Introduction to IFRS

• Part I - Background of IFRS and some fundamental issues
• Part II - Transition and Impact of Transition
• Part III - Implementation of IFRS
• Part IV - Managing transition project and all related matters
Part I-Background of IFRS

- Present Scenario
- In India, financial statements are prepared on the basis of iGAAP i.e. Indian Generally Accepted Accounting Principles
- These statements are read, understood and useful in India only. In global market, one has to follow what is globally accepted because directly or indirectly Indian organisations are connected to world.
Background of IFRS

- Presently more than 113 countries require / permit use of IFRS including India.
Background of IFRS

- 8 IFRS issued by IASB
- 29 IAS (effective serial no.1 to 41) issued by IASC
- 15 IFRIC
- 11 SIC
# Background of IFRS

## IFRS Index

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Background of IFRS

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IAS 11  Construction Contracts
IAS 12  Income Taxes
IAS 16  Plant, Property and Equipment
IAS 17  Leases
IAS 18  Revenue
IAS 19  Employee Benefits
IAS 20  Accounting for Government Grants and Disclosure of Government Assistance
IAS 21  The Effect of Change in Foreign Exchange Rates
IAS 23  Borrowing Costs
IAS 24  Related Party Disclosures
IAS 26  Accounting and Reporting by Retirement Benefit Plans
IAS 27  Consolidated and Separate Financial Statements
Background of IFRS

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IFRIC 1  Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2  Members’ Share in Co-operative Entities and Similar Instruments
IFRIC 4  Determining whether an Arrangement contains a Lease
IFRIC 5  Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6  Liabilities arising from Participation in a Specific Market- Waste Electrical and Electronic Equipment
IFRIC 7  Applying restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economics
IFRIC 8  Scope of IFRS 2
IFRIC 9  Reassessment of Embedded Derivatives
IFRS Index

IFRIC 10 Interim Financial Reporting and Impairment
IFRIC 11 IFRS 2 - Group and Treasury Share Transaction
IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction
SIC 7 Introduction of the EURO
SIC 10 Government Assistance- No Specific Relation to Operating Activities
SIC 12 Consolidation- Special Purpose Entities
IFRS are Principle Based
Indian Standards are Hybrid, but more of Rule Based
IFRS – More focus on Fair Value
IFRS – Consolidation is a must
IFRS – Cash Flow preparation is a must
IFRS – More judgment to Management
IFRS – Valuations – Fair Value - Revaluation
Micro Level Differences

- Negative Goodwill: Recognised in Profit & Loss Account
- Acquisition in Stages permitted
- Presentation of Financial Statements: Current vs Non-Current
- Depreciation: Rates based on estimated useful life
- Impairment of Intangible Assets: Must be treated annually
Micro Level Differences .. Contd.

• Change in method of Depreciation to be treated as Change in Estimate
• In case of Investment property, Reporting Date Valuation is a must. Revaluation Surplus – Loss to be recognised in P&L account
Micro Level Differences .. Contd.

- Componentisation for Property, Plan & Equipment
- Definitions under IFRS not to be guided by Other Statutes
- Substance over Form – Preference Shares treated as Liability
Micro Level Differences .. Contd.

- Proposed Dividend not treated as Provision but as Contingent Liability
- Provisions to be discounted to Present Value
- Bank O/D, if part of cash management, to be treated as part of Cash / Cash equivalent
Pillars of IFRS

• Recognition
• Measurement
• Presentation
• Fair Value
• Disclosure
• Substance over form
ICAI Concept Note

- Public sector Entities, Listed Companies, Banks, Insurance companies other large sized entities (list published)
- From accounting periods on or after 1/4/2011.
- Separate standard for SME.
ICAI Concept Note

• ICAI has committed with support of MCA convergence of Indian Accounting standards effective 1/4/2011.

• We in India are ahead at the last leg of convergence process.

• Transition Schedule published
ICAI Concept Note

- The ICAI through ASB set up a task force in October 2006 which has been persistently working towards achieving the target date.

- ASB has also brought out various issues that may call for changes in the other legal and regulatory matters concerning RBI, SEBI, NACAS, IRDA.
ICAI Concept Note

- Discussions of various industry groups with ICAI
- Discussions between RBI/IRDA/MCA/NACAS/ICAI
- Companies Act, 1956- Draft recommendations sent to Ministry in May 2009
ICAI Concept Note

- RBI: Draft recommendations ready to be placed before ASB
- IRDA: Draft recommendations ready to be placed before ASB
Background of IFRS

ICAI Concept Note

• SEBI
  – Other than Mutual Funds-Draft report sent to SEBI
  – Mutual Funds- Draft report being sent to SEBI
  – Venture Capital Funds- to be studied
Background of IFRS

INDIA - Status of other laws

- NACAS

<table>
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<th>Awaiting final Notification</th>
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<tr>
<td>Inventories</td>
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<td>Cash Flows</td>
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<td>Events occurring after Balance Sheet date</td>
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INDIA - Status of other laws

- NACAS

| Preliminary Drafts ready | Share Based Payments | AS 22 Vs IFRS 2
| Financial Instruments-Recognition & Measurement | Interim Financial Reporting | AS 25 Vs IAS 34
| Financial Instruments-Presentation | AS Nil Vs IAS 39
| AS Nil Vs IAS 32 |
Background of IFRS

INDIA Other Issues

• List of Companies published
• Issues in Presentation
  – Standalone Vs Consolidated Balance Sheet
  – Should actuarial gains /losses be adjusted to reserves
  – Subjectivity in prudential norms for banks
  – Previous years figures in the first year of presentation.
• Definition of control under Companies Act and under IFRS
Background of IFRS

- Issues which will impact revenue taxation
  - Allowability of MTM losses
  - Amortisation of Goodwill
  - Depreciation on revalued Assets

- Separate standard for SME – study group is looking into applicability of IFRS issued for SME during July 2009 to SMEs in India
Part II
Transition & Impact of Transition

- Transition Date
- Impact of transition on business
<table>
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<th>Net Worth</th>
<th>Status of the Company</th>
<th>Transition Date</th>
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<tr>
<td>BSE 30 Companies NSE 50 Companies + Other listed / unlisted &gt;1000 Cr</td>
<td>Listed/Unlisted</td>
<td>1 April 2011</td>
</tr>
<tr>
<td>&lt;1000&gt;500 Cr</td>
<td>Listed/Unlisted</td>
<td>1 April 2013</td>
</tr>
<tr>
<td>&lt;500 Cr</td>
<td>Listed</td>
<td>1 April 2014</td>
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Transition date

• First set of IFRS compliant Financial statements will be prepared for the year ended 31.3.2012

• These financial statement will have to include comparatives for the year ended on 31.3.2011 (However, it is notified that the comparative figures need not be given)
• Also for quarterly reporting for listed companies, the 1st quarter reporting will have to be for the period 30.06.2011.
Impact of transition

- Due to conversion to IFRS, the impact thereof is not only on Financial statements but also all functional domains of entity.
- Following are where the impact is likely to be most demonstrative:
  1. Transition and accounting systems
  2. Transition and management reporting
  3. Transition and Human resource
Though convergence to IFRS is a one time event, it will have far reaching impact not only on Financial Reporting but also:

- Internal control system
- Accounting policies
- Tax provisioning
- Financial reporting processes
- IT systems
- Treasury
- Legal
- Internal Audit, etc
4. Transition and risk management
5. Transition and Financial reporting
6. Transition and control risk
Part III Implementation of IFRS

• Definition - First time adoption
• Steps to be carried on for First time adoption
• Suggested formats
An entity may be first time adopter if, in the preceding year—

- Presented financial statements under national accounting standards that are inconsistent with IFRS

- Complied to all the IFRS but there was no explicit and unreserved statement that its financial statements comply with IFRS
• Compliance with some but not all IFRS
• Included only a reconciliation of selected figures from previous GAAP to IFRS
• Prepared IFRS compliant statement for internal purpose only
• Prepared a reporting package under IFRS for consolidation purpose without preparing a complete set of Fin statements
Steps to be carried on

1. Select IFRS accounting policies
2. Recognition / de-recognition
3. Re-measurement
4. Re-classification
Part IV Managing transition project

• Support from all departments-like Accounts, Finance, Audit, Taxation, Information Technology.

• Development of IFRS Transition team and apex committee to oversee this team.

• Roles and responsibilities – properly documented with clear time line defined for each activity.
• Project initiation includes 2 functions – Impact analysis and Gap analysis
• How this transition project will be managed
Project Initiation

• What will be cost involved at initial stage and subsequent to conversion
• What will be the effect if books of accounts converted under IFRS with respect to Income tax act and Company act
• How this transition project will be managed
Transition Model

- Transition Model
- Convergence Timeline
- Assessment: AS-IS <-> TO BE
- Customization & planning
- Program Sign Off
- Training Module 1
- Training Module 2
- Milestone -1
- Milestone -2
- Milestone -n
- Bridging the Gap: Transitioning
- Final Assessment & Closure
Programme Kick Off

• Meeting the Management & Presentation
• Questionnaire
• Our Role and Scope of Work
Assessment-AS IS Study

- Agenda from Senior Management for implementation of IFRS
- Formation of core team by the Company
- Skill assessment of the Core team
- Diagnostic Test, Findings, Reporting and checklists
Customization & Planning

- Specific requirements for the Company
- IT Systems-Synchronization with IFRS changes
- Training of accounting & other related staff from departments such as taxation, commercial etc.
Bridging the Gap

- Management support
- Operational level support
- Infrastructure-Hardware, Software, Associated professionals e.g. valuers
Training of accounting staff
Support to IT staff
Convergence of financial statements
Monitoring
Status Report & Discussion with Management
Final Assessment & Closure

- Running of Parallel system-Existing & IFRS System
- Testing of full fledged system
- Migration to IFRS
- Handholding support
ASSOCIATED NETWORK

Expert IT consulting

Expert Valuers

Chartered Accountants

Expert advisors
Key areas of concern

- Structuring first statement of Financial Position
- Selecting Accounting Policies
- Since IFRS is principle based (more judgmental), Internal Controls have to be strengthened
- Componentisation of PPE
- More exhaustive / detailed disclosures
Key areas of concern .. Contd

- Goodwill not to be amortised, but tested for impairment, at least annually
- Discounting of Provisions
- Valuation of Intangible Assets, finite and infinite
Introduction of IFRS is going to pose a lot of problems:

• Income Tax Act, Companies Act, Service Tax Act and VAT will have to be amended else it will lead to too many reconciliations.

• IFRS talks of Fair Value measurement and there is also a sea change in the way Financial Statements are presented in India, as of now.

• MAT requires a special consideration and with the concept of Fair Value a detailed and comprehensive reconciliation needs to be made to arrive at Taxable Profit.
Thank You