Certification Course in IFRS
Pune
IFRS – A Study

1st October, 2011

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Transition Schedule

Net Worth	Status of the Company	Transition Date
BSE 30 Companies NSE 50 Companies + Other listed / unlisted >1000 Cr	Listed / Unlisted	1 April 2011
Banking & Insurance Companies	Nationalised & Scheduled	1 April 2013
<1000>500 Cr	Listed / Unlisted	1 April 2013
<500 Cr	Listed	1 April 2014

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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 Statements 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)

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Transition date---Contd

- 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 on all functional domains of the 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

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Transition & Business

4. Transition and risk management
5. Transition and Financial reporting
6. Transition and control risk

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Getting ready for IFRS

- Understand the differences
- Conduct an Impact Analysis
- Conduct Gap Analysis
- Embracing the change
- Working change mechanism
- Implementation of change

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Key differences

1. Presentation
2. Disclosure
3. Fair Value
4. Useful Life
5. Restatement of Accounts from first reporting period

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6. Employee Benefits & Share Based Payments

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- IFRS
- INDIAN GAAP

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IAS 1: Presentation of financial statements

- St of Comprehensive Income and SOCIE are required
- Balance Sheet renamed as 'Statement of Financial Position'
- Comparatives of beginning position of earliest period presented – required when policy changed retrospectively or FS restated

- St of Comprehensive Income and SOCIE not required
- Balance Sheet not renamed
- Comparatives of one year only

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IAS 1: Presentation of financial statements

- Consolidated FS mandatory for all entities
- Fair presentation is based on the economic substance of the transactions and the accounting standards framework

- Consolidated FS to be provided in addition to separate FS per SEBI requirements for listed companies only
- Fair presentation requires compliance with law (e.g. Companies Act) and the accounting standards framework

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IAS 1: Presentation of financial statements

- Current / non-current classification of A/L, unless presented in order of liquidity
- Income Statement presented either by nature or function
- P/L attributable to minority shown as allocation of profit in St of Comprehensive Income

- Form and content prescribed by statutes
- St of P&L presented by nature – per Sch VI
- P/L attributable to minority shown as deduction from profit – as an item of income/ expense in St of P&L

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IAS 1: Presentation of financial statements

- St of Comprehensive Income may be one statement or two: 'Income Statement' & 'Statement of Other Comprehensive Income'
- Non-owner changes in equity e.g. revaluation reserve routed through OCI
- No extraordinary items

- No concept of St of Comprehensive Income
- Non-owner changes in equity go directly to Reserves
- Extraordinary items to be shown separately

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IAS 1: Presentation of financial statements

- Disclosure of critical judgments made by management required
- Disclosure of key sources of estimation uncertainty required
- Disclosure of information about objectives, policies and procedures to manage capital required

- No such requirement
- No such requirement
- No such requirement

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IAS 2: Inventories

- Difference between inventory purchased on normal credit and deferred settlement terms treated as interest
- Fresh assessment of NRV to be made in each subsequent period and earlier write-downs are reversible

- Interest is not carved out and presented separately unless terms separately specify interest
- No specific guidance; reversals may be permitted

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IAS 7: Statement of cash flows

- Bank overdrafts are considered as C&CE
- No extraordinary CFs
- CFs from interest and dividend classified as operating, investing or financing, reflecting the economic transaction

- Bank overdrafts are considered as financing activities
- Cash Flows from extraordinary items shown separately
- For financial entities, interest is operating CF; for other entities, interest is financing CF; dividend is financing CF for all

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IAS 8: A/c policies, changes in a/c estimates and errors

- Changes in policy require retrospective application to o/b of earliest period presented as if new policy always existed
- Material prior period errors corrected retrospectively, with effect in RE

- Changes in policy are accounted prospectively; also, if change has no material effect in current period but will in later periods, suitable disclosure required
- Prior period errors are corrected in the period of discovery and separately disclosed

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IAS 8: A/c policies, changes in a/c estimates and errors

- New accounting pronouncements not yet effective are disclosed with possible impact

- No such requirement

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IAS 10: Events after the reporting period

- Liability for dividends is booked only when dividend is declared – non-adjusting event

- Concept of liability for proposed dividend: to be booked before declaration – adjusting event

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IAS 11: Construction Contracts

- Contract Revenue is measured at Fair Value of Consideration received or receivable

- AS 7 does not refer to fair value and states that Contract revenue is measured at the consideration received or receivable

IAS 12: Income taxes

- Deferred taxes computed using 'balance sheet approach' for temporary differences
- Current/ deferred tax recognised outside P/L if the related item is outside income statement – e.g. in OCI or equity

- Deferred taxes computed using 'P&L approach; for timing differences
- No specific guidance but ICAI announcement requires items taken directly to reserves to be shown net of tax effect

IAS 12: Income taxes

- DTA recognised if it is probable that future taxable profits will be available to utilise c/f losses
- Acquiree's loss c/fs determined 12 months after business combination are reduced from goodwill and, if there is no goodwill, credited to profit

- DTA on c/f losses and unabsorbed depreciation cannot be recognised unless there is virtual certainty supported by convincing evidence that future taxable profits will be available
- No business combination standard requiring such treatment

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IAS 12: Income taxes

- DTA/ DTL always non-current
- Reconciliation between tax expense/ income and [book profit x tax rate] to be provided

- DTA shown after investments; DTL after unsecured loans
- No such requirement

IAS 16: Property, plant and equipment

- PPE
  - *Definition*: Tangible assets held for use: production/ supply of goods/ services, rental, admin <u>and</u> use expected over > 1 period
- Recognition – if and only if
  - Probable that future eco benefits from asset will flow to entity, and
  - Cost can be measured reliably
- Major spares, stand-by equip → PPE
- Safety/ environment equip → PPE (no dir benefits)

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- Replacement parts → PPE, when incurred
  - Derecognise old part
- Major inspections → PPE
  - Carrying value of old inspection derecognised, even if embedded in initial cost

- Measurement – at recognition
  - –Purchase price incl non-refundable duties/ taxes, net of trade discount
  - –Costs directly attributable to bringing asset to location/ condition to make it capable of operating in manner intended by mgt
  - –Initial estimate of site restoration, dismantling

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–No capitalisation

- if item is in location/ condition to make it capable of operating in intended manner
  - even if not used/ used below full capacity
- of initial operating losses
- of training, advertising/ promotional costs
- of cost of relocating/ reorganising operations
- G&A expenses

- Cost = cash price equivalent at acquisition
  - Payment deferral beyond credit terms → fin cost
  - Barter → FV of incoming or outgoing asset

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Subsequent measurement

Cost model

- Cost less AD & impairment loss

Revaluation model

- Reval amt less AD & impairment loss
- Revals done regularly (carrying value = FV)
- Whole class to be reval, no cherry picking

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- Revaluation gain → Revaluation reserve
- Future revaluation loss → Revaluation reserve of same asset
- Revaluation reserve released to RE
  - When asset is derecognised
  - Diff between depreciation on cost and revaluation amt not in P/L

- Depreciation
  - Componentisation – each part depreciated separately
  - Useful life = period used ≠ economic life
  - Depreciation on: value net of residual value
  - Residual value is what is ‘currently’ realisable from disposal if asset were at end of useful life

- Depreciation .. Continued
  - Useful life and residual value reviewed at least annually
  - Depreciation ceases on earlier of derecognition or classification as HFS
  - G/L on disposal ≠ revenue

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IAS 17: Leases

- Treated as an operating lease, unless the leasehold interest is treated as investment property and FVed
- Arrangements not structured as leases but where there is right of exclusive use of specific assets are deemed to be finance leases (IFRIC 4)

- Leasehold land is considered as FA
- There is no such requirement – legal form prevails

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IAS 17: Leases

●	●
If several transactions taken together show up a lease, all such transactions are accounted as a single transaction (SIC 27)	No such requirement
Lease incentives (e.g. rent-free period) are recognised by lessor and lessee as lease income/ expense over lease term (SIC 15)	No such requirement
Specific guidance for service concession arrangements (IFRIC 12)	No such guidance

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IAS 18: Revenue

- Amounts collected for others e.g. sales tax, VAT, excise duty are excluded from revenue
- Where cash flows are deferred, revenue is recognised at discounted value of future cash flows, difference is recognised as interest using effective interest method
- Specific guidance on revenue recognition in exchanges involving similar and dissimilar exchange

- Presented as under:
  - Revenue XXXX
  - Excise ZZZ
  - Net revenue YYYY
- No discounting done, recognition is at nominal value of sales consideration
- No guidance available

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IAS 18: Revenue

- Interest income is recognised using the effective interest method
- Revenue from services is recognised using the % of completion method
- Award credits (for customer loyalty programs) are recognised as a separate component of transaction by allocating consideration to award credits and the remaining transaction (IFRIC 13)

- Interest income is recognised on time proportion basis at rate applicable
- Both % of completion and completed service contract method allowed
- No specific guidance

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IAS 19: Employee benefits

- Actuarial gains/ losses may be
  - Recognised immediately in income, or
  - Recognised immediately in OCI, or
  - Corridor approach allowed Only {Excess over greater of 10% of opening plan assets or opening benefit obligation} ÷ {expected average remaining working lives of employees in plan} is recognised in income

- Recognised immediately in income

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IAS 19: Employee benefits

- Preferred discount rate is market yield on high quality corporate bonds. If bond market is not deep, market yields on government securities

- Market yield on government securities

IAS 20: Government grants

- Recognised as income matching with related costs, but not directly credited to shareholders' interests
- Asset and grant are accounted either at FV or at nominal value

- Grants in nature of promoter's contribution are recognised in equity, revenue grants are taken to income so as to match the related expense
- If grant is at discounted price, both asset and grant are accounted at discounted price; if free, at nominal value

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IAS 21: Effects of changes in forex rates

- Concepts of functional currency and presentation currency
- Exchange differences on monetary items forming part of net investment in foreign operation recognised in OCI in consolidated FS, but in P/L in separate FS
- Concepts of foreign currency and reporting currency
- Such exchange differences are recognised in foreign currency translation reserve in both separate and consolidated FS

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IAS 21: Effects of changes in forex rates

- Change in functional currency is applied prospectively
- A/L are translated from functional currency to presentation currency at period-end rates, I/E at actual/average rates and exchange differences are recognised in OCI to be released to income on disposal of operation

- Change in reporting currency is not dealt with in AS 11, though reason for change is disclosed
- Depends if classification of operation is integral or non-integral
  - Integral – monetary A/L at closing rate, non-monetary A/L at historical rate if valued at cost and closing rate if valued otherwise
  - Non-integral – like IFRS but difference goes to reserve (in stead of OCI)

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IAS 21: Effects of changes in forex rates

- Forward contracts – accounted as derivatives per IAS 39

- Non-trading/ non-speculation
  - Premium/ discount amortised over life
  - Exchange differences recognised in P/L as they accrue
- Trading or speculation
  - Premium/ discount ignored, contract is MTM and gain/ loss recognised in P/L

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IAS 24: Related party disclosures

- Employee benefit plans of entity are its related parties
- Break-up of compensation to key management personnel to be given

- Employee benefit plans of entity are not its related parties
- Only total compensation is disclosed

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IAS 26: Accounting and reporting by retirement benefit plans

- Sets out reporting requirements for defined contribution and benefit plans – incl a statement of net assets available for benefits, and disclosures of actuarial PV of promised benefits

- No equivalent Indian standard

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IAS 27: Consolidated and separate FS

- Parent must prepare consolidated FS, except under certain situations
- Control is power to govern financial and operating policies so as to obtain benefits from its activities
  - Just 50% voting power is not enough
- Except for SEBI requirement in clause 49, no requirement to provide consolidated FS
- Control is ½ voting power or control over composition of board

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IAS 27: Consolidated and separate FS

- Only one party can have control
- Potential voting rights are considered
- If subsidiary is classified as HFS on acquisition, it is consolidated but accounted under IFRS 5

- It is possible for two entities to have control, one by shareholding and one by controlling board
- Potential voting rights are not considered
- If subsidiary is acquired with intent to resell within 12 mths, it is excluded from consolidation

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IAS 27: Consolidated and separate FS

- Difference in reporting date of parent and subsidiary to be not > 3 mths
- SPEs consolidated

- Difference in reporting date of parent and subsidiary to be not > 6 mths
- SPEs not consolidated

IAS 28: Investment in associates

- Potential voting rights considered in determining significant influence
- Venture capital funds, MFs, unit trusts, etc., not required to equity account their investments if they measure such investments at FV through profit or loss

- Potential voting rights not considered in determining significant influence
- No such exemption

IAS 28: Investment in associates

- Such excess losses are applied to other components of the investor's interest such as LT loans
- On loss of significant influence due to disposal, investment is remeasured at FV with gain/loss recognised in P/L

- Losses in excess of carrying amount of investment are ignored
- No specific guidance

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IAS 28: Investment in associates

- Negative goodwill is excluded from carrying value of investment and included in income

- Capital reserve arising on acquisition of associate is included in carrying value of investment but is separately disclosed

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IAS 31: Interests in joint ventures

- Investments in jointly controlled entities can be equity accounted or proportionately consolidated

- Equity accounting is not allowed

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IAS 32: Financial instruments - presentation

- Capital instruments are classified as debt or equity based on substance
- Dividend on preference shares is recognised as interest expense
- Own shares (treasury shares) are deducted from equity
- Combined instruments like convertible debt are split into debt and equity at issuance

- Legal form prevails
- Dividend on preference shares is an appropriation of profit
- Own shares cannot be kept but must be cancelled – no concept of treasury shares
- Entire instrument is treated as debt per its legal form

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IAS 33: Earnings per share

- Disclosure required in only the consolidating entity
- Certain other disclosures are required

- Required in both consolidated and separate FS
- No additional disclosures required

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IAS 37: Provisions, contingent liabilities & contingent assets

- Both legal and constructive present obligations require provisioning
- Provisions are discounted to their present values
- Contingent assets are disclosed

- Provisions generally not recognised based on constructive obligation
- Discounting of provision is not allowed
- Contingent assets are not disclosed in the FS, but are in directors' report

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IAS 38: Intangible assets

- Can be measured at cost or revalued amounts
- Useful life may be finite or infinite
- Goodwill not amortised but tested for impairment

- Can only be measured at cost
- May not be infinite; rebuttable presumption that useful life is not > 10 yrs
- Goodwill on amalgamation is amortised over 5 yrs; goodwill on acquisitions is tested for impairment

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IAS 39 Financial Instruments: Recognition & Measurement

- IAS 39 is being replaced by 4 standards. Of these one, IFRS 9, has been brought on the books.
- This is a detailed standard, discussion on which can be taken up once these four replaced standards are in place.

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IAS 40: Investment property

- Can be measured using cost or FV model with changes in FV recognised in P/L

- No equivalent standard – AS 13 applies; classified as long-term investment and measured at cost less impairment

IFRS 2: Share-based payment

- Standard covers both employees and non-employees
- Goods/ services recognised when goods are received/ service rendered with corresponding increase in equity for equity-settled transactions or as liability for cash-settled transactions

- No standard; ICAI GN on employee share-based payment; SEBI ESOP Guidelines
- No standard, but treatment generally similar

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IFRS 2: Share-based payment

- Equity-settled transactions are measured at FV of goods/ services received or, if that is unreliable, FV of goods/ services given up

- For ESOPs, both intrinsic value and FV are allowed; FV is encouraged

IFRS 3: Business combinations

- Purchase method compulsory except for common control transactions; pooling of interests prohibited
- Negative goodwill arising in acquisition is treated as bargain purchase and credited to income

- Both purchase and pooling of interest methods permitted

- Negative goodwill is accumulated in capital reserve

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IFRS 3: Business combinations

- Goodwill is not amortised but tested for impairment
- Consideration for acquisition includes FV of contingent consideration. Subsequent changes are recognised in P/L
- Acquisition-related costs (e.g. due diligence cost) are expensed when incurred or when services are received

- Goodwill is amortised over a period not exceeding 5 yrs
- No specific guidance
- No specific guidance

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IFRS 5: Non-current assets held for sale and discontinued operations

- Classification when available for immediate sale and sale is probable. Depreciation ceases from that date
- Measured at lower of carrying value and FV less costs to sell
- Operation is classified as discontinued when disposed of or classified as HFS

- No equivalent standard. AS 10 deals with assets held retired from active use and held for disposal
- Stated at lower of book value and NRV and shown separately in FS
- Any expected loss is immediately recognised in P/L

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IFRS 7: Financial instruments - disclosures

- Disclosures prescribed to enable users to evaluate the significance of FIs, nature and extent of their risks and how the entity manages those risks

- No equivalent standard.

IFRS 8: Operating segments

- Operating segments are identified based on financial information evaluated by the CODM in deciding how to allocate resources and assessing performance
- Measurement basis for segment information is same as used by CODM

- Business and geographical segments identified using a risk and reward approach
- Segment information is prepared using the same accounting policies as used to prepare FS

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Thank You

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