

# Demystifying IFRS

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- Basics of IFRS
- Key Differences
- Latest Developments
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## What is IFRS ?

- International Financial Reporting Standards
- Standards for Reporting Financial Results
- IFRS requirement includes IASs
- Issued by International Accounting Standard Board ('IASB')

## Why IFRS ?

- Globally Accepted
- Simplified
- Cost Effectiveness
- Principles Based Environment
- Scope for Professional Judgment

## HOW..?

- Guiding Principles for IFRS Adoption: -
  - IFRS- 8 Standards
  - IAS- 41 Standards
  - IFRIC- 17 Interpretations
  - SIC- 33 Interpretations
  - Framework- Presentation of Financial Statements
  - Concepts- Other GAAPs

## Position in the World..

- Nearly 100 countries (require or permit)
- All Listed European Companies – 2005
- Pakistan – Already Reporting as per IFRS
- Canada – to Converge in 2011
- US – Sooner or Later – To be Complete by 2014
- India – 2011

# Key Differences

## IFRS Vs US GAAP

- Principle Based
- Complexity
- Globally Accepted

# IFRS vs. INDIAN GAAP

- First Time Adoption
- Presentation
- Substance – Rules
- Law vs. Standards

## IFRS vs. INDIAN GAAP

- Cost – Fair Value
- Functional / Reporting Currency
- Valuation of Taken over Assets
- Current vs. Non Current Assets / Liabilities
- Intangible Assets

## How to Convert

- Study (understand)
- Discussions and Checklist
- Applicability
- Disclosures

## Latest Developments..

- Company Law Bill 2008 (Proposed)
  - Direction towards IFRS
  - One Director / One Shareholder Companies
  - Financial Year Synchronized
  - Financial Statements to include Cash Flow Statements
  - Special Provisions for Merger and Acquisitions
  - Revised Schedule VI (Proposed)

## Latest Developments....

- Changed Accounting Standards (Drafts)
  - AS – 3 Cash Flow Statements (IAS 7)
  - AS – 2 Inventory Valuation (IAS2 )
  - AS – 12 Government Grants (IAS 20)
  - Guidance Note on Service Concession Arrangements (IFRIC – 12)

## Issues - Impact

- Increased Depreciation May Hit Bottom Line
- Adjustments May Hit “Net Worth”
- Understanding of Concept - A Must for USER

## Issues - Challenges

- WHO'Z THE BOSS ?
- Local Laws
- Training
- Awareness
- Action Plan

ARE YOU READY.....

# Case Study..

## Covers - Main Topics

- Steps to be Taken- Common Steps/ Individual Steps
- Common Step (start point) – Functional Currency Testing
- IFRS 1- First Time Adoption
- Revenue Recognition- IAS 18, SAB 104 (US GAAP guidance)
- Current/Non Current Bifurcation
- Fair Value – Requirement/ Impact/ Issues
- PP&E- Miscellaneous Expenditure- Treatment

## Step by Step Approach

- Common Steps – To Start Up
  - Functional Currency Testing – CTA Impact
  - First Time Adoption- IFRS-1 Adoption
  - Revenue Recognition
  - Expense – Accrual/ Liability
  - Bifurcation of Assets/Liabilities in Current/ Non-Current
  - Presentation- SOCE (New Concept)

## Step by Step Approach

- Individual Steps- Based on Each Company
  - Impairment Testing/w/off's
  - De-recognition of Financial Assets & Liabilities
  - Standards Application- Immediate/ Retrospective/ Prospective
  - Change in Policy Statement
  - Fair Valuation
  - PP&E - Depreciation

## Reference Table (Main Standards)

- First Time Adoption- IFRS-1
- Presentation of Financial Statements- IAS-1
- Depreciation Accounting- IAS-4
- Cash Flows- IAS-7
- Segment Reporting- IAS-14
- PP&E (Fixed Assets)- IAS-16

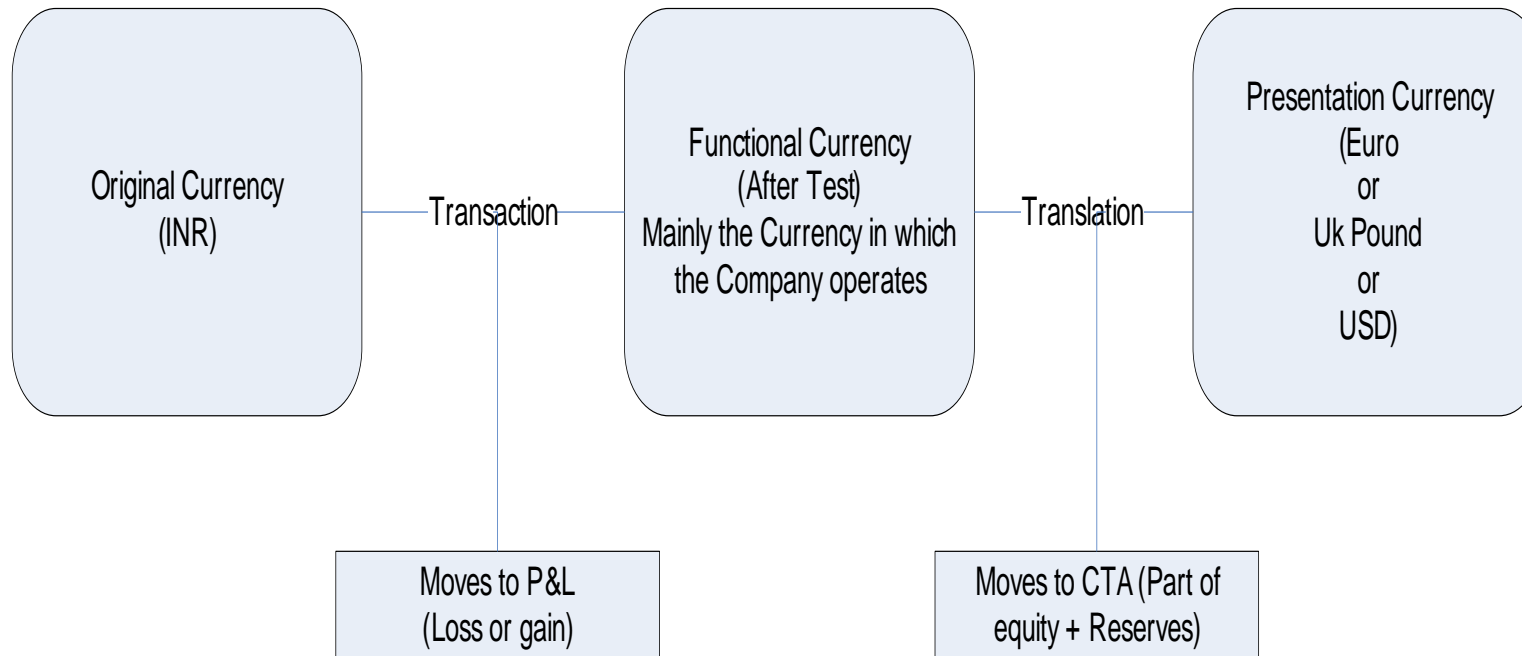
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## Reference Table (Main Standards)

- Revenue – IAS 18
- Leases- IAS 17
- Related Party Disclosures- IAS 24
- Earnings Per Share- IAS 33
- Impairment of Assets- IAS 36
- Interim Financial Reporting- IAS 34 + IFRIC 10

# Functional Currency

## How to determine?



# Functional Currency

## 6 Step Approach

- Expenses Incurred
- Revenue Booked/Billed
- Equity – Funded
- Inter Company Transactions- Settlements
- Billing Rate/Currency Determined
- Cash

(Refer page 11 – Validate the impact of CTA)

# Functional Currency Example

	Original Currency (Amount in INR)		Functional Currency (Amount in USD)		Reporting Currency (Amount in EUR)	
Sales		5000		99.40		78.53
Expense	3000		59.64		47.12	
Equity		2000		39.60		31.68
Fixed Assets (PP&E)	3000		59.41		47.52	
Current Assets	1000		19.80		15.84	
	7000	7000	138.85	139.01	111.08	110.21
Difference		0		(0.16)		0.87

P&L rate 1 USD = Rs. 50.3      P&L rate 1 USD = EUR .79  
 B/sheet rate 1USD=Rs.50.5      B/sheet rate 1USD=EUR 0.80

Transaction      Translation

↓

Moves to P&L

↓

Moves to B/sheet

# First Time Adoption- IFRS 1

- a) Who is a First Time Adopter:
  - i) In preceding year, prepared IFRS for internal purpose
  - ii) In preceding year, compliance with some IFRS
  
- b) Adjustments required to move from previous GAAP to IFRS:
  - i) Recognition/Derecognition of Assets/Liabilities
  - ii) Previous year comparative- Not required on IFRS
  - iii) Adjustments – Required to move from previous GAAP to IFRS – Recognize directly in retained earnings

# Revenue Recognition- IAS 18

US GAAP Condition- SAB 101 & 104

(i) Revenue is recognized when following criteria is met:

- a) Persuasive evidence of an arrangement exists
- b) Delivery has occurred or services have been rendered
- c) The seller's price to the buyer is fixed or determinable and
- d) Collectability is reasonably assured.

Cont.....

## Revenue Recognition- IAS 18

(ii) IFRS & US GAAP on Revenue Recognition:

- a) Principally on same concepts
- b) US GAAP is much more detailed, no such guiding principles in IFRS
- c) In case of defer receipt of Receivables, discounted on Imputed rate of interest
- d) The completed Contract method is not permitted in Construction accounting, only permitted is percentage-of-completion method.

# Property Plant and Equipments

## Treatment of Pre-Operative and Trial Run Expenses?

- As per Indian GAAP, pre-operative or trial run expenses to be capitalized in the year of commencement of operations.
- Under IFRS, capitalization not permitted. Therefore,
  - Need to treat such expenses as revenue expenses
  - Separate these expenses from assets value while convergence.
  - Depreciation amount would be adjusted accordingly.

## Depreciation – What Rates?

Nature of Assets	Rates as per Indian laws*	Rates as per IFRS
Building	4.75%	Over the useful life of the assets
Plant and Machinery	18.91%	
Tooling & Dies	18.91%	
Computer	40%	
Vehicles	25.89%	
Furniture & Fixtures	13.91%	
Office Equipment	18.91%	

**(Refer page 11 – Validate the impact of PP&E + Depreciation)**

**\* Schedule XIV of the Companies Act, 1956 (WDV)**

## Presentation - Notes to Accounts

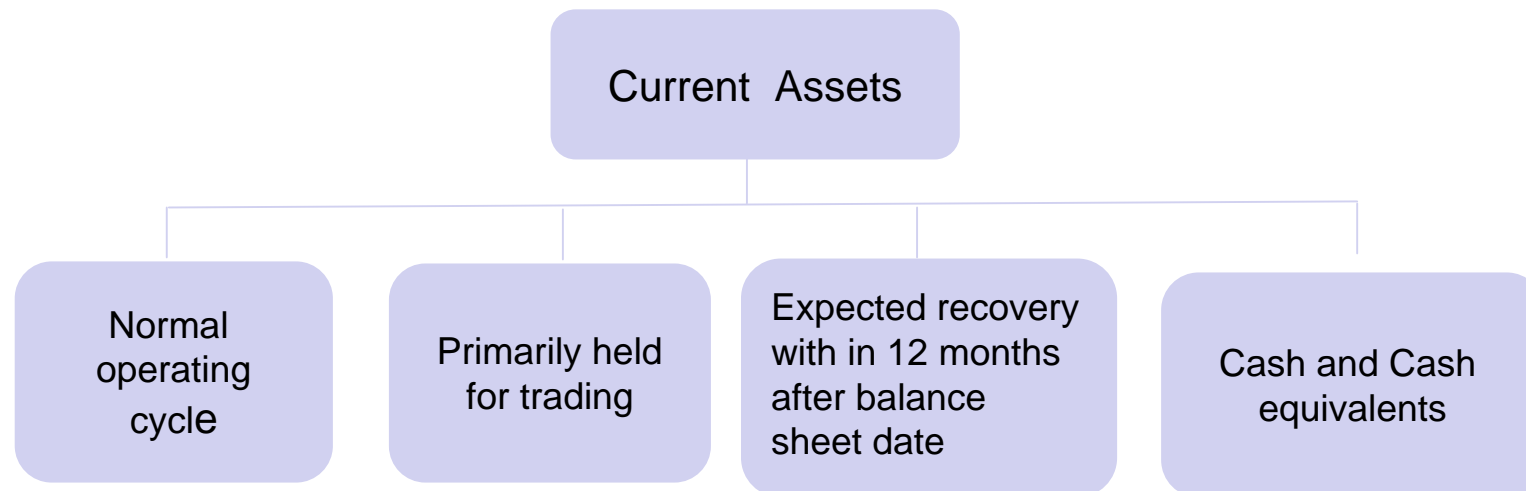
- Basis of Transition to IFRS  
- *Page 5*
- Retrospective Application—Applied/Exempted/Not Applied  
- *Page 6*
- Current Application- Applied/Exempt/Not Applied  
- *Page 7*
- Future Application- Applied/Exempt/Not Applied  
- *Page 8,9*
- Covered- IFRS – IAS – IFRIC - SIC etc.

## Assets/Liabilities - Current & Non Current

- Issues
  - How to Differentiate ?
  - How to Classify the Assets/Liabilities into Current and Non Current ?

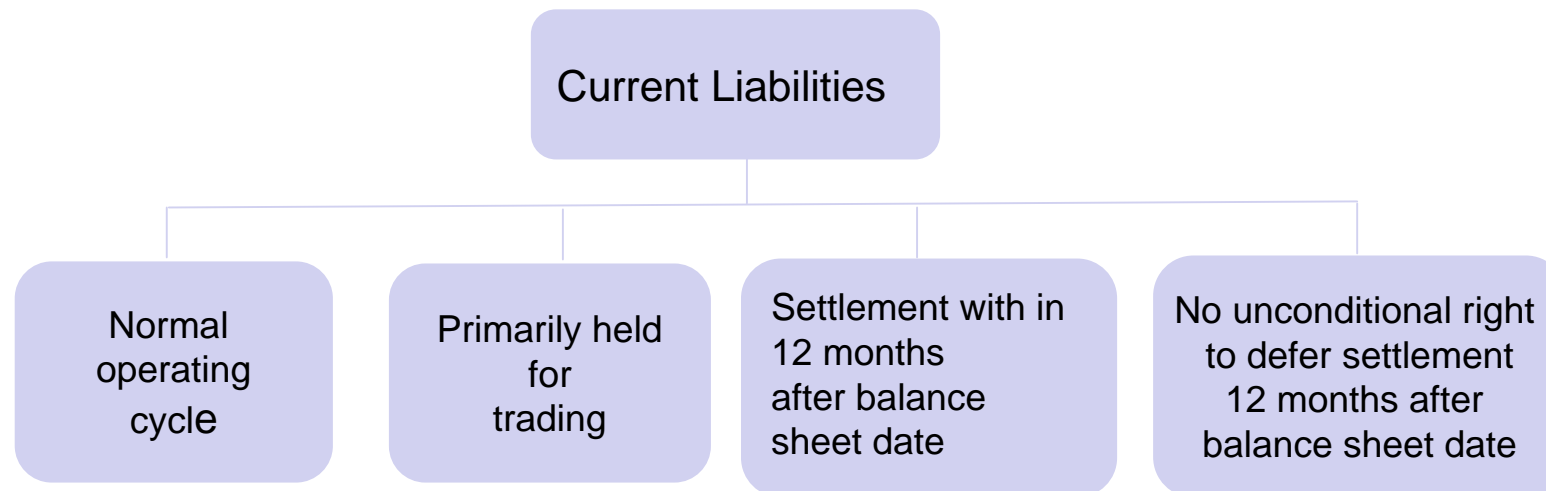
# Current Assets

- Cash or cash equivalent assets - held for trading (within next 12 months)



# Current Liabilities

- To be settled within next 12 months.



# Fair Valuation

*Logic*

*Fair Value- Revenue to be Recognized*

*Net Book Value- No Revenue, Book in Balance Sheet*

- How to Valuate ?
- Some IFRSs require Fair Value Approach-Examples :
  - IFRS-3, Business Combinations
  - IAS 39, Financial Instruments: Recognition and Measurement
  - IAS 41, Agriculture

## Fair Valuation ? ..How

- Fair value - for which the assets could be exchanged by willing parties in arm's length transaction.
- US GAAP provides a hierarchy of 3 levels of input data -
  - *Level 1* - *Quoted prices for identical items.*
  - *Level 2* - *Observable information for similar items.*
  - *Level 3* - *Unobservable inputs to be used.*

## Fair Valuation - Tax Implications?

- During Fair Valuation – effect flow through profit and loss account.
- Both unrealized gains and losses may appear in profit and loss account.
- As per Indian Income Tax Act, 1961 – this gain would be chargeable.
- Therefore, Income Tax Act needs to be changed accordingly so that unrealized gain may not be taxed.

## Change in Policies / Estimates

**As per IAS 8**

S. No	Changes	Effect
1	Change in Accounting Policies	Retrospective
2	Change in Estimates	Prospective
3	Prior Period Items	Retrospective

# Change in Policies / Estimates

## How to Judge ?

- Accounting Policies - Due to change in standard or interpretation or Voluntary change
  - ✓ *Retrospective application*
  - ✓ *Comparative Information is restated – to the extent it is practicable.*
  - ✓ *Example - Initial application of a policy to revalue assets, FIFO method for inventory*
  
- Prior Period Items –Error, omission or misstatements in prior period financial statements
  - ✓ *Retrospective application*
  - ✓ *Comparative Information is restated – to the extent it is practicable.*

# Change in Policies / Estimates

## How to Judge ?

- Estimates- Due to Uncertainty in Business Activities
  - ✓ *Prospective application*
  - ✓ *Comparative information is not required to be restated*
- Examples:
  - Bad Debts
  - Inventory Obsolescence
  - Useful Life of Depreciable Assets

## Net Outcome !!!

- IFRS – Unavoidable
- Earlier the Better
- 2009 is The Action Point

Questions....