ASA
Going The Extra Mile

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NETWORK MEMBER

IFRS
India

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1. Why IFRS

International Financial Reporting Standards (IFRS) convergence has gained momentum the world over as this gives transparency, and global comparability, boosts the stakeholder's confidence, and enhances the funds' accessibility. The G20 and other major international organizations, as well as many governments, business associations, investors, and members of the worldwide accountancy profession, support the goal of a single set of high-quality global accounting standards. As global capital markets become increasingly integrated, investors demanding more transparent and consistent reporting, see the need for a common set of accounting standards. As a key global player, migration to IFRS will enable Indian entities to access to international capital markets without going through a cumbersome conversion and filing process. It will lower the cost of raising funds, reduce accountants' fees and enable faster access to major capital markets. This will also help companies set targets and milestones based on a global business environment rather than an inward perspective. India has issued new Indian accounting standards (Ind-AS) that have been converged with IFRS with a few variations. Specified companies registered in India are required to present their annual accounts according to the new norms that came into effect in April 2016.

2. How the world is converging to IFRS

IFRS are 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 of March 2024, about 168 countries, including all of Europe, are reporting under IFRS. Approximately 145 of these countries require IFRS reporting for domestic listed companies.

3. India and IFRS

In India, the accounting standards (AS) converged with IFRS (known as Ind AS) are being implemented in public and private companies in phased manner.

From	Companies Covered
April 1st, 2016	Companies (listed or unlisted) with a net worth of INR 5.00 billion (approx. USD 60 million) or more.
April 1st, 2017	• All remaining listed companies irrespective of net worth. • Unlisted companies with a net worth of INR 2.50 billion (approx. USD 30 million) or more.
April 1st, 2018	Applicable to NBFC's with a net worth of INR 5.00 billion (approx. USD 60 million) or more.
April 1st, 2019	• All remaining listed or in process of listing, NBFC's irrespective of net worth. • Unlisted NBFC's with a net worth of INR 2.50 billion (approx. USD 30 million) or more.

- Yet to be notified on Banking and Insurance companies
- If a holding company incorporated in India is required to comply with Ind AS, then all of its subsidiaries, joint ventures, and associates should also follow Ind AS

4. Key Differences

In India, currently, 39 Ind AS have been enforced as against twenty-seven existing AS. There are conceptual differences between existing AS and IFRS. Keeping in view the extent of the gap between these two, the conversion process would need careful handling. This would involve impact assessment, revisiting accounting policies, and changes in operating systems.

Basis	IFRS	AS
Principle vs Rule based standards	Principle based. Economic substance of the transaction is the prime evaluation factor	Generally, rule based. Companies act and rules guide as to transaction recording.
Standards vs Local laws	Accounting standards take precedence over local laws while preparing financial statements.	Local regulations take precedence.
Presentation of financial statements	No prescribed format.	Companies Act, 2013 has prescribed formats
Depreciation on property, plant and equipment	Depreciation is an annual charge on basis of the estimated life of assets	Useful life has been prescribed in the Indian Company's Act
Cashflow statements	Mandatory. Direct or indirect methods can be used.	Mandatory for some. Direct method for insurance companies and indirect method for other listed companies
Change in accounting policy	Retrospective application and restatement of comparative numbers of previous years.	Effect is disclosed in current year income statement
Valuations	Based on the concept of fair valuation, which is the price that would be received to sell an asset or paid to transfer a liability.	Under AS, valuation is based on historical cost of the assets and liabilities.
Expected credit losses	IFRS requires to calculate provision on financial assets using expected credit loss (ECL) approach. The ECL approach aims to provide a more forward-looking assessment of credit risk. For example, banks are required to compute the ECL provision on the loans and advances given.	Provision for the assets is measured at the best estimates of the amount requires to settle the obligation.
Financial instrument	IFRS provides a specific standard to classify and measure financial assets and liabilities. In addition, IFRS requires bifurcating the equity and liability from any borrowing and equity depending upon the terms of the contract entered.	No specific accounting standard
Leases	IFRS eliminates the requirement of classification of leases as either operating leases or financing leases for a lessee and instead, introduces a single lessee accounting model which requires lessee to recognize assets and liabilities for all leases unless it applies the recognition exemption applies.`	AS requires a lessee to classify leases as either finance leases or operating leases.
Insurance contacts	The new standard prescribes three measurement models for Insurance Contracts as mentioned below: • General Measurement Model (Building Block Approach) • Premium allocation approach • Variable fee approach	No specific accounting standard.

Basis	IFRS	AS
Adoption methodology	Spells out the methodology and systems for first-time adoption of IFRS. IFRS specifies the financial reporting in hyperinflationary economies. Also has a specific standard for retirement benefit plans, agriculture, and disclosure of financial instruments.	More traditional and insulated from changing economic scenario. Provides a historical perspective.

Key variations between Ind AS and IFRS

Basis	IFRS	IND-AS
Presentation of financial statements formats	Specific line items are to be presented in the statements of financial position (SOFP), profit and loss (SOPL), other comprehensive income (OCI), and statement of changes in equity (SOCIE).	Financial statements are to be presented in line with Ind-AS per Schedule III of the Companies Act, 2013.
Presentation of SOPL and OCI	Option to either present a single or separate SOPL and OCI.	Permits only single SOPL and OCI.
Classification of financial liabilities	Long term loan classified as short term when becoming repayable on demand for breach of a covenant.	Classified as long term if lender agrees before the approval of accounts, not to demand payment.
Classification of expenses	Expense classification is based on either nature or their function.	Classification based on the nature of expenses.
Investment in Associates	Requires accounting policies of associates and investors to be consistent. Reporting period difference not to exceed 3 months.	Similar requirement except where it is impractical.

5. Key Challenges to Implementation

a) **Impact on financial results**
Financial reports will experience a lot of change. For example, the treatment of depreciation differs, leading to a change in the value of assets, change in measurement of provision on assets by using the expected credit loss model, the profitability of the organization and perhaps even impact the firm's net worth.

b) **User awareness and training**
Many corporates are yet not aware of IFRS, its complexities and impact. A change in the reporting format will require awareness of the new norms and systems, training, and education.

6. ASA - Your Partner in Change

ASA has established a center of excellence for IFRS. The team includes professionals certified in IFRS. We are 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 will help you understand IFRS and its key differences with AS.

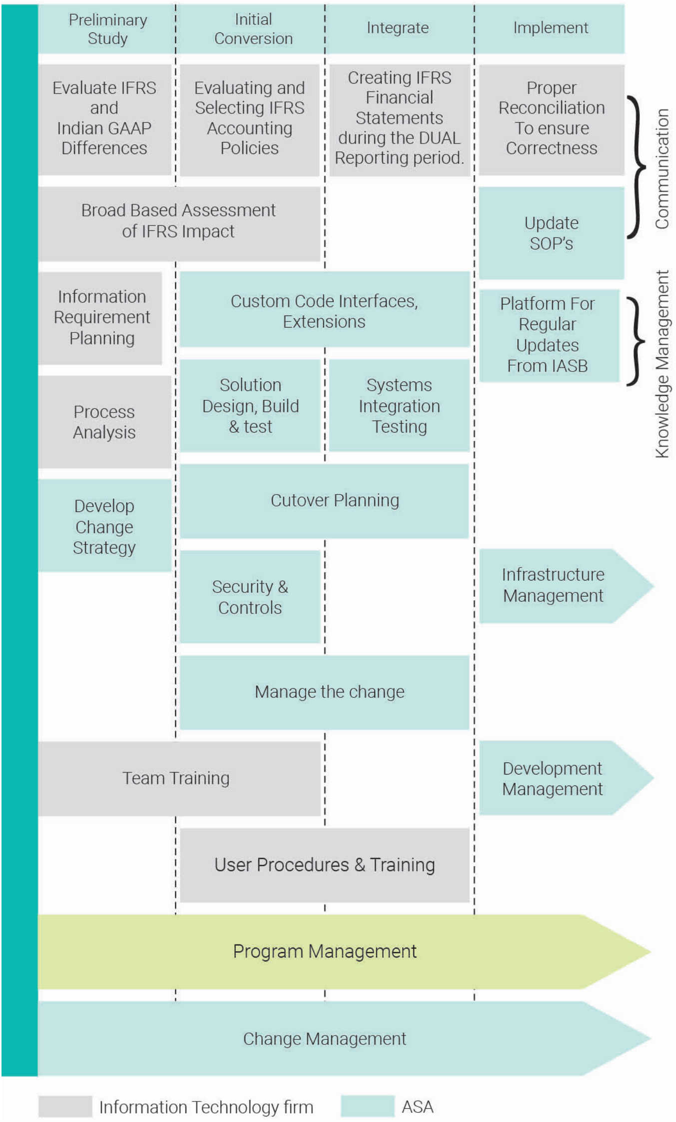
b) **Impact Analysis (3-6 weeks):** Our checklist based approach helps to determine the impact of conversion on different stakeholders viz. promoters, investors, shareholders, regulators, etc.

c) **Conversion (3-4 months):** We take the company through the process of conversion including changes to accounting/operational system. We follow a template-based approach in order to fast track the process of conversion and also smooth coordination with concerned IT vendor.

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

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

Conversion Roadmap



Prepared by ASA Corporate Catalyst India

* This document has been prepared as a service to the clients. We recommend that you seek professional advise prior to initiating action on specific issues.

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