Ind AS (IFRS) Implementation Committee

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
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e-NEWSLETTER

IFRS GLOBAL ACCOUNTING

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MESSAGE

The Institute of Chartered Accountants of India has always played a proactive role in establishing sound financial reporting system in the country. To this effect, the Ind AS (IFRS) Implementation Committee was constituted in 2011 to educate the members and other stakeholders about IFRS and IFRS-converged Indian Accounting Standards (Ind AS) through the certification courses, training programmes, workshops, seminars etc. Since inception, the Committee is making every possible effort to educate the members in the area of Ind AS/IFRS and developments related thereto.

In this direction, it is heartening to note that the Committee has taken an initiative of issuing monthly e-newsletter which aims at not only providing regular updates on IFRS but also to provide practical insights on IFRS. I am sure that this e-newsletter, in line with the objectives of the Committee, will create awareness on IFRS in the country and will keep the members updated in this ever changing IFRS environment.

I would like to congratulate Ind AS (IFRS) Implementation Committee, especially its Chairman, CA. Rajkumar S. Adukia, for taking this initiative and making great efforts in this regard. I am sure that the members will find the contents and information include in this e-newsletter of immense use and valuable in order to update themselves regularly.

New Delhi
September 29, 2014

CA.K.Raghu
President, ICAI

MESSAGE FROM VICE PRESIDENT

I am glad that Ind AS (IFRS) Implementation Committee of the Institute of Chartered Accountants of India (ICAI) has come up with the initiative of issuing monthly E-newsletter on IFRS for the benefit of members and other stakeholders.

The ICAI through this Committee has been making every possible effort to enhance the knowledge of members and stakeholders at large about Ind AS/IFRS by issuing Materials on IFRS/ Ind ASs, conducting IFRS Certification Course, workshops, training programmes, etc.

Issuing monthly E-newsletter on IFRS is very timely and warranted initiative of the Committee as in addition to educating the participants about principles enunciated in Ind AS/IFRS, the E-newsletter aims at proving information on IFRS of interest to members, articles by IFRS experts which will help members understand the complexities of IFRS.

I am confident that this initiative of the Committee will contribute significantly in enriching the knowledge base of members and help them to understand the nitty-gritty of IFRS.

I compliment the Chairman of the Committee, CA. Rajkumar S. Adukia and the Vice-Chairman, CA. S.B.Zaware and the entire team for this wonderful initiative.

New Delhi **CA. Manoj Fadnis**

October 2, 2014 **Vice-President,ICAI**

MESSAGE FROM CHAIRMAN

Dear Members,

I am happy to meet you all in this first edition of IFRS Newsletter, an initiative of Ind AS (IFRS) Implementation Committee of ICAI. As Chartered Accountants we have a fairly good knowledge about Accounting Standards, IFRS the global GAAP has sought to bring about a uniform set of standards in accounting across the globe, to enable businesses speak one language of convenience in this era of globalization.

Having said that, we the professional accountants from India find an immediate need to familiarize ourselves with this global standard mainly to join the whole lot 129 jurisdictions that have already embraced IFRS standards aiming for an international recognition among their counterparts in the global market, with the help of financial reports and information that conforms to a global standard.

Chartered Accountants with their indepth knowledge in accounting and its intricacies, are required to understand the requirements pertaining to recognition, measurement, presentation and disclosure under International Financial Reporting Standards (IFRS). The basic concept behind any GAAP is recording of transactions recognizing its nature and timing. IFRS is all about of debits and credits, with the difference lying in its measurement and timing of recognition and valuation.

It is time we move out and embrace the global GAAP subtly adapting the requirements in order to guide the businesses with global accounting practices. The Institute of Chartered Accountants of India through its various initiatives has emphasized the need for members to familiarize with IFRS for all practical purposes. This monthly newsletter aims to bring a dosage of information on IFRS standards and its relevance in the Indian subcontinent.

I am sure members will find this initiative highly beneficial and supportively catering to their knowledge updation in IFRS.

CA Rajkumar S Adukia

Chairman, Ind AS (IFRS) Implementation Committee

MESSAGE FROM VICE CHAIRMAN

The task of ensuring smooth implementation of IFRS/IFRS-converged Indian Accounting Standards (Ind ASs) has been entrusted to Ind AS (IFRS) Implementation Committee of Institute of Chartered Accountants of India (ICAI). The Committee is accordingly working to provide guidance to the members and other stakeholders on IFRS/Ind AS and has been taking adequate steps to enhance the knowledge of the members and other stakeholders for proper implementation of IFRS/IFRS-converged Ind ASs by conducting workshops, seminars and Certificate Course on IFRS across the country at various locations.

In addition to above activities, I am glad to mention that the Ind AS (IFRS) Implementation Committee has taken the initiative of issuing monthly E-newsletter on IFRS in order to apprise the members with regular IFRS updates, by providing information of interest to members and benefiting them with practical insights on IFRS. Further, the newsletter will keep the members posted about various activities and initiatives of the Committee, certificate course, seminars, events etc.

I sincerely believe that the E-newsletter would immensely help in spreading awareness about IFRS among the members and stakeholders.

New Delhi
October 2, 2014

CA. Shiwaji Bhikaji Zaware
Vice Chairman
Ind AS (IFRS)
Implementation Committee

EDITORIAL

IFRS is need of hour and the Finance Ministry has also given commitment towards adoption of IFRS in India during budget speech. It is imperative for professionals like us to get updated with latest changes and amendments with IFRS.

Hans Hooger vost, IASB Chairman said during his speech at IFRS Conference Tokyo on 3rd September 2014, 'the spread of IFRS around the world has been an astonishing Success'. IFRS has reached to 130 jurisdictions in the world, out of which 107 require the use of IFRS for all or most companies. He also briefed the status of revision of the Conceptual Framework. He expressed that one of the most difficult issue is distinction between profit or loss and other comprehensive income. Profit or Loss is defined as the 'primary source of information about the return an entity has made on its economic resources in a period.' Thus Profit or Loss is identified as most relevant source of information on the performance of the reporting entity in a time period. It is the basis for Price/Earning ratio and buy or hold decisions. In June meeting, the IASB decided that there should be a rebuttable presumption that all items of income and expenses should be included in Profit or Loss, unless the IASB concludes in a particular Standard that including an item in OCI enhances the relevance of Profit or loss in that period. It implies that the standard setter has to pass a high hurdle when resorting to OCI.

First IFRS Newsletter, the focus of articles is on IFRS adoption and future of IFRS. The Newsletter contains important updates on IFRS, useful articles, feedback from participants, details of events conducted and forthcoming events.

I am thankful to Chairman of Ind AS (IFRS) Implementation Committee for entrusting me with responsibility to be an editor of IFRS e-Newsletter.

I am sure that IFRS Newsletter will add value and immensely benefits the professionals in large. Kindly email me your feedback or suggestions for the Newsletter at ifrsed@icai.in.

Enjoy reading!

CA Chintan N. Patel
Editor - IFRS Newsletter
Ind AS (IFRS) Implementation Committee
ICAI

Updates

1. **IASB publishes a Discussion Paper on reporting the financial effects of rate regulation**

   17 September 2014

   Many governments regulate the supply and pricing of particular types of activity by entities. These activities usually involve providing goods or services that are considered in that jurisdiction to be essential to customers, including transport services, some types of insurance policies, and utilities such as gas, electricity and water. Some forms of rate regulation can significantly affect not only the amount of revenue and profit that a rate rate-regulated entity can earn, but also the timing of the related cash flows.

   The Discussion Paper describes a type of rate regulation that contains elements of both cost recovery and incentive approaches—this type of rate regulation is termed defined rate regulation. The Discussion Paper seeks comments on whether or not the distinguishing features of defined rate regulation, as identified by the IASB, sufficiently capture the type(s) of rate regulation that have the most significant financial effects.

   The Discussion Paper does not include any specific accounting proposals. Instead, it explores what information about rate-regulated activities is most useful to users of financial statements and outlines possible approaches (and the accompanying advantages and disadvantages) that the IASB could consider in deciding how best to report the financial effects of rate regulation.

2. **Exposure Draft for amendments to six standards regarding unit of account for investments in subsidiaries, joint ventures and associates**

   16 September 2014

   The International Accounting Standards Board (IASB) published Exposure Draft of proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28, IAS 36, and IFRS 13. The proposed amendments would clarify that the unit of account for investments in subsidiaries, joint ventures and associates is the investment as a whole, and would add an additional illustrative example to IFRS 13. The example illustrates the fair value measurement of an entity's net exposure to market risks arising from a group of financial assets and financial liabilities whose market risks are substantially the same and whose fair value measurement is categorised within Level 1 in the fair value hierarchy.

   - the unit of account for investments in subsidiaries, joint ventures and associates and on the fair value measurement when those investments are quoted in an active market (quoted investments); and
   - the measurement of the recoverable amount of cash-generating units (CGUs) on the basis of fair value less costs of disposal when they correspond to entities that are quoted in an active market (quoted CGUs).

   The IASB also proposes to align the fair value measurement of a quoted CGU to the fair value measurement of a quoted investment.

3. **IASB has issued narrow-scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures**

   11th September 2014

   Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

   The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

   The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

   The amendments will be effective from annual periods commencing on or after 1 January 2016.

4. **Proposed amendments to IAS 12 Income Taxes**

   20 August 2014

   IAS 12 addresses the accounting for income taxes, including deferred tax assets. The amendments published propose guidance that clarifies how to account for deferred tax assets related to debt instruments measured at fair value.

   The draft amendments are proposed in response to diversity in practice and are relevant in circumstances in which the entity reports tax losses.

5. **Narrow-scope amendments to IAS 27 Separate Financial Statements**

   12 August 2014

   IASB published Equity Method in Separate Financial Statements (Amendments to IAS 27). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

   The amendments will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors.

❀❀❀

Articles

IFRS : Ready, Steady, Go...

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While hearing the budget speech by our Hon'ble Finance Minister of India Shri ArunJaitely in July 2014, I was enthused to hear that he actually spoke about IFRS implementation in India. It shows India's clear vision and positive approach towards the long due IFRS implementation process in India.

He proposed for voluntary adoption of IFRS in financial year 2015-16 and mandatory from 2016-17. Institute of Chartered Accountants of India(ICAI) has played a vital role in formulation of Ind ASs, giving comments to International Accounting Standards Board (IASB) on Exposure drafts / Discussion papers, imparting training and dissemination of knowledge on IFRS.

What is IFRS?

As the economy develops, it is exposed to International environment and commercial transactions. There is a need to lay down standard principles of accounting for making the financial statements comparable and bring them closure to the substance of transaction.'IFRS' which stands for International Financial Reporting Standards, are these principle based standards that focus on substance over form.

IFRSbroadly includes Reporting Standards, Accounting Standards and Interpretations on Accounting and Reporting, apart from Conceptual framework and Preface to IFRS.

The effective pronouncements as on date comprises of 15 IFRSs, 28 International Accounting Standards (IAS), 18 interpretations from International Financial Reporting Interpretation Committee (IFRIC) and 8 interpretations of Standard Interpretations Committee (SIC). This makes the tally to 43 Standards and 26 Interpretations under the framework of IFRS.

There is a separate framework of IFRS for Small and Medium size Entities (SME), which are referred as IFRS for Small and Medium Sized Entities.

So, are we prepared for IFRS financial statements?

First thing that I see as a prerequisite is change in approach of management in perceiving the way the transaction will be measured, reported and disclosed in financial statements. IFRS calls for transparency in financial statements for readers, investors and stakeholders amongst others. It calls for a change in perception and outlookof the readers as well, who have been accustomed to Indian GAAP financial statements.

Differential Characteristicsof IFRS Financial Statement for the PreparersandReaders of Indian GAAP:

a. Measurement:

i. Cost v/s Fair value

Under Indian GAAP, we use the cost convention for recording transactions as against IFRS which has a concept of day 1 P&L, which means that every transaction has to be recorded at fair value at the date of its initial recognition. Any value over or below fair value is passed through P&L.

Other than initial recognition, IFRS prescribes fair value measurement for certain financial assets and liabilities such as Investments in equity shares, debentures, etc for measurement at every reporting date, unlike Indian GAAP which requires such items to be at cost.

ii. Time value of money

It is said that time is money, IFRS has rightly considered this substance in its recognition and measurement principles.This has vital application in banking and finance transactions, to make it simpler, an entity borrowing Rs 100 Crore for 4 years @ 8% interest p.a with a clause asking upfront fees ofRs 6.5 crores, effectively leads to effective cost of borrowing to 10.05%. IFRS requires to record borrowing at Rs 93.5 crores and recognize interest @10.05%i.e. Effective Interest rate (EIR).Table 1 explains the discussed concept.

Table : 1 Period	Principle	Coupon Upfront fees	8% Interest	IRR / EIR Cash flows	10.053% Effective Int. Rt.	Rs in Crs O/s Carrying Value
0	100	(6.50)	-	93.50	-	93.50
1	-	-	(8.00)	(8.00)	9.40	94.90
2	-	-	(8.00)	(8.00)	9.54	96.44
3	-	-	(8.00)	(8.00)	9.69	98.13
4	(100)	-	(8.00)	(108.00)	9.87	(0.00)
			IRR	10.053%		

iii. Substance based

Here the transactions are recognized with careful assessment of the real commercial substance, where trade and finance transaction are embedded in the same invoice, similarly where the service revenue includes sale of goods element. In these cases, it is important to split the embedded component and recognize both the components separately at their fair value.

Take for example, Sale of goods at extended credit terms. Sale price would include an interest element and hence the entity should record revenue at fair value, which would lower, if goods are sold at market credit period. At the same timeseparately accrue interest on the receivable to match the receipt from customer at the end of the credit period.

Another example would be say 10% discount vouchers for subsequent purchases by retailer of electronic goods.The retailers will have to consider the impact of discount on the first sale and book revenue accordingly instead of booking first sale at full value and the second sale at 90%. Under IFRS, both, first as well as the second sale will be booked at 95%, assuming that the customer will return for the second sale.

iv. Continuous involvement with assets

This is one of the principle test applied when an entity has to consider whether it can book a sale or no. This is very commonly seen in factoring arrangement i.e. discounting of bills receivables.

If the discounting is done with recourse, the entity cannot take the credit to receivable account, instead it has to book the same as a short term loan. This is because, if the debtor fails, the discounting bank will come to the entity for recovery of the underlying receivable.

This test is applied before derecognition of assets as well as while applying revenue recognition principles i.e.Goods sold but lying in godown on behest of buyer.

b. Disclosures:

I. Critical Estimates, Judgments and Assumptions

While preparing financial statements, management is required to make estimates for many things such as provision for expenses, virtual certainty for deferred tax assets, net realizable value, cash flows for impairment testing, useful lives of assets, etc.

Similarly, there are areas of judgments such as applying the Possible, Probable and Remote test for contingent liabilities, in recognition and de-recognition of assets, liabilities, expenses and revenue, etc. Critical estimates and Judgments are to be disclosed separately after accounting policies.

Assumptions are the ones used in testing impairment, arriving at present value of liabilities, etc. They are not only disclosed but a few critical ones are also subject to sensitivity analysis. This means that if the assumptions change by say 5% + or -, what would the impact on financial statements, commonly seen in Goodwill impairment testing note in financial statements.

ii. Exposure & Sensitivity Analysis

Entities are exposed to many variables which impact their performance and profitability. These include foreign exchange rates, variable interest rates, commodity prices, etc. For an entity that manufactures goods locally and exports goods is exposed to foreign exchange rates. Thus if the exchange rate goes up, the profitability will improve and if it goes down, it will reduce. Since these variables are not going to be fixed, sensitivity of these variables on entity's profitability provides the reader with a fairer view on future periods profitability and performance expectations.

Example: Table 2:

Carrying amounts of the Entity's financial assets and liabilities in different currencies and sensitivity to income statement is as follows:

As at March 31,	20XX ($ million)			
	Financial assets	Financial liabilities	Effect of say 5% strengthening in foreign currency	Effect of say 5% weakening in foreign currency
Indian Rupees (INR)	2,345	1,000	N.A.	N.A.
United States Dollar (USD)	298	2,400	(105.10)	105.10
Euro (EURO)	201	765	(28.20)	28.20
Great Britain Pound (GBP)	-	223	(11.15)	11.15
Others	12	-	0.60	(0.60)

Note:Entity will have to do sensitivity analysis for assets and liabilities held in any currency other than its functional currency. In the above table 2, INR is assumed to be the functional currency and USD is the Presentation currency.

c. Presentation of Financial Statements

Current &Non current presentation was the first difference noticed when we compared any IFRS Balance Sheet and Indian Balance sheet. After Schedule VI format was revised for making it in line with IAS 1, this difference has been bridged. However, the preparers will still be impacted when they converge to IFRS because there are still a few differences that still exist between Revised Schedule VI and IAS 1. These differences will drastically change the ratios such as debt to equity, current to non-current and similar. Refer table 3 below for further insights.

Table 3: Few differences between Revised Schedule VI & IAS 1

	Revised Schedule VI	IAS 1 / Ind AS 1
1	Functional classification in Profit & loss statement is not permitted.	Classification using Functional as well as Nature approach is permitted.
2	Retirement Benefits - Can be current as well as non-current.	Retirement Benefits - Default Non current.
3	Share application Money pending allotment - classified as Quasi Equity	It is either Clear Equity or Liability
4	Interest accrued on Borrowings - grouped under other liabilities.	Borrowings - accounted using effective interest method and hence inclusive of interest.
5	Redeemable preference shares - classified as Equity	Redeemable preference shares - classified as Borrowings
6	Convertible Bonds continue to be classified as Debt with disclosure of conversion terms.	Convertible Bonds are split into Debt and Equity.
7	Contingent assets are not part of Off balance sheet disclosures.	Contingent assets are to be disclosed in notes
8	Continue non-current classification if lender has not recalled the loan before approval of FS	Need unconditional right at the balance sheet date irrespective of action from Bank

IFRS convergence will bring inthe above differential characteristics inIndian entity's financial statements and make it comparable with International Peers.

IFRS Certification course is an excellent initiative taken by ICAI.

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Articles

IFRS Challenges from IT Industry Perspective

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Most of the world's economists already speaks to investors and stakeholders about corporate financial performance using one language—the language of International Financial Reporting Standards (IFRS). In an increasingly integrated global marketplace, it makes sense for businesses to operate under a single financial reporting framework. More than 100 countries, including the members of the European Union and parts of Asia, have already adopted or permit IFRS.

From India perspective, The Institute of Chartered Accounting of India (ICAI), Ministry of Corporate Affairs (MCA) & other statutory bodies are also moving India businesses in the same direction.The Ind ASs have already placed on the MCA website when notified under Section 211 (3) (c) of the Companies Act, 1956 by the MCA will be applicable to the companies from the date specified in the said notification.

The transition to Ind-AS (IFRS) can be a long and complicated process with many challenges. Experience around the world shows that conversion projects often take more time and resources than anticipated. Historically, this has led some companies to rush the process, or outsource more work than necessary, driving up costs, increasing the risk of mistakes, and hindering the embedding of IFRS within the organization. At the same time, a conversion brings an opportunity to comprehensively reassess financial reporting and take a clean-sheet-of-paper approach to financial policies and processes. Such an approach recognizes that major accounting and reporting changes may have a ripple effect impacting many aspects of an organization, including underlying processes, systems, controls, and even customer contracts and interactions.

It is important to note that Indian companies are conversion existing standards to Ind- AS (IFRS), and they will need to apply Ind-AS 101, which will require the retroactive restatement of certain historical periods presented within a company's first set of IFRS-based financial statements. The application of Ind-AS 101 to prior periods could generate a number of changes to a company's key metrics, bottom-line performance, and financial position. Ind-AS 101further includes several optional exemptions and mandatory exceptions primarily to ease the burden of first-time adoption thus focus would be come out with the good practices with the set of challenges to implement those policy and future impact on the profitability on the financials.

While the impact of Ind-AS will vary for each company and sector thus the purpose of this article to highlight the possible issues in IT so that we can start working for tomorrow.As we are aware that Information Technology (IT) is an industry that thrives on change. In this case, change is being ushered in by new realities in the marketplace and regulatory action to keep the India competitive with the rest of the world. The Indian Information Technology industry accounts for a 5.19% of the country's GDP and export earnings as of 2009, while providing employment to a significant number of its tertiary sector workforce. More than 2.5 million people are employed in the sector either directly or indirectly, making it one of the biggest job creators in India and a mainstay of the national economy. In 2010-11, annual revenues from IT-BPO sector is estimated to have grown over US$76 billion compared to China with $35.76 billion and Philippines with $8.85 billion. India's outsourcing industry is expected to increase to US$225 billion by 2020 and there is no doubt that the most prominent IT hub is Bangalore

The key accounting topics that are most relevant to IT/ITES companies represent potentially complex areas of differences between Ind-AS and IFRS. These areas include revenue recognition, research and development (R&D), share-based payments, and income taxes.

Lets discuss few of the challenges to understand the gravity of the subject.

A. Revenue recognition: Ind-AS (IFRS) has two primary revenue standards covering general revenue recognition and construction accounting, and three primary revenue-related interpretations covering customer loyalty programs, barter transactions involving advertising services, and agreements for the construction of real estate. The broad principles laid out in IFRS are generally applied without further guidance or exceptions for specific industries. The challenge for IT companies in adopting IFRS is to identify and understand the rationale for divergences between the two revenue frameworks. Treatments that are allowed or possible under IFRS may not necessarily be compatible with current IGAAPs. Further Indian software companies invariably have transactions with US companies. In the US, the standard for revenue recognition is SOP-97-2, Software Revenue Recognition which is a very detailed standard. There could be differences between SOP-97-2 and Ind-AS 18 which would need to be seen as it could affect recognition of revenue.

· Example 1 Can a company recognize revenue if a master agreement has not been signed?

· Example 2 Upgrading from Version 3.0 to 3.5: What is the revenue recognition treatment of this future obligation?

· Example 3Flexibility in determination of fair value: The potential business impact of moving to other measures of fair value

· Example 4: Multiple elements development, sale and service all included in one contract.

· Example 5: Separation of embedded derivatives where the customer is given an option to pay in foreign currency

B. Share-based payments: Many technology companies use share-based payments as a key component of their compensation programs in order to attract, retain, and motivate employees. Ind-AS (IFRS) has retrospective implication for the first time adopter along with other complexities in measuring the liability. Several of these difficulties may already be familiar to multinational technology companies due to statutory reporting requirements for subsidiaries already reporting under IFRS. Given the relative complexity of the application of IFRS at a subsidiary level, the difficulty of the application of the IFRS guidance at a parent level should not be underestimated.

C. Income taxes: The implications of adopting IFRS go well beyond the potential impact on a company's effective tax rate or income tax-related disclosures in a company's financial statements. The move to IFRS has broad tax implications for a technology company; potentially impacting global cash tax obligations, international tax planning and underlying systems, processes and controls. The book financial accounting aspects of IFRS have a myriad of tax method accounting considerations. Accordingly, it is essential that tax executives be part of the Ind- AS (IFRS) conversion process. Proper assessment of the tax impact of each potential accounting change not only requires insight into the applicable tax rules and regulations in various tax jurisdictions, but also knowledge of the detailed differences between current accounting standards (AS), Ind- AS (IFRS), where applicable.

- Example 1 (Uncertain tax positions): Ind- AS is expected to require a probability- weighted average approach to recognize and measure uncertain tax positions without considering a recognition threshold. This will likely lead to an increased level of effort under Ind- AS (IFRS) than the current accounting standards

- Example 2 (Unrealized intragroup profits): Any income tax effects resulting from intragroup profits are deferred by the seller and recognized upon sale to a third party or depreciation/amortization of the transferred asset. However Ind-AS (IFRS) requires the recognition of the seller's tax consequences and the recording of deferred taxes based on the buyer's tax rate at the time of the initial transaction.

D. First time adoption: A company's first set of Ind-AS (IFRS) financial statements should be presented as if it had always used Ind-AS (IFRS) as its basis of accounting. Successive versions of the same standard are not applied in different periods. Full retrospective application can be extremely challenging given that information may not be readily available and data gathering can be extremely onerous. Given these facts and circumstances, Ind- AS 101 provides a number of exemptions and exceptions from this general principle that provide potential relief.

- Example 1(Business combinations) : An election to not retroactively apply Ind- AS 103 Business Combinations, to transactions prior to the transition date.

- Example 2 (Cumulative translation differences): An election to recalculate cumulative translation differences and set corresponding translation differences to zero on the date of transition, reflected as an adjustment to retained earnings.

E. Impairment of Assets: The Impairment tests in IFRS/Ind- AS are a little bit more strict than under the present India GAAP. Quite a number of software companies are feeling the impact of the Euro crisis and the recession even now. The impairment standard has to be implemented totally to get a proper impact on the financial statements. This could also affect Goodwill acquired during Business Combinations.

F. Disclosure requirements: IFRS/Ind- AS requires lot of additional and detail disclosure which not only require technical feasibility but also require huge efforts to customized current MIS system.

G. Finance Instruments: IFRS 9 is going to applicable in few years however ICAI & MCA did not issues/notified corresponding Ind-AS which will cause a lot's of practical issues as there are significant changes in IFRS 9 as compare to IAS 39.

H. Research and development: A majority of technology companies do not currently capitalize software development costs because the costs incurred between the establishment of technological feasibility and general availability of external use software are often not significant. Technology companies will need to reassess this determination and establish appropriate capitalization thresholds in accordance with Ind-AS (IFRS), the criteria of which differs from IGAAP.

Thus in last we can say there are lot's of preparations needs to be done irrespective of the industry to address the practical issues involved in adopting Ind-AS.

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The Newsletter efforts are really appreciated & really helpful for a CA like me, who are in Industry and not that much in touch with the seminars & conferences due to various reasons.

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Articles

Transition to IFRS - So Near and Yet so Far ?

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NOTE

The decision by the Institute of Chartered Accountants of India (ICAI) to launch a newsletter that is focused exclusively on International Financial Reporting Standards (IFRS) is to be much appreciated. A single source of truth for everything related to IFRS would be of immense help to fellow members in practice as well as in industry, academicians and students. Being the first issue, this article focuses on the start-stop journey that India has had on IFRS so far. Later issues would delve into the nuances of IFRS standards.

Does India need IFRS?

Lets commence with a discussion on this basic question. There have been arguments that India is still a developing economy, transactions here are pretty simple and not overly complicated and many entities would not be able to manage the aggression, costs and resources that IFRS would demand. The normal arguments for IFRS are that it is the accounting language in 125 countries across the world (and still counting) and India too should jump on to the IFRS bandwagon.

At the outset, it should be pointed out that India has always been drafting their accounting standards in accordance with International Accounting Standards (IAS). When the International Accounting Standards Board (IASB) entered into the Norwalk Agreement with the FASB in the USA to frame all future accounting standards on the basis of similar principles, they decided to rename the new accounting standards IFRS. Not only was this a change of name, the focus of accounting standards shifted from routine accounting to rigorous reporting. It was but natural that India followsIFRS, which they were doing in its previous avatar too. That was also the reason why India opted for the conversion approach.

The India is a developing economy argument is more of an excuse than an argument. Everything that is done abroad is done in India too-exotic derivatives, private equity, barter transactions and trading in Bitcoins. Our scale on each of these may not match the scale abroad but the concept of materiality does not apply to a nation choosing accounting standards- it has to be done on principle.

India should transition to IFRS because it needs to change the focus of its accounting standards from accounting to financial reporting. Traditionally, we have disclosed accounting transactions only when mandated to do so- the extensive disclosure norms that IFRS envisages will only assist in providing more information to the shareholder, investor and analyst.

India should transition to IFRS because in the new world order it is Indian companies who are acquiring companies abroad and expanding their footprint. Medium-sized garment exporters from Tirupur are acquitting Swiss garment units. Wagon Manufacturers in Kolkata are acquiring sick wagon units in France. Transitioning to IFRS would mean that all Balance Sheets would more or less speak the same language- something that is necessary when conducting a due diligence.

The first road map

In 2009, when IFRS was a buzzword everywhere, the ICAI was quick to propose a road map to the MCA- listed and large-sized entities were to transition to IFRS from 1st April 2011. The ICAI was even quicker to work on all the Indian Accounting Standards and convert them to IFRS equivalents. The ICAI named them Ind-AS. Due to situations peculiar to India, carve-outs were also pronounced. For instance, subsequent recognition of investment property at fair value was not opted for since the concept of investment property itself is new to India. Allowing realtors to do a fair valuation of their investment property every year is not something anyone would like to do. However, the road map fell into cold storage and nothing really happened.

The second road map

If there is one thing that the new Government at the Centre has brought to the minds of every Indian, it is hope. The hope of IFRS-believers was not in vain when the Finance Minister in his Budget speech announced that India will move ahead with IFRS mandatorily from 2016-17. The ICAI has announced a revised roadmap. The which recommends Ind AS to be implemented for the preparation of Consolidated Financial Statements of listed companies and unlisted companies having net worth in excess of Rs 500 crore from the accounting year beginning on or after 1st April 2016, with previous year comparatives in Ind AS for the year 2015-16. The stand-alone financial statements will continue to be prepared as per the existing notified Accounting Standards which would be upgraded over a period of time.

IFRS in Instalments?

The good news is that thanks to regulations, India is already following bits and pieces of IFRS. The need to classify all assets and liabilities into current and non-current as mandated in the Revised Schedule VI is a critical IFRS requirement. XBRL filing arose due to IFRS. Changing the method of providing for Depreciation from prescribed percentages to estimating the useful lives of the assets is an IFRS requirement. Another requirement of the Revised Schedule VI that all the notes should be aggregated in one place and cross-referenced is a part of IFRS. The Indian Accounting Standards on Impairment and Intangible Assets ensured that two major IFRS standards are in place. Consequently, we are stepping in line with IFRS in instalments and are about 60% there. Mandating the standards on Financial Instruments and all Ind-AS standards written by the ICAI should take us through the remaining 40%.

Why the opposition to IFRS?

One of the reasons being given for the delay to move over to IFRS is that industry fears that the tax department will not bless IFRS. The simple answer to that is that the tax department is not blessing Indian Accounting Standards, so why would they bless IFRS? The concept of a Tax Audit is only to bridge the gap between accounting standards and tax provisions. Some of the concepts in IFRS such as postponing revenue recognition in case of bundled contracts as per IFRS 15/IAS 18, changes in fair value of assets and useful lives to calculate depreciation can impact taxable income. But the tax department should be made to understand that the concept of Deferred Tax is to ensure that these changes even out over a period of time.

Another objection is that the concept of fair value is too judgemental and can be misused easily. IFRS 13 on Fair Value Measurements gives three levels of indicators for fair value, which may not solve all judgmental issues but at least give some direction. There will always be some who misuse these concepts to their benefit but then accounting standards have to be prescribed for the honest majority than the dishonest minority.

Just do it!

The Institute of Chartered Accountants of India(ICAI) has matched the frenetic pace set by the International Accounting Standards Board (IASB) standard by standard and amendment for amendment. An exposure draft on a Standard that was considered sensitive to India – Ind AS 41 on Agriculture- has also been released for public comment. It is now upto the Ministry of Corporate Affairs (MCA) to notify all the Ind-AS standards. It has also run more than 140 batches of the IFRS Certification Course that has been attended by more than 8000 chartered accountants. Recently, the ICAI has also announced that it would ensure that the latest Ind-AS standards are inked and kept ready by December 2014. The MCA should ensure that the notification is made soon thereafter.

Moving over to IFRS would open up new opportunities for chartered accountants on conversion to IFRS, preparation of accounting manuals and training. An early adoption now would also quicken the date when the small and medium enterprises would transition to IFRS- this would ensure that every chartered accountant in the country is aware of IFRS.

If there is one uniform message that all Chartered Accountants in India would want to give the MCA on the transition to IFRS, it would be " Just do it! ".

There is a song called " Two Steps Behind" by the rock band DefLeppard. I have changed the lyrics slightly to suit IFRS requirements:

Walk away if you want to
it's ok, if you need to
you can run, but you can never hide
From the fact that the world is swimming on the IFRS tide
There's a fever running through the world
But,
Whatever you do, wherever you go,
please ensure that you are not
two steps behind

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Forthcoming Events

Sr. No.	Location	Date
1	Vadodara	October 4, 2014
2	Nagpur	October 4, 2014
3	Coimbatore	October 4, 2014
4	Ahmedabad	October 4, 2014
5	Bhubaneshwar	October 4, 2014
6	Lucknow	October 4, 2014
7	Chennai	October 18, 2014
8	Mumbai	November 1, 2014
9	Bangalore	November 1, 2014
10	Indore	November 15, 2014
11	Jaipur	November 15, 2014
12	Chandigarh	November 15, 2014
13	Delhi	November 15, 2014

For further details pertaining to course, you may kindly follow the link: http://www.icai.org/post.html?post_id=3562&c_id=266 or you may also visit our website at: www.ifrs-icai.org.

When I entered the course hall the faculty asked me about IFRS knowledge with me. But I was blank and told him that I have zero knowledge about IFRS. But he told me they will enlighten us with pleasant amount of knowledge. When the days passed we started enjoying the classes by remembering our CA Final classes. All sessions were very interesting and knowledgeable. Thanks for IFRS & IND AS committee for providing the opportunity to zeal about IFRS.

Name : Sushanth Hegde
Batch No. & Location : 133, Bangalore

Event Gallery

(A) IFRS Certification Course

Batch No.	Location	Location Batch No.	Date of Commencement	Date of Completion	Total No. of Participants
128	Delhi	30	05-04-2014	18-05-2014	37
129	Dubai	9	04-04-2014	16-05-2014	30
130	Nepal	3	11-04-2014	02-05-2014	30
131	Mumbai	22	10-05-2014	14-05-2014	27
132	Chennai	9	14-06-2014	20-07-2014	32
133	Bangalore	12	28-06-2014	03-08-2014	36
134	Thrissur	1	05-07-2014	17-08-2014	36
135	Delhi	31	05-07-2014	10-08-2014	40
136	Hyderabad	12	02-08-2014	21-09-2014	27
137	Kolkata	14	02-08-2014	21-09-2014	23
138	Mumbai	23	09-08-2014	28-09-2014	22
139	Pune	5	09-08-2014	28-09-2014	30
140	Delhi	32	23-08-2014	12-10-2014	50

(B) Webcast

Sr. No.	Date	Topic	Speakers
2.	19th May, 2014	Useful lives to Asset - Schedule II of Companies Act, 2013' and 'Part of an item of PPE – Para 43 of Ind AS 16'	CA. Rajkumar S. Adukia, Chairman, Ind AS (IFRS) Implementation Committee CA. Shiwaji Bhikaji Zaware, Vice-chairman, Ind AS (IFRS) Implementation Committee
3.	28th July, 2014	Understanding new Accounting Standards: Ind AS (IFRS)" 1. Explaining the IFRS in a nutshell in the backdrop of Existing Standards. 2. Formats of Financial Statements 3. Elements of Financial Statements	1. CA. Rajkumar S. Adukia, Chairman, Ind AS (IFRS) Implementation Committee 2. CA. Yagnesh Desai 3.CA. Mayur Choksi
1.	August 20, 2014	Financial Instruments	CA. Rajkumar S. Adukia, Chairman, Ind AS (IFRS) Implementation Committee CA. R. Venkat Subramani CA. Vidyadhar Kulkarni

The webcasts video can be viewed at: http://5.79.23.242/ifrswebcast/vod.aspx

© Other Events

Sr. No.	Date	Event	Location
1.	12-14 September, 2014	1st IFRS Faculty Development Program (3 Days)	Center of Excellence, Hyderabad
2.	4-6 September, 2014	3 Day Intensive course on Financial Instrument	Mumbai
3.	25, 26 August 2014	Two Days Awareness Program on Companies Act 2013 and IFRS for members of Standing Conference of Public enterprises (SCOPE)	Delhi
4.	8th August 2014	National Seminar on Non-Banking Finance Companies (NBFC) (Jointly with Committee on Financial Markets and Investor's Protection (CFMIP)	Mumbai
5.	Introductory Program on IFRS (3 Days) (Jointly with Young Members' Empowerment Committee)		
a	3rd to 31st May, 2014 (only on Saturdays) Introductory Program on IFRS		Mumbai
b	8th June 2014 (only on Sundays) Introductory Program on IFRS		Faridabad
c	14th June 2014 (only on Saturdays) Introductory Program on IFRS		Delhi

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

MEMBERS OF 22ND COUNCIL AND SECRETARY, ICAI (As on 12th February, 2014)

Participants of the 1st IFRS- Faculty Development Programme held from September 12-14, 2014 at Centre of Excellence, Hyderabad

CA. Rajkumar S. Adukia, Chairman, Ind AS (IFRS) Implementation Committee addressing to the Young Members at the Introductory Programme on IFRS on July 5, 2014, at New Delhi.

Composition of Ind AS (IFRS) Implementation Committee for the Year 2014-15

Members


CA. Rajkumar S Adukia
Chairman


CA. Shiwaji Bhikaji Zaware
Vice Chairman


CA. K. Raghu
President (Ex-Officio)


CA. Manoj Fadnis
Vice President (Ex-Officio)


CA. Pankaj Inderchand Jain


CA. Nihar Niranjan Jambusaria


CA. Shriniwas Y. Joshi


CA. Sanjeev K. Maheshwari


CA. M. Devaraja Reddy


CA. V. Murali


CA. S. Santhana krishnan


CA. Abhijit Bandyopadhyay


CA. Subodh Kumar Agrawal


CA. Shyam Lal Agarwal


CA. Sanjay Agarwal


CA. Naveen N.D. Gupta


Shri Manoj Kumar

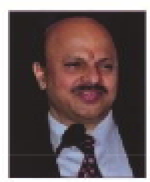

Shri Sunil Kanoria

Co-opted Members


CA. Sanjay Jain


CA. Vivek Jagdish Capoor


CA. Ranjay Kumar Mishra


CA. N. Nityananda


CA. Indraneel Roy Choudhury


CA. D S Vivek

Special Invitee


CA. Dhinal Ashvinbhai Shah


CA. N. Venkatram


CA. Murali Ganesan


CA. Manu Chada


CA. Kamal Garg


CA. R. Venkata Subramani