

# 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

- IFRS 1** First-time Adoption of International Financial Reporting Standards
- IFRS 2** Share-based Payment
- IFRS 3** Business Combinations
- IFRS 4** Insurance Contracts
- IFRS 5** Non-current Assets Held for Sale and Discontinued Operations
- IFRS 6** Exploration for and Evaluation of Mineral Resources
- IFRS 7** Financial Instruments: Disclosures
- IFRS 8** Operating Segments
- IAS 1 Presentation of Financial Statement
- IAS 2 Inventories
- IAS 7 Statement of Cash Flow
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after Reporting Period

# Background of IFRS

## IFRS Index

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

# Background of IFRS

## IFRS Index

- 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

# Background of IFRS

## 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



# How different are IFRS ?

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, Plant & 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

# Background of IFRS

## Pillars of IFRS

- Recognition
- Measurement
- Presentation
- Fair Value
- Disclosure
- Substance over form

# Background of IFRS

## 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.

# Background of IFRS

## 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



# Background of IFRS

## 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.

# Background of IFRS

## 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

# Background of IFRS

## 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

**Awaiting final  
Notification**

Inventories	AS 2 Vs IAS 2
Cash Flows	AS 3 Vs IAS 7
Events occurring after Balance Sheet date	AS 4 Vs IAS 10

# Background of IFRS

## INDIA -Status of other laws

- NACAS

### **Preliminary Drafts ready**

Share Based Payments	AS 22 Vs IFRS 2
Interim Financial Reporting	AS 25 Vs IAS 34
Financial Instruments- Recognition & Measurement	AS Nil Vs IAS 39
Financial Instruments- Presentation	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

# 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
<1000>500 Cr	Listed/Unlisted	1 April 2013
<500 Cr	Listed	1 April 2014

# 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)

# Transition date---Contd

- Also for quarterly reporting for listed companies, the 1<sup>st</sup> 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

# One time event having far reaching impact

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

# Transition & Business

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



# First Time adopter

- 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

## Contd--

- 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

- Project initiation includes 2 functions – Impact analysis and Gap analysis

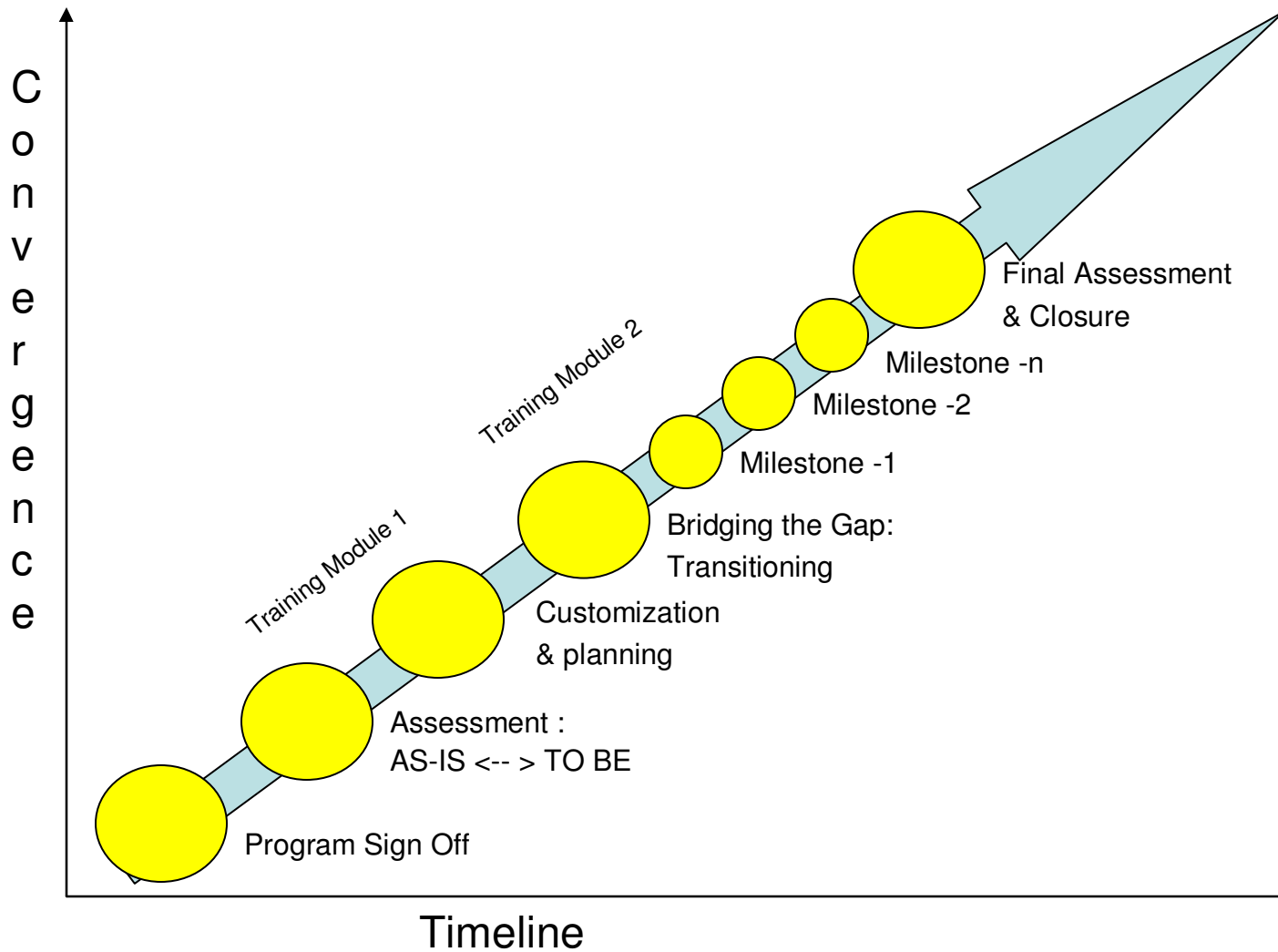
# Project Initiation

- 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





# 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 taxation, commercial etc.

# Bridging the Gap

- Management support
- Operational level support
- Infrastructure-Hardware, Software, Associated professionals e.g. valuers

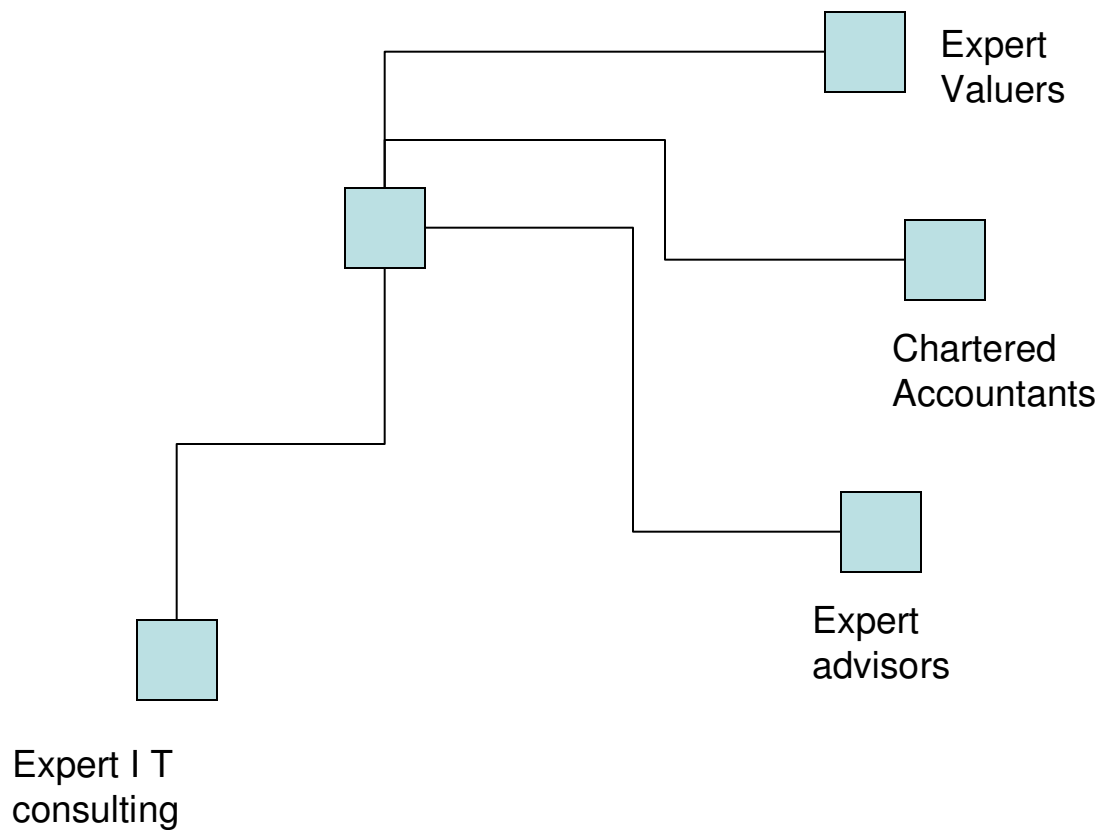
# Mile Stones-1-2-3.....

- 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



# 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

# Are we ready for IFRS

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

