective in availing of this benefit, an Indian company needs to communicate proactively with its investors, employees, analysts and other stakeholders; communicate impact on business performance reporting going forward and communicate measures to strengthen internal controls and risk management to deal with increased complexity in financial reporting."

Mr. Suresh C. Senapaty - Executive Vice President & Chief Financial Officer of Wipro Limited.

IFRS gives better access to global capital markets and reduces the cost of capital

IFRS are accepted as a financial reporting framework for companies seeking admission to almost all of the world's bourses. Currently, several companies that seek to raise capital and list securities in the U.S. capital markets or other exchanges such as the London Stock Exchange or the Alternative Investment Market in London may be required to convert their financial statements to IFRS to meet with the regulatory requirements or to meet expectations of the investment bankers and investors. In such cases, unless the entity has previously adopted IFRS, it would be required to convert its historical financial statements to IFRS for the purpose of the listing, which may result in delays and additional costs relating to a dual set of financial statements.

IFRS eliminates barriers to cross-border listings, by ensuring that financial statements are more transparent. Even in cases where listing on overseas exchanges is permitted using local (Indian) GAAP, international investors generally ascribe an additional risk premium if the underlying financial information is not prepared in accordance with international standards. Thus, adoption of global standards such as IFRS may reduce the risk premium and consequently the cost of capital.

Similarly, even companies raising capital and listed only on the local exchanges in India would be able to better attract international investors and reduce risk premium, by providing financial information that is more transparent and understandable for the international investor community. Further, IFRS financial information can also result in more accurate risk evaluations by international lenders and lower risk premium for international debt offerings.

As corporate India competes for access to capital on both the local and the global stage, IFRS reporting will provide greater transparency. The increased comparability of Indian companies' financial information, on adoption of IFRS, and the eventual better quality of communication to investors, will reduce investor's anxiety, reduce risk and eventually will minimise the cost of capital.

IFRS provides impetus to cross-border acquisitions

By providing transparent and comparable financial information, IFRS reporting provides an impetus to cross-border acquisitions, enables partnerships & alliances with foreign entities, and lowers the cost of integration in post-acquisition periods. Currently, if an Indian company acquires a foreign entity, the financial position on the date of acquisition and post-acquisition results of the foreign entity have to be converted from its local GAAP (which may be IFRS) to Indian GAAP. Similarly, if an overseas entity that follows IFRS acquires an Indian company, the post-acquisition financial information would need to be converted from Indian GAAP to IFRS, thereby increasing post-acquisition financial integration efforts and costs.

Will improve the quality and consistency of information, avoid multiple reporting and reduce cost of the finance function

Currently, different entities within the group, that reside in different jurisdictions may be required to prepare a dual set of financial statements for external financial reporting; one for local statutory financial reporting in the home country and second for reporting to the parent company (assuming that the parent company follows IFRS). This increases the efforts of the finance function, introduces complexity in financial reporting and increases costs of the finance function. Group-wide adoption of IFRS will eliminate the need for such multiple reporting, if IFRS is accepted or required in all countries of operation.

Similarly, internal management reporting under IFRS will also improve the quality and consistency of information that management needs in order to make effective and timely decisions for the business. IFRS reporting actively contributes to effective management of the business. When applied throughout a group's accounting processes, IFRS harmonises internal and external reporting by creating a single accounting language across the business. This puts an end to the problems of interpretation associated with using different accounting standards in each country of operation. The group-wide adoption of IFRS also provides an opportunity to streamline reporting processes and systems, with consequent improvements in the quality of management information and the speed with which it is produced. This also has the potential to deliver cost savings.

An IFRS balance sheet will be closer to economic value

Historical cost will be substituted by fair values for several balance sheet items, which will enable a corporate to know its true worth. For example, intangible assets acquired in business combinations will be recorded separately at fair value, and all financial instruments and investment properties will be reflected at fair values, thereby reflecting a better measure of the current value of the net assets of the entity.

"Indian GAAP gives Indian companies flexibility in deriving their numbers in case of a business combination and even courts have the power to direct the accounting treatment. Introduction of IFRS will increase uniformity since IFRS 3 gives consistent guidance on mergers, acquisitions and business combinations. The enhanced disclosures in financial statements under IFRS will give markets more meaningful information with which the performance of the company and the success of the acquisition can be evaluated."

Mr. R Sankaraiah, Executive Director of Finance of Jubilant Organosys Limited

Economic growth and opportunities for accounting professionals

Convergence with IFRS and to a globally accepted standard will result in growth in international business, higher cross-border capital flows and transactions and will provide an impetus to economic growth. For example, the International Federation of Accountants (IFAC) has recently released the results of its annual Global Leadership Survey. One of the key findings of the survey is that "convergence to a single set of both international accounting and auditing standards is very important to a country's economic growth and development".

Additionally, convergence with IFRS would also benefit the large pool of Indian accounting professionals who can develop IFRS skills and provide these skills to a global marketplace.

"IFRS will reduce compliance costs. Convergence with IFRS will catalyse the growth of Indian economy and put Indian chartered accountants in an advantageous position in the global market."

Mr. T V Mohandas Pai, Director (HR and Administration), Member of the Board, Infosys Technologies Ltd and the Trustee of IASB (www.deccanherald.com on December 18, 2007)

Challenges to convergence

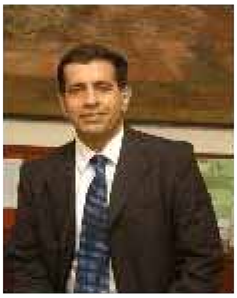
As evidenced by the global experience, convergence with IFRS would also pose significant challenges for corporate India. Additionally, there are certain specific challenges that are unique to India.

"Indian companies have gone global. Many Indian companies are listed abroad and publish financial statements under IFRS or US GAAP in compliance with the listing requirements. For other companies conversion to IFRS would present a challenge by way of more complex financial reporting requirements and resultant increase in costs; and availability of resources with expertise in IFRS. Similarly, from an overall perspective, amendments to regulatory requirements and tax laws would be required; and impact on IT systems and compensation structures would need to be evaluated."

Mr. Suresh C. Senapaty- Executive Vice President & Chief Financial Officer of Wipro Limited.

Changes to the regulatory environment

As discussed earlier, unlike several other countries, the accounting framework in India is deeply affected by laws and regulations. The success of the convergence effort in India will depend on co-operation received by the ICAI from the government, regulators (RBI, SEBI and IRDA), tax authorities, courts and tribunals. For example, the central government will have to prescribe IFRS as accounting standards under Section 211 of the Companies Act 1956. Regulators like SEBI, RBI and IRDA would need to accept IFRS in substitution of the present set of specific accounting rules prescribed by them. Corresponding amendments in taxation laws may also be required (for example, tax treatment of unrealised gains due to fair value measurements). A rule would need to be enacted that accounting treatment in any proposal/scheme submitted to any court for approval would need to comply with IFRS.



"The impact of IFRS adoption in India on the banking sector will be significant, particularly in the areas relating to financial instruments and derivative accounting, loan loss provisioning, ESOP accounting and accounting for fee income. Critical to the successful implementation of IFRS in the Indian context would be the level of regulatory sponsorship, the appropriate level of investment in systems and processes and consistency in market practices for areas where judgment is critical."

Mr. Anurag Adlakha, Chief Financial Officer of Standard Chartered Bank - India and South Asia

Lack of trained and experienced resources

Currently, India has an extremely limited pool of resources that have any form of training or experience in IFRS. Adoption of IFRS by approximately 5000 listed companies by 2011 would result in a significant demand for IFRS resources. Substantially all of these resources would need to be generated internally by training existing staff. Additionally, auditors would need to train their staff to audit IFRS financial statements, and regulators would need to understand the requirements of IFRS. The ICAI and other large professional services firms that have experience of IFRS due to their global presence would play a key role in training corporate India and accounting professionals. In the medium-term, it is important that training in IFRS be incorporated into colleges, universities and professional accounting syllabus of the ICAI, to broaden the pool of trained resources.

"The key challenges faced by Indian entities are to understand the IFRS accounting requirements and provide adequate training to their finance staff. Further regulators' understanding of IFRS implications will also be a challenge. They would need to reorient themselves and undergo training."

Mr. DD Jalan, Chief Financial Officer of Sterlite Industries (India) Limited

Business performance measurement and educating investors and Boards

As discussed earlier, due to the significant differences between Indian GAAP and IFRS, adoption of IFRS is likely to have a significant impact on the financial position and financial performance of most Indian companies. Additionally, the use of fair value measurements will increase income statement volatility. Management would need to re-evaluate internal performance management metrics and incentive structures to align them to IFRS. Similarly, considerable time and efforts would need to be spent on educating and communicating to investors, lenders, the analyst community and those charged with corporate governance of the entity (Board of Directors).

Greater complexity in the financial reporting process

Adoption of IFRS will result in consideration of several factors that were previously not relevant in the preparation of Indian GAAP financial statements. For example, in addition to significant use of judgment, while applying the principle-based IFRS, companies would need to increasingly use fair value measures in the preparation of financial statements. The use of fair value measures under IFRS is pervasive and would affect most entities. Companies, auditors, users and regulators would need to get familiar with fair value measurement techniques. It is likely that in the initial periods, this would increase complexity in the financial reporting process and may make financial statements more difficult to understand for certain class of users.

Significant one-time costs

Consistent with the global experience, it is likely that most companies will incur significant one-time costs relating to the adoption. These costs may include costs of training internal corporate staff, costs of modifying IT systems and other financial reporting systems and processes, increased audit costs, costs of educating various constituents such as investors, analysts and Board members. Some of these costs will represent cost of internal resources, while certain other costs will represent costs of external advisors.

Impact of key differences

Acquisitions and consolidated financial statements

Currently, only listed Indian companies and banks are required to prepare consolidated financial statements. All other entities issue only standalone financial statements. Adoption of IFRS would require all defined entities (which include large-sized entities that are not listed on stock exchanges) to prepare and present consolidated financial statements.

Under Indian GAAP, there is no comprehensive standard that addresses accounting for acquisitions where one entity obtains control of another entity. The accounting for such transactions is largely dependent on the form of the acquisition. For example, the accounting treatment may differ dependent on whether the acquired company is retained as a separate legal entity, whether it is legally merged with the acquirer or whether a group of assets constituting a business is acquired. To add to the complexity and confusion, if the acquired company is merged with the acquirer through a court-approved scheme, the scheme itself may prescribe an accounting treatment that is required to be followed, which may be in variation with the accounting standards. Thus, depending on the form of the arrangement and other factors, goodwill may be computed based on the book value of the assets of the acquired company or the fair value of the assets of the acquired company. Similarly, depending on the form of the arrangement, the resultant goodwill may either be amortised over a period or not amortised, but tested for impairment. In certain cases, the court-approved scheme may provide that the goodwill is adjusted against the reserves of the acquirer. Finally, Indian GAAP still permits the use of the pooling-of-interest method whereby the entire transaction is accounted based on carrying values and no goodwill arises.

Under IFRS, all acquisitions are generally accounted for using the purchase method whereby the purchase price is compared to the fair value of all identifiable tangible assets, liabilities, contingent liabilities and intangible assets of the acquired company, with the excess being recognised as goodwill. This goodwill is not amortised, but is assessed for impairment annually. The limited exception to this principle relates to acquisitions between entities under common control, whereby an entity can adopt an accounting policy choice of recognising the acquisition either by the purchase method discussed earlier, or by the pooling-of-interest method.

Another key area of difference relates to the date of acquisition from which the results of the acquired company are included in the consolidated financial statements. While conceptually, both Indian GAAP and IFRS prescribe consolidation from the date when control is obtained or the investment is acquired, in certain specific situations (for example, court-approved schemes), the scheme may provide for an acquisition date that precedes the date of investment or the date that control is actually obtained.

For most companies, application of the purchase accounting principles discussed above would result in an adjustment to the value of the assets and liabilities recorded, recognition of previously unrecorded intangible assets and consequent adjustments to goodwill balances. These adjustments would subsequently affect the post-acquisition consolidated results, generally through increased amortisation and depreciation. Additionally, the ability of companies to include, in the consolidated financial statements, the revenues and profits of the acquired companies, prior to the date of the investment or prior to the date that control is obtained, would also be restricted.

Intangible assets acquired

Under Indian GAAP intangible assets are generally recognised only if they are acquired separately. All intangible assets are amortised over their useful lives (and tested for impairment) and there is a rebuttable presumption that the useful life cannot exceed 10 years. Under IFRS, intangible assets are recorded either while accounting for acquisitions using the purchase method, or when intangible assets are acquired separately. IFRS acknowledges that certain intangible assets may have indefinite useful lives (for example, brands that demonstrate certain characteristics) and accordingly, such intangible assets are not amortised, but tested for impairment annually. Additionally, consistent with the treatment of all other depreciable assets, intangible assets are amortised over their estimated useful lives and there is no presumption that restricts the useful life.

On adoption of IFRS, Indian companies that may acquire certain long-lived brands and similar intangible assets, may reach a conclusion that these intangible assets, which are amortised under Indian GAAP, are no longer required to be amortised or that these assets can be amortised over longer periods of time that represent their economic useful lives.

Share-based payments to employees

Indian GAAP on share-based payment to employees (for example, employee stock options) provides entities with a choice to either adopt the intrinsic value method or the fair value method. Substantially all Indian companies have currently opted to adopt the intrinsic value method. Under this method, since most employee stock options are granted with an exercise price equal to the market price on the grant date, no compensation cost is recognised. IFRS mandates the use of the fair value method, whereby the fair value of the options is determined using an option pricing model such as the Black-Scholes model or the lattice model. This would usually result in recognition of compensation cost even if the options are in-the-money on the grant date.

On adoption, most Indian companies that have issued share-based payments may need to record previously unrecognised compensation cost relating to these award, based on the fair value approach.

Financial instruments

Financial instruments where Indian GAAP differs significantly from IFRS include financial assets such as investments, financial liabilities such as convertible debt and preference shares and derivative instruments.

Under Indian GAAP, long-term investments are generally carried at cost, less impairment; and current investments are carried at lower of cost or market value. IFRS requires that investments be categorised into three categories: trading or investment carried at fair value, held-to-maturity and available-for-sale. Except for held-to-maturity investments (where the entity has the intent and ability to hold the investment till maturity), all investments are carried at fair value. For investments categorised as trading, all unrealised gains and losses are recorded in the income statement. For investments classified as available-for-sale, the unrealised gains and losses are generally recorded directly as an adjustment to shareholders funds. Held-to-maturity investments are carried at amortised cost. It is likely that on adoption of IFRS, most investment securities held by Indian companies would be categorised as available-for-sale and accordingly would be carried at fair value. This would affect the reported value of the investment portfolio and net worth.

IFRS require that a financial instrument should be classified in accordance with the substance of the contractual agreement rather than its legal form (substance over form). Thus, redeemable preference share would be a financial liability and dividends on redeemable preference shares are recognised as interest expense under IFRS and impact the profits and loss for the year. This is different from the Indian GAAP classification of redeemable preference shares as equity and the related presentation of dividends on such preference shares as appropriation of profits. This would impact financial structures and debt-equity ratios.

Similarly, under IFRS, convertible debt is split into a liability and equity portion whereby the proceeds from the issuance of the debt are allocated to the two components. The liability component is recognised at fair value by discounting at a market rate for non-convertible debt, while the balance proceeds are allocated to the equity component and recorded directly in equity. This results in recognising effective interest expense using rates applicable to non-convertible debt. Under Indian GAAP, there is no specific accounting guidance for convertible debt and interest expense is generally recognised based on the stated rate of interest. Thus, if the stated rate of interest is lower than the market rate on non-convertible debt (due to the presence of the conversion feature), adoption of IFRS will result in additional interest expense based on this split-allocation approach.

Under IFRS, an entity must recognise all derivative instruments at fair value on the balance sheet. Unless certain specific rules for hedge accounting are met, all changes in fair value are recorded through the income statement. Indian GAAP currently provides limited guidance on accounting for derivatives. Thus, except for certain specific forward exchange contracts, most derivative instruments are currently not recorded on the balance sheet and do not affect the financial statements until realised/settled. The ICAI has already issued standards on presentation, recognition, measurement of financial instruments exactly on the basis of IFRS. However, these will be mandatory only from April 1, 2011. Adopting these standards in relation to derivative instruments and hedge accounting will be a monumental shift in accounting for a large number of items on the balance sheet which will lead to recognition of many financial instruments which are currently kept off-balance sheet. Additionally, unless specific hedge accounting requirements are met, these standards will result in significant income statement volatility impacted by changes in fair value of the derivative instruments.

Restatement of comparative financial statements for changes in accounting policies and correction of errors

Unlike Indian standards, where prior period items that represent correction of errors; and cumulative impact of change in accounting policies, are recorded as an adjustment in the current period, IFRS generally require accounting policy changes and correction of prior period errors to be made by adjusting opening retained earnings and restating comparatives. This is a relatively new concept for preparers, auditors, users, regulators, investors and analysts in India (although such restatements are required in certain limited situations that involve initial public offerings) and would require companies to clearly communicate with and educate investors and other users to highlight the impact of this change.

Presentation of financial statements

Financial statements presentation formats under Indian GAAP are primarily driven by regulatory requirements specified in the Indian Companies Act and other regulation for specific industries (for example, banking and insurance). Under IFRS, IAS 1 sets out detailed requirements for presentation of financial statements, including their structure and minimum requirements for content.

Under IFRS, in addition to the balance sheet, income statement and cash flow statement, either a statement of changes in equity (SOCIE) or a statement of recognised income and expenses (SORIE) with supplementary notes is required. A SORIE is a subset of SOCIE. An entity includes in SORIE revaluation reserve, unrealised gains or losses on valuation of available-for-sale investments, which are not reported through the income statement, but are directly adjusted to equity. When an entity elects to present a SORIE, the additional information regarding capital transactions with owners (issuance of equity, distribution of dividends), movements in accumulated profit and loss and a reconciliation of all other components of equity is presented in the notes to the financial statements. No such statements are required under Indian GAAP. However, the movement in capital and reserves and appropriation of profit and loss account is presented in the income statement and the balance sheet.

IFRS generally requires the balance sheet to clearly distinguish between current and non-current assets and liabilities. Schedule VI to the Indian Companies Act follows current-non-current distinction only to a limited extent.

Under IFRS, expenses can be classified by nature (salary, rent, power and fuel) or by function (cost of revenues, selling expenses, general and administrative). Schedule VI requires classification by nature.

Companies would need to carefully evaluate the presentation requirements of IFRS to identify incremental disclosures and changes to presentation requirements.

First time adoption of IFRS

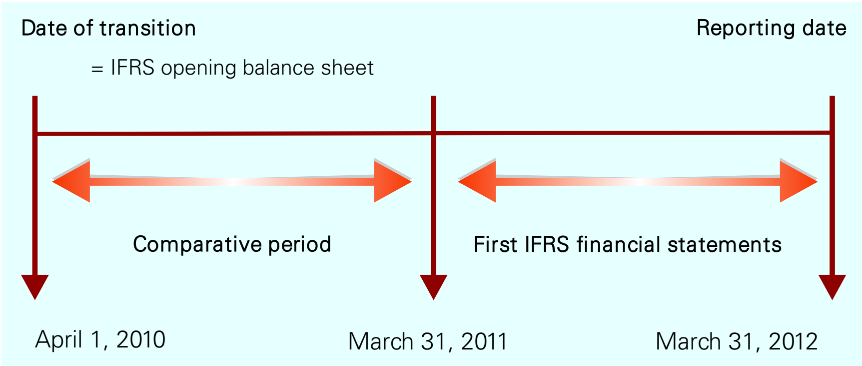
In general, IFRS 1 applies when an entity adopts IFRS for the first time as its basis of accounting by an explicit and unreserved statement of compliance with IFRS. IFRS 1 requires disclosures that explain how the transition from previous GAAP (for example, Indian GAAP) to IFRS affected the entity's reported financial position, financial performance and cash flows.

While the standard contains a general requirement that an entity must comply with each IFRS effective at the reporting date when it first adopts IFRS, and that these standards have to be retrospectively applied to all financial statements for previous periods, there are exemptions in specified areas where the cost of compliance would exceed benefits to users. As outlined in IFRS 1, the initial transition to IFRS involves:

- Selection of the accounting policies that comply with IFRS as on the reporting date;
- Preparation of an opening IFRS balance sheet at the date of transition to IFRS as the starting point for subsequent accounting under IFRS. The date of transition to the international standards is the beginning of the earliest comparative period presented in the entity's first IFRS financial statements;
- Determination of estimates under IFRS, for both the opening IFRS balance sheet and other periods presented in an entity's first IFRS financial statements; and
- Presentation and disclosures relating to the transition in an entity's first IFRS financial statements.

An entity is required to use the same accounting policies throughout all periods presented in its first IFRS financial statements, and also in its opening IFRS balance sheet. As stated earlier, those accounting policies shall comply with each IFRS effective at the reporting date for its first IFRS financial statements.

Statements that adopt IFRS effective April 1, 2011 and file their first IFRS financial statements for the year ending March 31, 2012, the entity would need to select accounting policies based on the prevailing IFRS as of March 31, 2012 and retrospectively apply all these policies and standards (subject to certain mandatory and permitted exemptions) to derive the opening IFRS balance sheet as of April 1, 2010. Adjustments arising from first-time application of IFRS on the date of transition are generally adjusted against the opening retained earnings on the date of transition.



Applying the principles for preparing the opening balance sheet based on a retrospective application of IFRS, would involve:

- Recognising all assets and liabilities whose recognition is required by IFRS and that were not previously recognised under Indian GAAP. For example, most derivative instruments would not have been recognised under Indian GAAP and would be recognised on adoption of IFRS;

- Derecognise assets or liabilities if IFRS do not permit such recognition. For example, if an entity has incurred voluntary retirement scheme expenses prior to a specified date, Indian GAAP may permit a deferral of such expenses. Any unamortsed expenses would need to be derecognised on adoption of IFRS;

- Reclassify items that the entity recognised under previous GAAP as one type of asset, liability or equity that are different types of assets, liabilities or equity under IFRS. For example, redeemable preference shares would need to be reclassified from equity to liability; and

- Apply IFRS principles in measuring all recognised assets and liabilities. For example, most investment securities are reported at historical cost under Indian GAAP. These investment securities would need to be measured at fair value on adoption of IFRS.

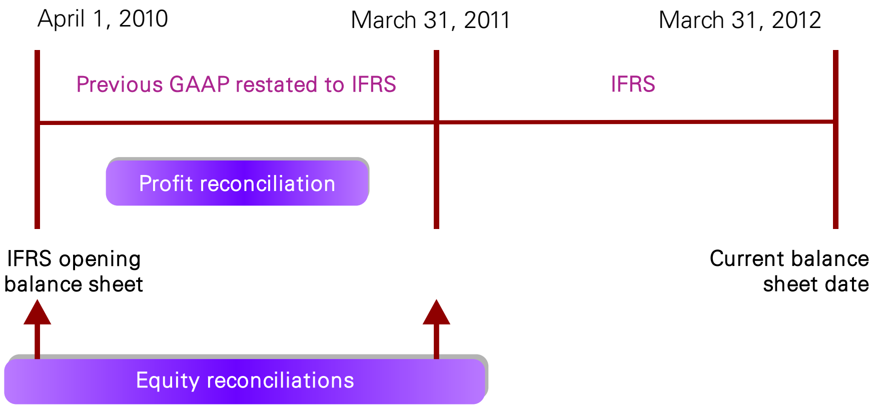
While preparing the opening balance sheet and retrospectively adopting IFRS, an entity may elect to avail of certain optional exemptions. These exemptions are available for varied areas such as acquisitions and business combinations, property, plant and equipment, intangible assets, investment property, employee benefits, exchange translation adjustments, compound financial instruments, share-based payments and leases. IFRS 1 provides specific guidance in relation to each of these exemptions. For example, in relation to acquisitions that are made prior to the date of transition, an entity may elect:

- To restate all historical acquisitions in accordance with the requirements of IFRS 3, Business Combinations; or
- Not to restate any historical acquisitions; or
- To restate all historical acquisitions after a particular date (for example, say 2 years prior to the date of transition).

These exemptions seek to ensure that the cost of retrospective application do not exceed the benefit to the users of the IFRS financial statements. Since a significant portion of the efforts of adopting IFRS would relate to the opening balance sheet, it is important that entities carefully consider the various specific exemption choices that are available to them and elect for exemptions that are meaningful in their specific situations.

Additionally, IFRS 1 provides for certain mandatory exemptions where retrospective application is not permitted. These exemptions generally seek to ensure that an entity does not use the benefit of hindsight to achieve a favorable accounting result (for example, transactions cannot be retrospectively designated as hedges).

Extensive disclosures would be required in the first IFRS financial statements to explain how the transition from previous GAAP (Indian GAAP) to IFRS affected the reported financial position, financial performance and cash flows of the entity. These disclosures include reconciliations of equity and reported profit or loss at the date of transition and at the end of the comparative period. The reconciliations must show the material adjustments made to amounts reported under previous GAAP in order to determine corresponding amounts presented under IFRS, together with explanations of the reconciling items. The correction of errors made under previous GAAP is identified separately. An entity that presented a cash flow statement under previous GAAP also must explain the material adjustments to its cash flow statement, if any.



Currently, there is lack of clarity on whether Indian entities that adopt IFRS effective April 1, 2011 would be required to follow the guidance in IFRS 1 discussed above, or whether the ICAI and the regulators would provide for another method of transition.

Critical success factors for IFRS conversion projects

KPMG's significant experience gained from working with many European, global and Indian companies on IFRS conversion projects of all sizes, indicates that there are a number of common critical success factors:

- strategy
- leadership
- communication
- resources
- knowledge
- project management
- Time

Strategy

Although with effect from 2011, Indian companies may have no choice about adopting IFRS, they can approach conversion in one of two ways:

- The conversion to IFRS of financial statements prepared under local accounting standards by various entities within the group, as part of the group consolidation process; or

- Implementing IFRS in the accounting process across the entire organisation, across geographies.

The second of these two options involves using IFRS as the trigger for harmonisation of internal and external reporting. Companies might also need to revisit the basis for calculating management incentive payments given the likely impact of IFRS on financial performance measures. The decision about which option to choose revolves around a company's intended use of IFRS and more importantly on whether IFRS is permitted or required in all geographies where the company operates. The broader its proposed application, the more sense it makes to implement IFRS throughout the accounting process. Our experience indicates that this course of action is the more efficient and effective, since it provides companies with an internal reporting language, which is fully consistent with their external reporting framework.

Leadership

Conversion to IFRS is nothing less than a major change programme. It requires senior management to take responsibility for the project and to demonstrate clear leadership and sponsorship throughout its implementation.

This is the only way to gain the widespread acceptance of change, which is required by conversion. Furthermore, the complexity of the process demands a high degree of priority from those assigned to its implementation; and those responsible day to day will need to be given enough time to do their job. They also need to be properly motivated.

Communication

The decision to convert to IFRS needs to be communicated to all those who will be affected by it. This is an essential task in mobilising the whole organisation behind conversion to IFRS. Effective communication of the conversion project's different elements is essential. There are both external and internal audiences involved:

- The company's employees, who should understand why the project is taking place, how it affects them and its progress at key points.
- Other stakeholders, including investors (especially institutional and analysts) and lenders, who need to be made aware of how IFRS conversion impacts the company's financial data.

"The key impact (of introduction of IFRS) would be on reporting business combinations and financial instruments, which are both driven by fair values under IFRS but not yet under Indian GAAP. Knowledge dissemination to the market at large would be required. In addition, detailed disclosures in the financial statements are an effective way of communicating the changing impact."

Mr. DD Jalan, Chief Financial Officer of Sterlite Industries (India) Limited

Resources

In deciding on the resources required to see conversion through to successful completion, there are a number of issues to be addressed, including:

- How many people are required;
- Who should be deployed on the project.

A core group of staff (the project team) will be needed to work on the conversion process. Depending on the size of the programme, some staff may be required on a full-time basis. These individuals will therefore have to be released from some or all of their other tasks for the project duration.

"Transition from national GAAP to IFRS is a huge task that requires early planning, drive and resilience. It requires top management to take responsibility for the project and to demonstrate clear leadership through implementation. A core conversion team needs to be established with sufficient manpower and resources. I think an external advisor can be very useful in the implementation process advising on underlying practical issues and quickly providing necessary IFRS expertise to our core IFRS implementation team"."

Mr. Ravi Sud, Chief Financial Officer of Hero Honda Motors Limited

Knowledge

The qualification for membership of the project team is knowledge. This is not just knowledge of the technical aspects of IFRS, equally important is:

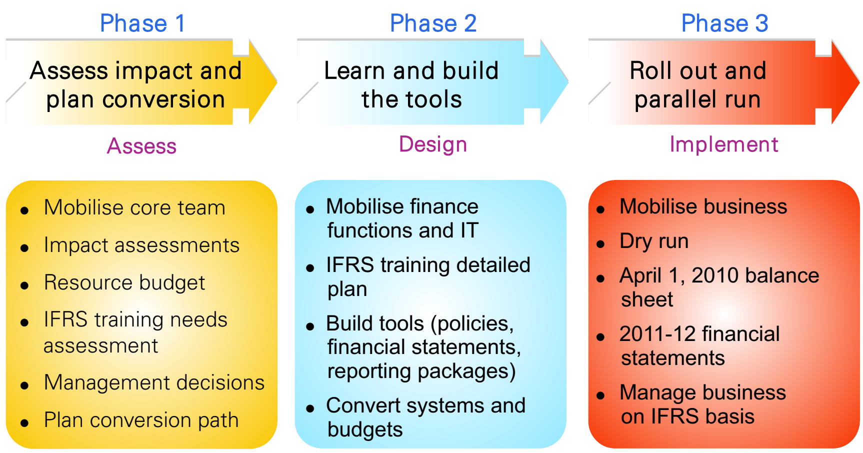
- A good overview of the company's business issues, together with the events and transactions that typically characterised company activity;
- Familiarity with the reporting processes currently in place and the technology that supports them; and
- An understanding of the methodologies and tools that will be used to implement IFRS within the company's reporting processes.

Since no one individual is likely to have all these skills, the project team needs to bring together people with a variety of different experience and expertise. Their challenge will then be to work effectively as a team towards the common goal.

Conversion teams typically need to include specialists with a wide range of professional backgrounds. These might include technical accounting, treasury, tax, legal, actuarial and systems experts, as well as specialists in human resources and project management. Some of the individuals required can be found internally, while others may need to be brought in from external advisers. Our experience indicates that auditors and other external advisors need to work closely with internal staff to ensure a smooth transition.

Project management

Complex tasks are easier when divided into manageable pieces. This is no less applicable to IFRS conversion projects which, once the decision to go ahead has been taken, can be broken down into key phases.



Assess

The Assess phase is essential in identifying what the major IFRS impact areas are for the organisation and agreeing the way forward on a "right first time" basis. It starts with the high level identification of the key areas of impact and an assessment of the likely degree of complexity the organisation is likely to face in converting to IFRS.

The impact of IFRS conversion needs to be considered in terms of four critical areas:

1. accounting and reporting issues;
2. the impact on the business;
3. how conversion affects systems and processes; and last but by no means least;
4. the implications for people.

The degree of complexity likely to be faced is the product of many different factors, and will be influenced by issues such as technical accounting matters, the number of countries the business operates in, the current state of financial reporting systems and processes, and the availability of internal resources with the appropriate technical skills and project management experience.

This phase includes a detailed assessment of the differences between the accounting standards currently in use (Indian GAAP) and those under IFRS. An assessment is also needed of how the new information requirements will affect management information systems, as well as the impact on the business and its key activities including acquisitions, alliances or joint ventures. The objective is to enable management to make informed decisions about the impact of IFRS and to determine a path forward which is cost effective and minimises disruption to the business.

In order to arrive at these decisions, the gaps need to be identified between old policies and procedures and the new ones required in following IFRS such as accounting and disclosure issues and the impact on statutory reporting. This also applies to gaps in systems and processes and training needs.

Having made an assessment of where the organisation is now and the position it needs to get to, a master conversion plan and budget can be developed for the conversion process. This includes formulating additional objectives and benefits, such as streamlining financial reporting processes or improving timeliness, which the organisation wants to derive from the conversion.

A multi-disciplinary team needs to be assigned to the IFRS conversion project to help make sure that the Assess phase is successfully completed.

Summary of steps in the 'Assess' phase

1. Identify the key dates and the date of transition to IFRS
2. Develop an IFRS training plan for accounting and finance personnel.
3. Identify differences in the relevant accounting policies.
4. Identify gaps in systems and processes to gather information needed under IFRS and the currently available information.

Design

The second phase is about mobilising the organisation for closing the gaps identified in the Assess phase. These might include, for example, a redevelopment of the reporting package, a transition programme for the harmonisation of local GAAPs followed in different geographies under IFRS, a plan for enhancing or speeding up the consolidation process, planning and implementing the necessary system changes, as well as developing a detailed training programme for financial and operational staff. This phase also involves developing a detailed timeline for a dry-run, data collection, testing and analysis. A rigorous project management plan is also essential.

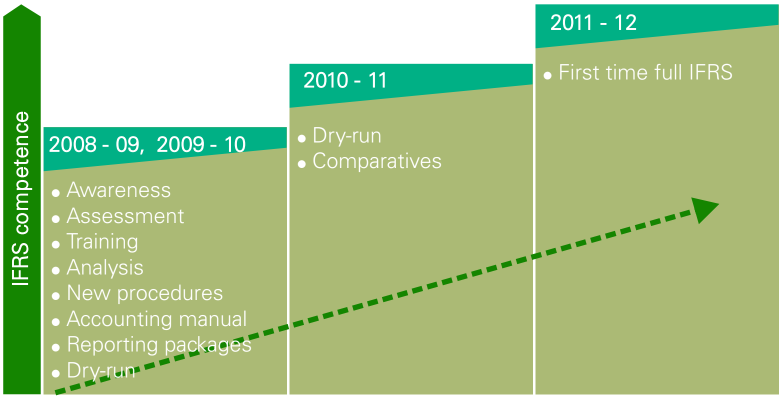
Summary of steps in the 'Design' phase

5. Redevelop reporting manual i.e., develop IFRS accounting manual modifying chart of accounts and containing detailed instructions.
6. Measure the impact of the differences identified on the latest financial prepared under Indian GAAP.
7. Apply latest version of IFRS consistently
8. Apply IFRS 1 which deals with first-time adoption of IFRS.
9. Identify permitted exemptions from specified IFRS as per IFRS 1.

Implement

This is where the plans are finally put into action and the businesses start to make IFRS part of their day-to-day operations.

The training programme needs to be rolled out so that everyone understands the new accounting regime, how to use the reporting packages and how to account for events and transactions under IFRS. The data-gathering process also needs to start at this point, including at least, a one-year parallel run to produce internal IFRS numbers for comparative purposes. At the same time, a mechanism should be established to make sure that technical questions about IFRS not covered in the accounting manual can be answered and immediate guidance is available on the project's organisational aspects.



Getting a good start

Finally, all the information gathered has to be consolidated to produce IFRS financial statements. Since it is unlikely that this process will work perfectly the first time, dry-runs of the procedures should be carried out. This will enable weaknesses to be identified, which can be eliminated before the organisation "goes live" with IFRS.

Summary of steps in the 'Implement' phase

10 Prepare an opening IFRS balance sheet at the date of transition to IFRS

11 Explain the impact of transition from previous GAAPs to IFRS as required by IFRS 1

12 Apply IFRS as business as usual.

Time

April 1, 2011 still seems some way off, but as previously discussed, one of the fundamental principles of IFRS is the need to adopt many of its requirements retrospectively at first time application that is, as though the company had always reported under IFRS. Meeting this requirement calls for accounting adjustments that often relate to events which took place several years ago, and it can be very difficult to generate all the necessary data from such a distant standpoint. Complete IFRS statements have to include comparative figures for the period before the one actually being reported. This means that for a company with a March 31 year end, in order to comply with IFRS for accounting period commencing on or after April 1, 2011, an IFRS balance sheet as at April 1, 2010 at the latest, will be required.

The earlier companies start the conversion process, the more time they will have to find and solve any teething problems.

How KPMG can help

Our track record

KPMG member firms across the globe have significant experience in IFRS projects and have worked extensively with several companies across the globe on IFRS adoption and IFRS conversion strategies. Similarly, over the last two years, we, at KPMG India have worked with several Indian companies that have adopted IFRS either for the purposes of accessing capital in overseas markets, for cross-border mergers and acquisitions activity, to meet the requirements of international investors or analysts, or for the purposes of reporting to overseas parent entities that report under IFRS. We currently work with more than 50 companies across different industry sectors that report under IFRS. Additionally, subsequent to the ICAI decision to plan for IFRS adoption from 2011, several large Indian companies have engaged us to understand the impact of adopting IFRS and to design and implement their IFRS conversion strategies.

Our large client base enables us to maintain a trained IFRS resource pool of more than 100 professionals. Additionally, we employ several senior professionals who have worked in Europe and assisted companies in the EU on IFRS adoption or have worked with our IFRS technical accounting group in London.

Tested tools and methodologies

Our coordinated approach is scaleable, tailored to individual needs and uses tested methodologies and tools. These not only play a key part in producing faster and better results; they also add value to management's decision-making in their own right. The global methodology used by us in providing IFRS conversion project assistance, revolves around five work streams;

1. Accounting and reporting
2. Business impacts
3. Systems and processes
4. People issues
5. Project management

Examples of the tools we use and the deliverables they can provide include:

Quick Scan - A high level analysis by ours IFRS specialists that provides a qualitative assessment of the impact IFRS conversion will have on a company's business activities, resources and financial statements. Quick Scan provides a powerful communication tool that can be used within the organisation to explain the impact of IFRS conversion in a clear and concise way.

Accounting and disclosure gap analyses - in key areas such as highlighting the differences between local GAAP and IFRS, peer comparisons, training assessments and conversion master plans. These reports help the management get a clear picture about the existing level of preparedness of their organisation and highlights issues that need to be tackled in securing a smooth and effective conversion.

IFRS Executive briefings - Tailored briefings on IFRS conversion with a focus on the issues that are relevant to Directors and senior executives. These include update presentations to debrief management on conversion issues, project progress and the next steps at key stages of an IFRS conversion project.

IFRS Training - Tailored training to reflect an organisation's specific requirements and recognising that IFRS conversion will have different and wide-ranging impact for individual organisations.

IFRS audit - Audit conducted in accordance with International Standards on Auditing (ISA) and IFRS.

Flexible, practical approach

As important as the right deliverables and tools, is the ability to provide a tailored approach. To anticipate changing events and adjust wherever necessary are equally critical to successful IFRS conversions. We pride ourselves on this ability, using our in-depth knowledge and experience to tailor our approach according to each company's business objectives. At the same time, we are committed to and strive to be involved with our clients before, during and after the conversion process. Our people will endeavor to be around when you want them to be and provide continuing support for as long as you need it. We also adopt a totally open approach to issues, encouraging teamwork with our clients to solve problems together. This second element is achieved through the close working relationships we develop with our clients. We have experienced trainers and IFRS training materials that we can quickly adapt to take into account the unique skill sets and knowledge requirements within each client organisation.

The net result is practical IFRS conversion assistance in which our knowledge is turned into real value.

In-depth knowledge

Our team of IFRS professionals in India is networked with KPMG's extensive global IFRS network, which together serves numerous companies globally, who report under IFRS. The global network is supported by KPMG's dedicated international centre of excellence, International Financial Reporting Group (IFRG) based in London. Our team in India includes professionals who have previously worked with IFRG.

As part of monitoring current and emerging IFRS developments, KPMG publishes a wide range of briefing material to make sure that our clients and professionals are kept fully up to date with the latest issues. These include illustrative IFRS financial statements, a series of detailed comparisons between local GAAPs and IFRS, accounting and disclosure checklists, and guides to particularly complex aspects of IFRS such as accounting for financial instruments.

KPMG's IFRS professionals also deliver tailored IFRS training throughout the world.

Next steps

If you would like to know more about KPMG's IFRS Services please contact your local KPMG contact or one of the IFRS professionals listed below:

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Appendix

IFRS compared to Indian GAAP and U.S. GAAP effective as at March 01, 2008

IFRS	Indian GAAP	U. S. GAAP
Form and components of financial statements		
The following must be presented: • balance sheet • income statement • statement of changes in equity or a statement of recognised gains and losses • statement of cash flows • notes, including accounting policies	The Companies Act, 1956 requires: • balance sheet • profit and loss account The Act does not prescribe preparation of separate statement of changes in equity or a statement of recognised gains and losses. However, the movement in capital and reserves and appropriation of profit, etc. is presented in profit and loss account and balance sheet. Cash flow statement is mandatory for companies other than small and medium sized companies. AS 1 requires disclosure of all significant accounting policies.	Like IFRS, the components of a complete set of financial statements are: • balance sheet • income statement • statement of comprehensive income (recognised income and expense) and changes in shareholders equity • statement of cash flows, and notes including accounting policies • Unlike IFRS, a combined statement of income and comprehensive income may be presented
Balance sheet		
Generally an entity must present its balance sheet classified between current and non-current. An unclassified balance sheet based on the order of liquidity is acceptable only when it provides reliable and more relevant information. While IFRS require certain items to be presented on the face of the balance sheet, there is no prescribed format.	The Companies Act, 1956 gives the format in which the balance sheet is to be prepared- horizontal and vertical format. A company can prepare its balance sheet in either of the formats. For banking and insurance entities, formats are prescribed by the relevant Acts governing these entities.	Unlike IFRS, U.S. GAAP does not contain a requirement to present a classified balance sheet. Unlike IFRS, there is no restriction on when an unclassified balance sheet based on the order of liquidity can be presented. Unlike IFRS, SEC regulations prescribe the format and certain minimum line item disclosures for SEC registrants. For non-SEC registrants, there is limited guidance on the presentation of the balance sheet, like IFRS.
Income Statement or Profit and loss account		
While IFRS require certain items to be presented on the face of the income statement, there is no prescribed format. An analysis of expenses is required, either by nature or by function, on the face of the income statement or in the notes.	Though no format has been prescribed for the profit and loss account, the Companies Act 1956 gives a list of items which must be disclosed in profit and loss account. Similarly, for banking and insurance entities, formats are prescribed by the relevant Acts governing these entities.	Unlike IFRS, SEC regulations prescribe the format and certain minimum line item disclosures for SEC registrants. For non-SEC registrants, there is limited guidance on the presentation of the income statement, like IFRS. Unlike IFRS, there is no requirement for expenses to be classified according to their nature or function. SEC regulations prescribe expense classification requirements for certain specialised industries, unlike IFRS.

IFRS	Indian GAAP	U. S. GAAP
Comparative information		
Comparative information is required for the preceding period only, but additional periods and information may be presented.	Like IFRS, one year comparative information is required.	Unlike IFRS, U.S. GAAP does not require comparative information. However, SEC registrants are required to present balance sheets as of the end of the current and prior reporting periods, like IFRS, and all other statements for the three most recent reporting periods, unlike IFRS.
Consolidated financial statements		
An entity having a subsidiary must present consolidated financial statements unless specific criteria are met. Separate financial statements of a parent that presents consolidated financial statements are not required. Even where these are presented, they are not mandatorily appended to or accompany, consolidated financial statements.	There is no mandatory requirement under the Companies Act, 1956 for an entity to present consolidated financial statements. Accounting standards also do not mandate an entity to present consolidated annual financial statements. Listed companies on a stock exchange present consolidated financial statements in addition to the financial statements presented (on legal entity basis). Banks are required to present consolidated financial statements.	Unlike IFRS, there is no exemption from preparing consolidated financial statements for a parent entity. Unlike IFRS, an entity must prepare consolidated financial statements when it had at least one subsidiary at any time during the current reporting period.
Offsetting		
A financial asset and a financial liability are offset and reported net only when the entity has a legally enforceable right to the offset and it intends either to settle on a net basis or to settle both amounts simultaneously. Specific offsetting rules exist for deferred tax assets and liabilities and defined benefit plan assets and obligations. Non-financial assets and liabilities cannot be offset under IFRS.	No specific guidance is available under the Indian GAAP.	Like IFRS, the offsetting of financial assets and liabilities is permitted only when there is a legally enforceable right of offset and the intention is to net-settle the amounts. Additionally, U.S. GAAP contains specific guidance on offsetting positions under a master netting agreement, which may give rise to differences from IFRS in practice. Like IFRS, specific offsetting requirements exist for deferred tax assets, and liabilities and plan assets and obligations in a defined benefit plan. Like IFRS, non-financial assets and liabilities cannot be offset. Unlike IFRS, U.S. GAAP specifically requires offsetting for other specific arrangements, including leveraged leases.
Extra-ordinary items		
The presentation or disclosure of items of income and expense characterised as "extraordinary items" is prohibited.	The presentation or disclosure of items of income and expense characterised as "extraordinary items" is required.	Unlike IFRS, the presentation of certain items as "extraordinary items" is required. An extraordinary item is one that is both unusual in nature and infrequent in occurrence.

IFRS	Indian GAAP	U. S. GAAP
True and fair presentation		
The overriding requirement of IFRS is for the financial statements to give a fair presentation (true and fair view). Compliance with IFRS, with additional disclosure when necessary, is presumed to result in a fair presentation. When compliance with a standard or interpretation would be misleading, an entity departs from the required treatment in order to give a fair presentation, if the relevant regulator does not prohibit the override. If an override cannot be used because it is prohibited by the regulator, then additional disclosure is required in the notes to the financial statements. In such cases extensive disclosures are required, including details of the departure, the reasons for the departure and its effect. The use of a true and fair override is very rare under IFRS.	The Companies Act, 1956 requires financial statements give to true and fair view of the state of affairs and its profit or loss. The Act also requires compliance with accounting standards. As per ICAI, any material departure from accounting standards would result in an audit qualification, implying that no departure from accounting requirements of a mandatory standard is permitted. Where there is a conflict between an accounting standard and the Companies Act or other regulatory requirements, the Act/regulatory requirements prevail.	Unlike IFRS, the objective of U.S. GAAP is fair presentation in accordance with U.S. GAAP, which is more restrictive than the requirement under IFRS. Like IFRS, when, due to unusual circumstances, compliance with a standard or interpretation would be misleading, an entity must depart from the standards so that the financial statements will not be misleading, in which case the entity must disclose the effects of the departure and why compliance would render the financial statements misleading. However, use of such an override does not occur in practice.
Basis of accounting		
IFRS require financial statements to be prepared on a modified historical cost basis, with a growing emphasis on fair value. The carrying amounts of the following assets and liabilities are based on fair value subsequent to initial recognition: • All derivatives, all financial assets and financial liabilities held for trading or designated at fair value through profit or loss, and all financial assets classified as available-for-sale, are measured at fair value • Provisions are measured at fair value, which is derived by discounting estimated future cash flows • Whole classes of property, plant and equipment may be revalued to fair value, subject to certain conditions • Certain intangible assets may be revalued to fair value • Investment property may be measured at fair value • Cash-settled share-based payment awards are revalued to fair value until settlement Additionally, discounting and value-based measurements are an integral part of financial reporting under IFRS in some areas, including impairment testing.	Indian GAAP requires financial statements to be prepared on historical cost but fixed assets, other than intangibles, may be revalued. Discounting and value-based measurements are required in impairment testing.	Like IFRS, financial statements are prepared on a modified historical cost basis, with a growing emphasis on fair value However, the definitions under IFRS and U.S. GAAP are not identical, differences from IFRS may arise in practice. As described below, U.S. GAAP differs from IFRS in respect of the underlying measurement basis of some items: • All derivatives, all investments held for trading, all investments in securities classified as available-for-sale, and financial instruments for which the fair value option is elected are measured at fair value, like IFRS • Provisions (referred to as contingencies under U.S. GAAP) generally are not recognised at fair value, and generally are not subject to discounting, unlike IFRS • The revaluation of property, plant and equipment to fair value is not permitted under U.S. GAAP, unlike IFRS • The revaluation of intangible assets to fair value is not permitted under U.S. GAAP, unlike IFRS • Investment property is not permitted to be measured at fair value under U.S. GAAP, unlike IFRS • Liability-classified (cash-settled) share-based payment awards are revalued to fair value until settlement, like IFRS Like IFRS, fair value measurements are integral to certain aspects of financial reporting, such as impairment testing. Unlike IFRS, while discounting is used for non-current financial instruments, generally it is not permissible to discount provisions under U.S. GAAP.

IFRS	Indian GAAP	U. S. GAAP
Substance over form		
Transactions should be accounted for in accordance with their substance, rather than only their legal form.	Like IFRS, transactions should be accounted for in accordance with their substance, rather than only their legal form.	Unlike IFRS, there is no general principle that transactions should be accounted for in accordance with their substance, rather than only their legal form.
Accounting policies, errors and estimates		
Generally accounting policy changes and corrections of prior period errors are accounted for retrospectively by restating opening equity and comparatives, unless impracticable.	The overall impact of Indian GAAP requirements and practice is that accounting policy changes generally are given prospective effect (except that a change in depreciation method is specifically required to be effected retrospectively with consequent adjustment in the profit and loss account of the year of change). Error corrections (prior period items) have to be recognised in the current profit and loss account. Indian GAAP do not have the concept of restatement of comparatives except in special-purpose financial statements prepared for public offers.	Like IFRS, accounting principle changes generally are made by adjusting opening equity and comparatives, unless impracticable. Unlike IFRS, errors must be corrected by restating opening equity and comparatives, with no impracticality exemption.
Change in the method of depreciation is a change in accounting estimate.	Unlike IFRS, change in the method of depreciation on tangible fixed assets is regarded as a change in accounting policy and its effect is quantified and disclosed.	Like IFRS, change in the method of depreciation is a change in accounting estimate.
Revenue		
Under IFRS, revenue recognition is based mainly on a single standard that contains general principles that are applied to different types of transactions. There is limited supplemental industry-specific guidance on revenue recognition.	Like IFRS, revenue recognition is based mainly on a single standard that contains general principles that are applied to different types of transactions. There is limited supplemental industry-specific guidance on revenue recognition.	Unlike IFRS, there is extensive guidance on revenue recognition specific to industry and type of contract e.g., real estate, cable television and broadcast companies, agriculture, brokers and dealers, insurance, software and film producers. Because the definition of revenue under IFRS differs from U.S. GAAP, it is possible that differences may arise in practice, although the overall principle is the same as for IFRS.
Revenue from the sale of goods is recognised when the entity has transferred the significant risks and rewards of ownership to the buyer, it no longer retains control or managerial involvement in the goods and it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.	Unlike IFRS, the Indian standard does not list lack of continuing managerial involvement and measurability of cost among the criteria for revenue recognition. Additionally, Indian Accounting standard also permits revenue recognition when the seller has transferred to the buyer the property in the goods.	Like IFRS, revenue from the sale of goods is recognised when the entity has transferred the significant risks and rewards of ownership to the buyer and it no longer retains control or managerial involvement in the goods. However, the detailed criteria underlying these principles are different from those under IFRS.

IFRS	Indian GAAP	U. S. GAAP
Revenue		
Revenue from service contracts is recognised in the period that the service is rendered, generally using the percentage-of-completion method. The completed contract method is not permitted.	Revenue from rendering of services is recognised using percentage of completion method or completed contract method, whichever relates the revenue to work accomplished. The selection of the revenue recognition method is based on the nature of services rather than on degree of reliability of the outcome.	Like IFRS, revenue from service contracts is recognised in the period that the service is rendered. However, unlike IFRS, revenue from services generally is recognised using the proportional performance or straight-line method rather than the percentage-of-completion method.
There is no specific guidance on software revenue recognition.	Like IFRS, there is no specific guidance on software revenue recognition.	Unlike IFRS, there is detailed guidance on software revenue recognition.
Revenue is recognised for barter transactions unless the transaction is incidental to the entity's main revenue-generating activities or the items are exchanged for items that are similar in nature and value.	Unlike IFRS, Indian GAAP does not deal with exchange of goods or services.	Unlike IFRS, U.S. GAAP does not require an exchange of dissimilar items in a barter transaction to recognise revenue. No revenue is recognised for barter transactions that facilitate sales to customers.
Employee benefits		
Liabilities for employee benefits are recognised on the basis of a legal or constructive obligation.	Like IFRS, liabilities for employee benefits are recognised on the basis of a legal or constructive obligation.	Like IFRS, liabilities for postretirement benefits are recognised on the basis of a legal or constructive obligation. Other types of employee benefits are recognised as the benefits accumulate if other criteria are met, unlike IFRS.
Under IFRS, actuarial gains and losses of defined benefit plans are recognised either in profit or loss, or immediately directly in equity. Amounts recognised directly in equity are not recycled to profit or loss. If actuarial gains and losses of a defined benefit plan are recognised in profit or loss, then gains and losses that exceed a "corridor" generally are required to be recognised over the average remaining working lives of employees in the plan. Faster recognition in profit or loss is permitted. The corridor is 10 percent of the greater of the obligation and the fair value of plan assets at the beginning of the period.	Unlike IFRS, the Indian standard does not allow recognising actuarial gains and losses directly in equity. These should be recognised immediately in the profit and loss account. The Indian standard also does not allow corridor approach.	Like IFRS, actuarial gains and losses that are not included in profit or loss are recognised in other comprehensive income (OCI). Amounts recognised in accumulated other comprehensive income (AOCI) are recycled to profit or loss, unlike IFRS. Like IFRS, actuarial gains and losses that exceed a "corridor" generally are recognised over the average remaining working lives of active employees in the plan. Faster recognition in profit or loss is permitted, like IFRS. Unlike IFRS, the corridor is 10 percent of the greater of the obligation and the market related value, rather than the fair value, of plan assets at the beginning of the period.
Liabilities and expenses for vested past service costs under a defined benefit plan are recognised immediately in profit or loss. Liabilities and expenses for unvested past service costs under a defined benefit plan are recognised over the vesting period in the profit or loss.	Like IFRS, liabilities and expenses for vested past service costs under a defined benefit plan are recognised immediately in profit or loss. Liabilities and expenses for unvested past service costs under a defined benefit plan are recognised over the vesting period in the profit or loss.	Unlike IFRS, prior (past) service costs are recognised initially in OCI, and both vested and unvested amounts generally are amortised from AOCI to profit or loss over the average remaining service period.

IFRS	Indian GAAP	U. S. GAAP
Share-based payments		
Detailed accounting standard on all share-based payments (SBP) is available.	A guidance note is available for employee share-based payments. For listed companies, SEBI guidelines on the subject are applicable.	Like IFRS, detailed accounting standard on all share-based payments is available.
Goods or services received in a share-based payment transaction are measured at fair value. An intrinsic value approach is permitted only when the fair value of the equity instruments cannot be estimated reliably.	Unlike IFRS, share-based payment transaction can be accounted for either by the fair value method or the intrinsic method. However, an entity using the intrinsic method is required to make extensive fair value disclosures.	Like IFRS, goods or services received in a share-based payment transaction are measured at fair value. Like IFRS, an intrinsic value approach is required in the rare circumstance that the fair value of the equity instruments cannot be estimated reliably. However, unlike IFRS, all non-public entities may apply an intrinsic value approach for liability-classified share-based payments as an accounting policy election.
Cash-settled share-based payments are within the scope of the share-based payment standard. However, there is no explicit guidance when the liability is settled by a shareholder or another group entity.	Guidance given in the guidance note is same as IFRS. However, there is no specific guidance under the SEBI guidelines.	Unlike IFRS, liability classified (cash-settled) share-based payments are within the scope of the share-based payment standards even if settled by another group entity or a shareholder.
Awards with graded vesting are accounted for as a separate share-based payment arrangements.	Under the guidance note, awards with graded vesting may be accounted for as a separate share-based payment arrangements, like IFRS; or on a straight-line basis over the total service period of the award. However, when following straight-line basis the cost recognised at any date must at least equal the fair value of the vested portion of the award at that date. Like IFRS, under the SEBI guidelines awards with graded vesting are accounted for as a separate share-based payment arrangments.	Awards with graded vesting may be accounted for as a separate share-based payment arrangements, like IFRS; or ratably over the period of the longest vesting tranche, subject to a "floor" that the minimum amount of cumulative compensation cost recognised cannot be less than the portion of the award vested to date, unlike IFRS.
Share-based payments to non-employees generally are measured at the date(s) that the goods are received or services are rendered, based on the fair value of the goods or services received.	There is no specific guidance under Indian GAAP.	Unlike IFRS, share-based payments to non-employees generally are measured at the earlier of the completion of performance and the performance commitment date, based on the fair value of the instruments issued. However, if the fair value of the goods or services can be determined objectively, then their value may be used instead, like IFRS.

IFRS	Indian GAAP	U. S. GAAP
Income taxes		
Deferred tax liabilities and assets are recognised for the estimated future tax effects of temporary differences and tax loss carry-forwards. A temporary difference is the difference between the tax base of an asset or liability and its carrying amount in the financial statements.	The approach to deferred taxation under Indian GAAP is different from that underlying IFRS. Under Indian GAAP, deferred taxes are tax consequences of timing differences. Timing differences is a term narrower than temporary differences.	The approach is same as IFRS.
A deferred tax liability is not recognised if it arises from the initial recognition of goodwill. However, any temporary difference is recognised subsequently if the goodwill is tax deductible.	As the approach is different, this is not applicable under Indian GAAP.	Like IFRS, a deferred tax liability is not recognised if it arises from the initial recognition of goodwill. However, like IFRS, any temporary difference is recognised subsequently if the goodwill is tax deductible.
A deferred tax liability (asset) is not recognised if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit.	It is accounted as a permanent difference under Indian GAAP.	Unlike IFRS, there is no exemption from recognising a deferred tax liability (asset) for the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit.
Deferred tax is not recognised in respect of investments in subsidiaries, associates and joint ventures if certain conditions are met.	Tax expense as appearing in the separate financial statements of parent and subsidiaries are added together for the purpose of consolidated financial statements.	Like IFRS, deferred tax is not recognised in respect of investments in foreign subsidiaries if certain conditions are met; however, the conditions differ from IFRS. Unlike IFRS, deferred tax always is recognised in respect of investments in equity-method investees (associates).
Deferred tax is measured based on rates and tax laws that are enacted or substantively enacted at the reporting date.	Like IFRS, deferred tax is measured based on rates and tax laws that are enacted or substantively enacted at the reporting date.	Unlike IFRS, deferred tax is measured based on rates and tax laws that are enacted at the reporting date.
Property, plant and equipment, intangible assets, research and development		
Property, plant and equipment are recognised initially at cost. IFRS permit revaluation of property, plant and equipment to fair value if fair value can be measured reliably. All items in the same class are revalued at the same time and the revaluations are kept up to date.	Like IFRS, property, plant and equipment is recognised initially at cost. Like IFRS, Indian GAAP permits revaluation of property, plant and equipment to fair value if fair value can be measured reliably. Unlike IFRS, revaluation of the entire class of assets is not mandatory. There is no current requirement on frequency of valuation.	Like IFRS, property, plant and equipment is recognised initially at cost. Unlike IFRS, the revaluation of property, plant and equipment is not permitted.
When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is depreciated separately.	Component approach is not mandatory under Indian GAAP. However, the standard recognises that in certain circumstances, the accounting for an item of fixed asset may be improved if the total expenditure thereon is allocated to its component parts, provided they are in practice separable, and estimates are made of the useful lives of these components.	Unlike IFRS, component accounting is permitted but not required.

IFRS	Indian GAAP	U. S. GAAP
Property, plant and equipment, intangible assets, research and development		
Intangible assets generally are recognised initially at cost, which is the fair value of the consideration given. Intangible assets may be revalued to fair value only if there is an active market.	Like IFRS, intangible assets generally are recognised initially at cost, which is the fair value of the consideration given. However, Indian GAAP do not permit revaluation of intangible assets.	Like IFRS, direct-response advertising, software developed for internal use, and software developed for sale to third parties are recognised initially at cost. Other intangible assets generally are recognised at fair value, which usually equals the fair value of the consideration given, like IFRS. Unlike IFRS, intangible assets cannot be revalued.
An intangible asset with a finite life is amortised on a systematic basis over its useful life. There is no presumption under IFRS regarding useful life of an intangible asset.	Unlike IFRS, there is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years.	Like IFRS, an intangible asset with a finite life is amortised on a systematic basis over its useful life.
Internal research expenditure is expensed as incurred. Internal development expenditure is capitalised if specific criteria are met. These capitalisation criteria are applied to all internally developed intangible assets.	Like IFRS, internal research expenditure is expensed as incurred. Internal development expenditure is capitalised if specific criteria are met. These capitalisation criteria are applied to all internally developed intangible assets.	Unlike IFRS, both internal research and development expenditure is expensed as incurred. Special capitalisation criteria apply to direct-response advertising, software developed for internal use, and software developed for sale to third parties, which differ from the general criteria under IFRS.
Impairment testing		
Annual impairment testing is required for goodwill, and intangible assets that either are not yet available for use or have an indefinite useful life. This impairment test may be performed at any time during an annual reporting period provided that it is performed at the same time each year.	Annual impairment is required for an intangible asset that is not yet available for use and an intangible asset that is amortised over a period exceeding 10 years from the date when the asset is available for use. Annual impairment testing for goodwill is not required. Impairment testing is required at each reporting date for any asset when there is an indication of a possible impairment (a triggering event).	Like IFRS, annual impairment testing is required for goodwill and intangible assets that have an indefinite useful life. Unlike IFRS, intangible assets not yet available for use are tested for impairment only if there is an indicator of impairment. Like IFRS, the impairment test may be performed at any time during an annual reporting period provided that it is performed at the same time each year.
Impairment testing is carried out by using discounted cash flows.	Like IFRS, impairment testing is carried out by using discounted cash flows.	Unlike IFRS, the cash flows used to assess recoverability are not discounted.
Foreign currency		
An entity measures its assets, liabilities, revenues and expenses in its functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity, i.e. the currency of the primary economic environment in which the entity operates. Functional currency of an entity may be different from the local currency.	There is no concept of functional currency under Indian GAAP. Entities in India have to prepare their general purpose financial statements in Indian rupees.	Like IFRS, an entity measures its assets, liabilities, revenues and expenses in its functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity, i.e. the currency of the primary economic environment in which the entity operates. Functional currency of an entity may be different from the local currency.

IFRS	Indian GAAP	U. S. GAAP
Financial instruments		
IFRS have detailed guidance on recognition, measurement and presentation of financial instruments.	Under Indian GAAP, two accounting standards have been issued AS 30 and 31. However, they will be effective from 1 April 2011. Some guidance on forward exchange contracts and equity index/stock futures and options is available.	Like IFRS, US GAAP has detailed guidance on recognition, measurement and presentation of financial instruments.
Equity and liability classification		
A financial instrument is a financial liability if the issuer can be obliged to settle in cash or by delivering another financial instrument.	Unlike IFRS, the Companies Act, 1956 lays down basic principles for the classification of the financial instrument equity or liability.	Like IFRS, financial instruments that can obligate the issuer to settle in cash or by delivering another financial instrument are classified as liabilities. Unlike IFRS, certain securities with redemption features that are outside the control of the issuer, such as redeemable preferred shares, that would not otherwise be classified as liabilities, are presented in the balance sheet between total liabilities and equity (the mezzanine).
The components of compound financial instruments, which have both liability and equity characteristics, are accounted for separately.	Unlike IFRS, the Companies Act, 1956 lays down basic principles for the classification of the financial instrument equity or liability.	Unlike IFRS, instruments with characteristics of both debt and equity are not always split between their debt and equity components.
Minority interests in the balance sheet are classified as equity but are presented separately from the parent shareholders' equity.	Unlike IFRS, minority interest is presented separately from liabilities and equity of the parent's shareholders.	Unlike IFRS, minority interests in the balance sheet are presented either as a long-term liability, or between total liabilities and equity (the mezzanine).
Consolidation		
Consolidation is based on a control model which is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.	Consolidation is basically based on ownership, directly or indirectly through subsidiaries, of more than one-half of the voting power or control of the composition of the Board of Directors.	Consolidation is based on a controlling financial interest model, which differs in certain respects from IFRS.
All subsidiaries are consolidated.	All subsidiaries are consolidated except for a subsidiary in which control is intended to be temporary or for subsidiary which operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.	Under U.S. GAAP, generally all subsidiaries are consolidated, like IFRS. However, unlike IFRS, there are limited exceptions in certain specialised industries such as investment companies.
Uniform accounting policies are used throughout the group.	Like IFRS, uniform accounting policies are used throughout the group. However, if not practicable to use uniform accounting policies, the fact should be disclosed together with proportions of the items to which different accounting policies have been applied.	Unlike IFRS, uniform accounting policies within the group are not required.
For the purpose of consolidated financial statements, the carrying amount of assets and liabilities of subsidiaries is fair value at acquisition and movements as per normal accounting thereafter.	Unlike IFRS, the carrying amount of assets and liabilities of subsidiaries is the book value at acquisition and movements as per normal accounting thereafter.	Like IFRS, for the purpose of consolidated financial statements, the carrying amount of assets and liabilities of subsidiaries is fair value at acquisition and movements as per normal accounting thereafter.

IFRS	Indian GAAP	U. S. GAAP
Consolidation		
Minority interest is recognised initially based on the minority's share of the amounts recognised in the purchase accounting, excluding goodwill.	Unlike IFRS, minority interests in a subsidiary are recognised initially based on the carrying amounts of the assets and liabilities in the subsidiary's financial statements.	Unlike IFRS, minority interests in a subsidiary are recognised initially based on the carrying amounts of the assets and liabilities in the subsidiary's financial statements.
Business combinations		
Definition of business combination has a wider scope. All business combinations are accounted for using purchase accounting, with specific exemptions. A business can be an operation managed for the purpose of providing a return to investors or lower costs. An entity in its development stage can meet the definition of a business.	Unlike IFRS, the Indian GAAP deals only with amalgamations. There is liberal use of pooling of interests method.	Like IFRS, all business combinations are accounted for using purchase accounting, with specific exemptions. Unlike IFRS, a business must be managed for the purpose of providing a return to investors, and there is a rebuttable presumption that a development stage entity does not meet the definition of a business.
The cost of acquisition is the amount of cash or cash equivalents paid, plus the fair value of other purchase consideration given, plus any costs directly attributable to the acquisition (i.e., internal costs may be included but cannot be general administrative costs and there is no requirement for directly attributable costs to be incremental). The fair value of securities issued by the acquirer is determined at the date of exchange.	Consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the acquirer to the shareholders of the acquiree. While it is required that non-cash elements of consideration should be included at fair value, it is also stated that the value of any securities (forming part of consideration) fixed by statutory authorities may be taken to be their fair value.	Like IFRS, the cost of acquisition is the amount of cash or cash equivalents paid, plus the fair value of other purchase consideration given, plus any direct costs of the business combination. However, direct costs differ in certain respects from directly attributable costs under IFRS, i.e., cost cannot include internal costs and qualifying direct costs must be incremental. Unlike IFRS, the fair value of equity securities issued by the acquirer is determined by reference to their market price for a few days before and after the terms of the acquisition are agreed to and announced.
Liability for contingent consideration is recognised as soon as payment becomes probable and the amount can be measured reliably.	Like IFRS, liability for contingent consideration is recognised as soon as payment becomes probable and the amount can be measured reliably.	Unlike IFRS, a liability for contingent consideration is recognised only when the contingency is resolved and consideration becomes payable.
Associates and joint ventures		
Under IFRS, associates generally are accounted for using the equity method.	Like IFRS, associates generally are accounted for using the equity method. Exception from using equity method is when the investment is acquired and held exclusively with a view to its subsequent disposal in the near future or the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.	Like IFRS, equity-method investees are accounted for using the equity method unless the fair value option is elected, unlike IFRS.
Jointly controlled entities may be accounted for either by proportionate consolidation or using the equity method.	Jointly-controlled entities are accounted for only by using proportionate consolidation except when interest in a jointly controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future or when a jointly controlled entity operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer.	Unlike IFRS, generally jointly controlled entities are accounted for using the equity method. Proportionate consolidation is allowed only in certain industries when the venture is unincorporated, for example, oil and gas producing entities.

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