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CHARTERED ACCOUNTANTS



Basic overview of IERS

- **What is GAAP?**

- Generally Accepted Accounting Practices

- Indian GAAP includes :

- Accounting Standards

- Revised Schedule VI

- Each country has its own GAAP

- **What is IFRS ?**

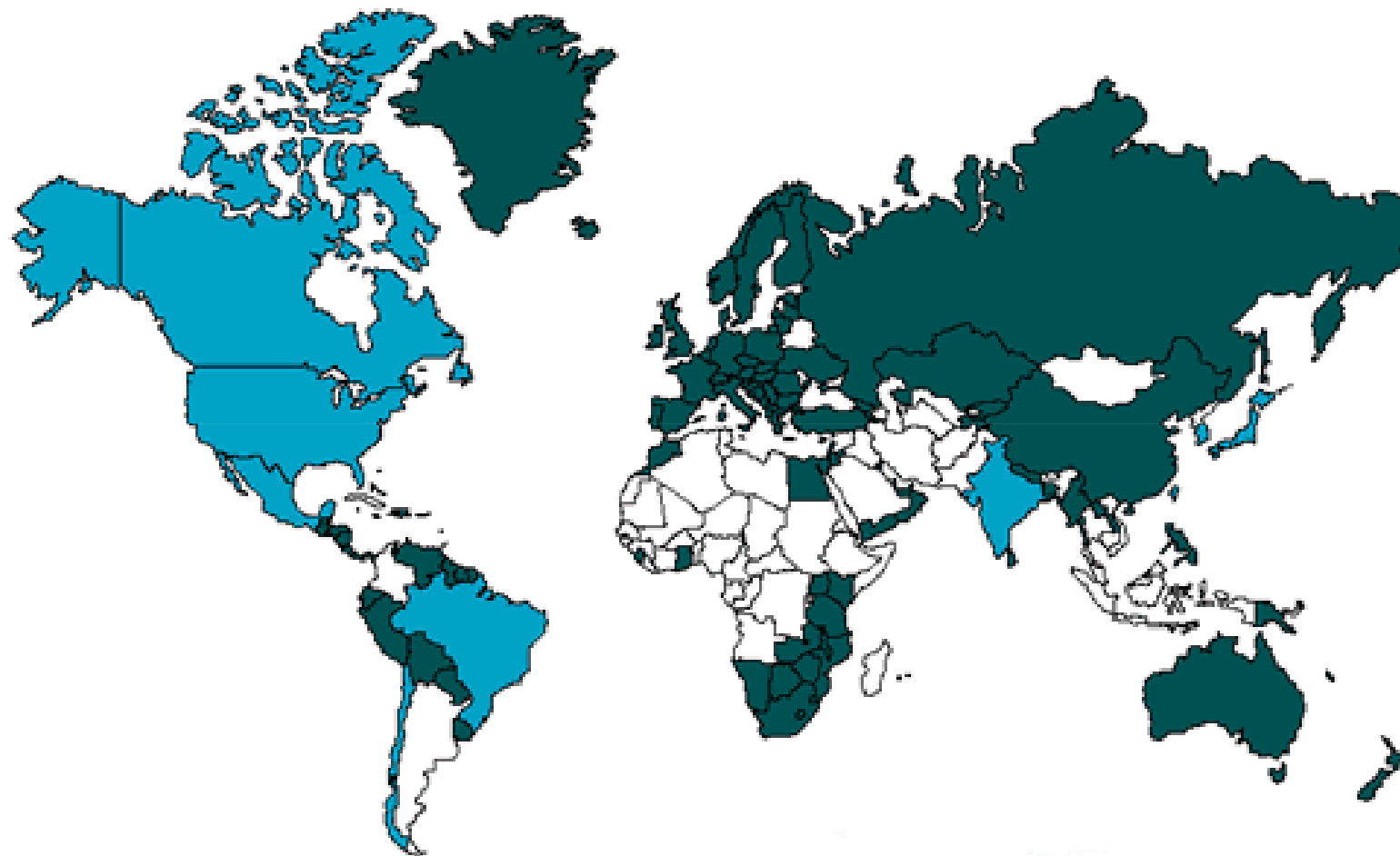
- International Financial Reporting Standards

- IFRS is GAAP which is generally used in most of the parts of the World

- It is an universally accepted accounting language

- The focus shifts from Accounting to Reporting

- **Why Convergence to IFRS ?**
 - Globalisation of Indian Economy
 - Common Accounting Language
 - IFRS widely accepted world over



■ Countries that require or permit IFRSs

■ Countries seeking convergence with the IASB or pursuing adoption of IFRSs

More than 100 countries, including the members of the European Union and much of Asia, have already adopted and implemented IFRS.

Journey of IFRS

- Board for IASC established in 1973
- Issued IAS – 41 in number till date
- Several withdrawn – remains = 29
- Interpretations issued by SAC (Standards Advisory Committee)
- In 2001, IASC replaced by IASB
- 14 member committee from all parts of world – 9 required to pass
- Modified IAS substantially – Accounting vs Reporting concept
- New Standards – New Series – IFRS
- 8 IFRS issued so far under new series. However IAS are also part of IFRS
- Interpretations issued – IFRIC

- Entire Europe converged to IFRS
- US already permits IFRS to Non US holdco having operations in US
- Road map of US to converge to IFRS over a period
- IFRS vs US GAAP
- Principle based vs Rule based

- 8 new Standards as compared to Indian GAAP

Total Standards under Indian GAAP at present – 32

Total Standards under IFRS at present - 37

Out of the above, there are 8 new standards

- Several AS are replicated from IFRS (17 are more or less identical with minor modifications)
- All standards will be made applicable at one time rather than phase wise
- Two options – Benchmark and Allowed Alternative Treatments



Indian Convergence Road Map

CA Kusai Goawala

May 2012

GKDJ & Associates

Indian Convergence Road Map

36 IndAS (converged) have been hosted on the MCA website. However, notification for implementation of the same is awaited.

- For CFS, voluntary adoption of IndAS is allowed.**
- Implementation proposed in phased manner**
 - First Phase**
 - Companies that are included in Nifty 50 and Sensex 30 or
 - Companies listed abroad or
 - those companies whether listed or not having net worth of 1000 cr or more
 - Second Phase**
 - Companies whether listed or not having net worth of 500cr or more.
 - Third Phase**
 - Rest of the Companies.

- Arrangement :
 - Main Standard
 - BC = Basis for Conclusion
 - AG = Application Guidance
 - IG = Implementation Guidelines
 - IE = Illustrative Examples

Part Implementation has already commenced

Revised Schedule VI introduced effective from 1.4.2011, is replica of IAS1 which is the format for financial statements used under IFRS.

- Basic Principles of IFRS (Framework)
 - Substance over form
 - Logical Presentation
 - Fair Value Concept
 - Ordinary vs Extraordinary

- Major Changes from Indian Standards to IFRS
 - Single Entity Concept / PVR
 - Fixed Assets
 - Effective Interest Method
 - Imputed interest working
 - Foreign Exchange – Functional Currency
 - Hyperinflation
 - Business Combination – Purchase Method
 - Proposed Dividend – Adjusting Event
 - Change in Estimate – Change of method - Depreciation
 - Ordinary vs Extraordinary
 - Segment Reporting – Customers >10%
 - Impairment of Assets
 - Exchange difference – Imputed Interest
 - Financial Instruments/Embedded Derivatives/One



Treatment of Prior Period

Adjustments under

IFRS vs AS

Treatment of Prior Period Adjustments under IFRS vs AS

In accounts for YE 2010, following income/expenses relating to YE 2009 were observed :

Interest Income	100
Advertisement Expenses	-200
Net Prior Period (Expenses)	-100

	Under Indian GAAP	
	YE 2010	YE 2009
Sales	1000	800
Interest Income	200	100
	1200	900
Cost and other expenses	700	600
Advertisement Expenses	200	100
	900	700
Net Profit before Tax	300	200
Tax	100	60
Net Profit after tax	200	140
Prior Period Adjustments	-100	
Net Profit	100	140

	Under Indian GAAP		Under IFRS	
	YE 2010	YE 2009	YE 2010	YE 2009
Sales	1000	800	1000	800
Interest Income	200	100	200	200
	1200	900	1200	1000
Cost and other expenses	700	600	700	600
Advertisement Expenses	200	100	200	300
	900	700	900	900
Net Profit before Tax	300	200	300	100
Tax	100	60	100	60
Net Profit after tax	200	140	200	40
Prior Period Adjustments	-100			
Net Profit	100	140	200	40



Classification of under

IFRS and AS

Classification of Assets and Liabilities under IFRS and AS

Principle – Substance over Form

A Redeemable Preference Shares are classified as liability under IFRS whereas it is classified as Capital under Indian GAAP

A Convertible Debentures are classified as Capital under IFRS whereas classified as liability under Indian GAAP



Concept of Single Economic Entity under IFRS

Concept of Single Economic Entity under IFRS

- ◆ Group A :
Company A is the holdco

The projects are undertaken in WOS - SPV1, SPV2
and SPV3
- ◆ Group B :
Having identical activities as Group A but undertakes
projects in the same company instead of SPV.

- ▶ Group A
- ◆ Standalone under Indian GAAP

	Holdco	SPV1	SPV2	SPV3
Sales	0	1000	1000	1000
PAT	0	200	200	200
Equity Capital	3000	1000	1000	1000
Reserves	0	200	200	200
	3000	1200	1200	1200
Investments	3000			
Operating Assets		1200	1200	1200
	3000	1200	1200	1200

- ▶ Group B
- ◆ Standalone under Indian GAAP

	Co B
Sales	2500
PAT	500
Equity Capital	3000
Reserves	500
	3500
Operating Assets	3500
	3500

► CFS under IFRS

	A	B
Sales	3000	2500
PAT	600	500
Equity	3000	3000
Reserves	600	500
	3600	3500
Operating Assets	3600	3500
	3600	3500

