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IFRS – Key Facets!

Indian accounting system so far is based on Indian Accounting Standard, formulated by the ICAI. All companies in India have to adhere to these standards for financial recording and reporting.

With the globalization, the need to form uniform accounting standards were felt. For example in USA, financial reporting is based on US GAAP, in UK accounting standards have been issued by the Accounting Standards Board (ASB). All accounting standards developed and issued by the ASB are known as Financial Reporting Standards (FRSs). In India financial reporting is based on IAS, likewise all countries have different accounting standards in place for their respective financial reporting. These different accounting standards were in conflict with each other on various matters and were deterrent for globalization.

What is IFRS?

International Financial Reporting Standards (IFRS) are principles-based standards, interpretations and the framework (1989) adopted by the International Accounting Standards Board (IASB).

Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IASs were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On April 1, 2001, the new IASB took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards IFRS.

Structure of IFRS

Standards comprise:

- *International Financial Reporting Standards (IFRS)*—standards issued after 2001
- *International Accounting Standards (IAS)*—standards issued before 2001
- *Standing Interpretations Committee (SIC)*—issued before 2001
- *Conceptual Framework for Financial Reporting (2010)*

Adoption of IFRS

It is generally expected that IFRS adoption worldwide will be beneficial to investors and other users of financial statements, by reducing the costs of comparing alternative investments and increasing the quality of information. Companies are also expected to benefit, as investors will be more willing to provide financing. Companies that have high levels of international activities are among the group that would benefit from a switch to IFRS. Companies that are involved in foreign activities and investing benefit from the switch due to the increased comparability of a set accounting standard. However, Ray J. Ball has expressed some skepticism of the overall cost of the international standard; he argues that the enforcement of the standards could be lax, and the regional differences in accounting could become obscured behind a label. He also expressed concerns about the fair value emphasis of IFRS and the influence of accountants from non-common-law regions, where losses have been recognized in a less timely manner.

What the IFRS Statement consists of?

Key components of IFRS are:

- a Statement of Financial Position
- a Statement of Comprehensive Income separate statements comprising an Income Statement and separately a Statement of Comprehensive Income, which reconciles Profit or Loss on the Income statement to total comprehensive income
- a Statement of Changes in Equity (SOCE)
- a Cash Flow Statement or Statement of Cash Flows
- notes, including a summary of the significant accounting policies

Comparative information is required for the prior reporting period (IAS 1.36). An entity preparing IFRS accounts for the first time must apply IFRS in full for the current and comparative period although there are transitional exemptions (IFRS1.7).

On 6 September 2007, the IASB issued a revised IAS 1 Presentation of Financial Statements. The main changes from the previous version are to require that an entity must:

- present all non-owner changes in equity (that is, 'comprehensive income') either in one Statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the Statement of changes in equity.
- present a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies the new standard.
- present a statement of cash flow.
- make necessary disclosure by the way of a note.

The revised IAS 1 is effective for annual periods beginning on or after 1 January 2009. Early adoption is permitted.

IFRS in India

India has set a roadmap for convergence with International Financial Reporting Standards (IFRS) commencing from 1 April, 2011. The convergence with IFRS standards is set to change the process of financial reporting in India. IFRS represents the most commonly accepted global accounting framework as it has been adopted by more than 100 countries.

With the growth of Indian Economy and increasing integration with the global economies, Indian corporates are raising capital globally. Under the circumstances, it would be imperative for Indian corporates to adopt IFRS for their financial reporting.

While the Core Group of Ministry of Corporate Affairs (MCA) has recommended convergence to IFRS in a phased manner from 1 April, 2011 Indian corporates having global aspirations should consider earlier voluntary adoption. While there are several similarities between Indian GAAP and IFRS, still there are differences which can have significant impact on the financial statements.

Timelines of convergence

Indian companies are allowed to adopt the IFRS in three phases.

Phase I

1 April 2011

a) Companies which are Part of NSE - Nifty 50.
b) Companies which are part of BSE - Sensex 30.
c) Companies whose shares or other securities are listed on stock exchanges outside India.
d) Companies, whether listed or not, which have a net worth in excess of Rs. 1,000 crores.

Phase II

1 April 2013

The companies, whether listed or not, having a net worth exceeding Rs. 500 crores but not exceeding Rs. 1,000 crores.

Phase III

1 April 2014

Listed companies which have a net worth of Rs.500 crores or less.

Companies which fall in the following categories will not be required to follow the notified accounting standards which are converged with the IFRS (though they may voluntarily opt to do so). These companies are: -

(a) Non- listed companies which have a net worth of Rs. 500 crores or less and whose shares or other securities are not listed on Stock Exchanges outside India.

(b) Small and Medium Companies (SMCs).

Benefits of adopting IFRS

- It would benefit the economy by increasing growth of international business.
- It would encourage international investing and thereby lead to more foreign capital inflows in the country
- Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions.
- I F R S w o u l d e n h a n c e t h e comparability between financial statements of various companies across the globe.
- Better understanding of financial statements would benefit investors who wish to invest outside their own country.
- The industry would be able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards.
- It would reduce different accounting requirements prevailing in various countries there by enabling enterprises to reduce cost of compliances.
- It would give professionals the opportunity to serve the foreign clients.
- It would increase the mobility of the professional to work in different parts of the world either in industry or practice.

IFRS Challenges

- Increased initial cost initially due to dual reporting requirements which entity might have to meet till full convergence is achieved
- Unlike several other countries the accounting framework in India is deeply affected by the laws and regulations. Changes may be required to various regulatory bodies eg Company Act, Income tax Act, SEBI, RBI etc to implement the IFRS. If IFRS has to be uniformly understood and consistently applied, all stakeholders, employees, auditors, regulators, tax authorities, etc would need to be trained
- Entity would need to incur additional cost for modifying their IT systems and procedures to enable it to collate data necessary for meeting the new disclosures and reporting requirements.
  Differences between Indian GAAP and IFRS may impact business decision /financial performance of an entity.
- Limited pool of trained resource and persons having expert knowledge on IFRSs.

Fundamental Norms

a) Accrual basis: Under this basis, the effects of transactions and other events are recognized when they occur and not when the cash or its equivalent is received or paid. These effects should be recorded and reported in the financial statements of the periods to which they relate.
b) Going Concern: The financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation for the probable period. It is assume that the organization has no intention to close or scale down.

Qualitative Characteristics of IFRS statements

The four important characteristics of IFRS statements are –

a) Understandability: An essential quality of the information provided in financial statements is that it is readily understandable by users with reasonable knowledge of the business and economic activities.

b) Relevance: The users should find the information contained in the financial statements as a useful relevant tool in taking important economic decisions on the basis of past evaluations and projecting future predictions on past basis. Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested.

c) Reliability: Information in financial statements is reliable if it is free from material error and bias and can be depended upon by users to represent events and transaction faithfully. Information is not reliable if it is purposely designed to influence users' decision in a particular direction.
The reliability of information depends upon faithful representation, substance over form, neutrality, prudence and completeness.

d) Comparability: Users must be able to compare the financial statements of an enterprise over time so that they can identify trends in its financial position and performance. Users must also be able to compare the financial statements of different enterprises. Disclosures of accounting policies are essential for comparability.

IFRS Vs. INDIAN GAAP: SOME KEY DIFFERNCES

TOPIC	**IFRS/IAS**	**Requirements as per IFRS**	**Requirements as per IAS**
Components of Financial Statements	IAS 1	Statement of financial position (Balance sheet) Statement of comprehensive income (Income statement) Statement of changes in equity, Cash flow statement Notes comprising a summary of significant accounting policies and other explanatory information.,	Balance Sheet Profit and Loss Account, Cash flow statement, (not mandatory for 'SMC') Accounting policies and Notes to financial statements.
Balance sheet	IAS 1	There is no prescribed rigid	There is no specific format

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Format		format, minimum lines item to be presented on the face of the balance sheet is prescribed. IFRS requires presentation of additional line items, headings and sub totals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position. An entity shall present separate classification of current and noncurrent 1) assets and liabilities in its 2) statement of financial position except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.	prescribed for income statement The Accounting Standard and The Companies Act, 1956 prescribes disclosure norms for certain items.
Extraordinary Items	IAS 1	An entity shall not present any item of income or expenses as extraordinary items either on the face of the statement or separately in	An entity should disclose in the statement of Profit or loss any income or loss that arise from events or transactions that are clearly

		the notes	distinct from the ordinary activities of the enterprise The amount of such extraordinary income should be disclosed separately in the P&L statement
Inventories	IAS 2	Assessment of Inventories: A new assessment of net realizable value is required to be made in each subsequent period	There is no specific guideline in IAS on the treatment of inventories
Cash Flow Statements	IAS 7	Cash Flow Statements are part of statements under IFRS Bank borrowings and the overdraft should be included in cash flow statements	Cash Flow Statements are not part of statutory financial statements There is no stipulation under IAS for the bank borrowings and overdraft
Changes in accounting policies	IAS 8	An entity shall account for the change in accounting policies retrospectively	Change in accounting policies shall have effect in current period profit and loss.
Depreciation Accounting.	IAS 16	An entity is required to depreciate separately the plant, property and equipment (PPE) if they have different useful life	An entity is not required to follow component approach
Revenue Recognition	IAS 18	Revenue should be measured at the fair value of the consideration received or	Revenue is recognized by the charges made to the customer and not on the fair value of

		receivable. When the inflow of the cash or cash equivalent is deferred, discounting to a present value is required to be done.	consideration. In case of installment sales, discounting would be required. When the consideration is receivable in installments, revenue is recognized during the period for which sale is done.
Consolidated Financial Statements	IAS 27	IFRS mandates the consolidated financial statements unless it is exempt	IAS does not require an entity to prepare the consolidated financial statement.

The list is not exhaustive. It only covers few important topics.