

ASA & Associates

chartered accountants (*Murali Associates merged with ASA*)

A member firm of NIS Global



IFRS >>

India

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1. Why IFRS

International Financial Reporting Standards (IFRS) convergence, in recent years, has gained momentum all over the world. As the capital markets become increasingly global in nature, more and more investors see the need for a common set of accounting standards.

India being one of the key global players, migration to IFRS will enable Indian entities to have access to international capital markets without having to go through the cumbersome conversion and filing process. It will lower the cost of raising funds, reduce accountants' fees and enable faster access to all major capital markets. Furthermore, it will facilitate companies to set targets and milestones based on a global business environment, rather than an inward perspective.

Furthermore, convergence to IFRS, by various group entities, will enable management to bring all components of the group into a single financial reporting platform. This will eliminate the need for multiple reports and significant adjustment for preparing consolidated financial statements or filing financial statements in different stock exchanges.

2. How the world is converging into IFRS

IFRS is used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, South Africa, Singapore and Turkey. As in August, 2008, more than 110 countries around the world, including all of Europe, currently require or permit IFRS reporting. Approximately 85 of those countries require IFRS reporting for all domestic listed companies.

Timeline for Convergence (major countries)



3. India and IFRS

In India, there will be two set of Accounting Standards –

1. *The existing Indian Accounting Standards (IAS)* – will be applicable to all companies which are not required to adopt IFRS converged standards.
2. *Indian Accounting Standards, as converged with IFRS (Ind-AS)* – will be applicable to companies operating in India in phased manner beginning from April 1, 2011. In the first phase companies forming part of stock exchange index and those with net worth of above approx 250 million USD will be required to present their financial statements as per Ind-AS.

There are conceptual differences between IAS and IFRS. Keeping in view the extent of gap between IAS, Ind-AS and the corresponding IFRSs – conversion process would need careful handling. By introducing a new company law, the Indian Government has initiated the process to amend the legal and regulatory framework.

The conversion would involve, Impact Assessment, Revisiting Accounting Policies and thereafter changing the Accounting & Operational Systems (including ERP) in order to be fully compliant with Ind AS or IFRS.

4. IFRS vs IAS

Basis	IFRS	IAS
Principle vs Rule based standards	Principle based. Economic substance of the transaction is the prime evaluation factor.	Generally rule based. Companies act and rules dominate and guide as to how a transaction is recorded.
Standards vs Local laws	Accounting standards take precedence over local laws.	Local regulations usually take precedence while preparing financial statements. Whenever there is a conflict between law and standard, the law prevails.
Presentation of financial statements	Primarily, no prescribed format. Assets and liabilities need to be divided into current and non-current.	Companies Act and other industry regulations have defined prescribed formats.
Depreciation on fixed assets	Depreciation is an annual charge on basis of estimated life of assets.	Minimum depreciation rates have been prescribed in Schedule XIV of the Indian Company's Act.
Cash flow statements	Mandatory. Any of the direct or indirect method can be used.	Mandatory for some. Direct method for insurance companies and indirect method for other listed companies.
Change in accounting policy and estimates	Comparatives are restated unless specifically exempted, where the effect of period(s) not presented is adjusted against opening retained earnings.	The effect of change is included in current year income statement. The impact of the change is disclosed.
Valuations	Provides specific guidance and standards to deal with mergers, acquisitions, take over, amalgamations etc specifically as regards to valuation related issues.	Positions taken under IAS are debatable.
Adoption methodology`	IFRS 1 spells out the methodology and systems to be adopted for first time adoption of IFRS. IFRS specifies the financial reporting in hyper inflationary economies. Also has a specific standard for retirement benefit plans, agriculture, insurance contracts and disclosure of financial instruments.	More traditional and insulated from changing economic scenario. A more historical perspective.

5. Corporate Impacted by IFRS in India

In the first phase, the following entities need to adopt IFRS with effect from April 1, 2011

- Public Listed Companies forming part of Stock Exchange Index
- All companies with a net worth of over INR 1000 Crore (USD 250 million approx).

Additionally, Indian subsidiary of foreign companies will need to convert their financial statements as per IFRS, if so required by the parent company for consolidation purpose.

6. Some Key Challenges to Implementation

a) Amendments in the Law

IFRS will have a bearing on the legal provisions as are presently set out in the Indian Income Tax Act, Companies Act, etc.

b) Impact on financial results

Financial reports will experience a lot of changes. For example treatment of depreciation differs. Hence, the value of assets as well the profitability of the organization may swing, which, in turn, may impact the net worth.

c) User awareness and training

Many people are yet not aware of IFRS, their complexities and impact. A change in the reporting format will require awareness of these new norms and systems, training and education, both for the professional as well the user.

7. ASA - Your Partner in Change

ASA has established a center of excellence for IFRS. The team includes chartered accountants certified in IFRS. We are fully geared to provide the following services

a) Training (3-5 days): We have both general and industry specific training modules on IFRS. Our certified trainers would help your users to understand the IFRS and its key differences with IAS.

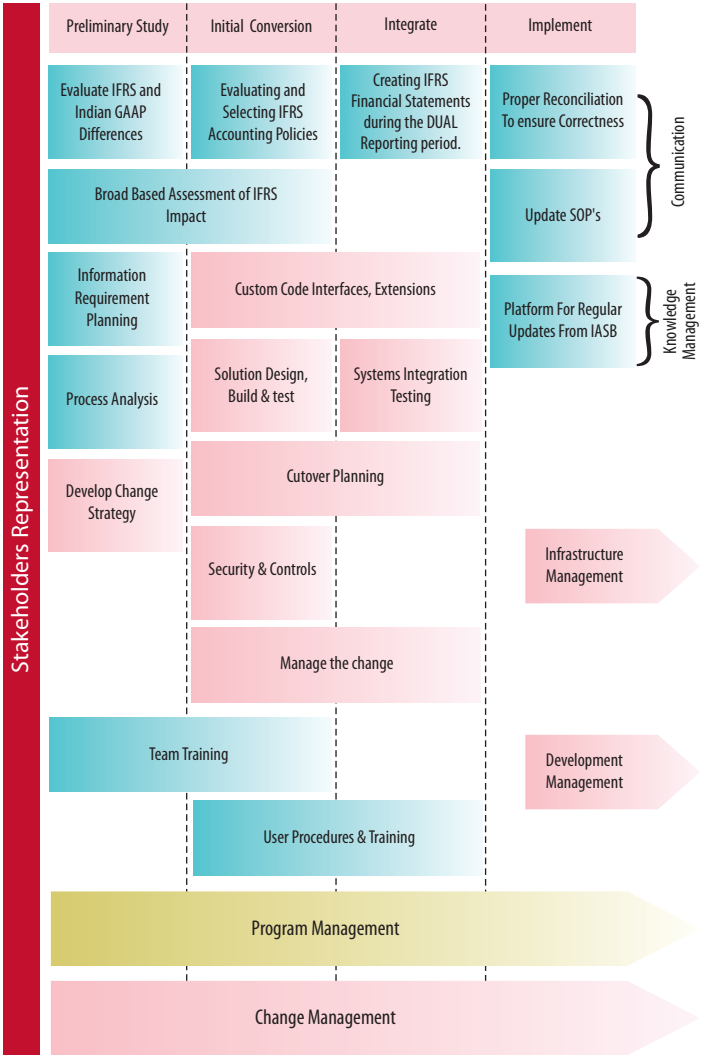
b) Impact Analysis (3-6 weeks): Our detailed checklist helps to determine the impact of conversion on different stakeholders of the company viz. promoters, investors, shareholders, regulators, etc.

c) Conversion (3-4 months): We would take the company through the process of conversion including changes to accounting/operational systems). We follow template based approach in order to fast track the process of conversion, besides coordinating the conversion activities with the concerned IT vendor.

d) Accounting Support: The conversion process would lead to additional work in relation to accounting or reconciliation. We could provide appropriate staff to close the gap.

ASA has contributed in many seminars and conferences, and has arranged client specific workshops as regards the various aspects of IFRS conversion. Being a member of NIS Global, an international association of independent accounting firms, we are able to bring to bear experience of other member firms in Europe, Japan etc which assisted their clients to undergo the process of IFRS conversion.

Conversion Roadmap



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National Affiliates

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International Affiliates

Australia, China, Dubai, France, Germany, Hong Kong, Indonesia, Ireland, Israel,
Italy, Japan, Korea, Malaysia, Mauritius, Myanmar, Netherlands, Philippines,
Portugal, Slovenia, Spain, Switzerland, Thailand, United Kingdom, Vietnam