

ASA & ASSOCIATES<sub>LLP</sub>  
CHARTERED ACCOUNTANTS



IFRS >>  
India

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## 1. Why IFRS

International Financial Reporting Standards (IFRS) convergence has gained momentum the world over. 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 cumbersome conversion and filing process. It will lower 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 recently 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 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 of May 2016, about 133 countries, including all of Europe, are reporting under IFRS.

Approximately 119 of these countries require IFRS reporting for domestic listed companies.

### Timeline for Convergence (major countries)



## 3. India and IFRS

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

| From       | Companies Covered  |
|------------|--|
| April 2016 | Companies with a net worth of INR 5 billion (USD 75 million approx.) or more                             |
| April 2017 | All listed and un- listed companies with a net worth of INR 2.5 billion (USD 38 million approx.) or more |
| April 2018 | All Scheduled banks, and NBFCs with a net worth of INR 5 billion (USD 75 million approx.) or more        |
| April 2019 | NBFC with a net worth of INR 2.5 billion (USD 38 million approx.) or more                                |
| April 2020 | All Insurance companies  |

## 4. Key Differences

Forty Ind-AS have been notified as against twenty-seven existing AS. There are conceptual differences between existing AS and IFRS /Ind-AS. 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 and other industry regulations have prescribed formats.                                     |
| Depreciation on fixed assets              | Depreciation is an annual charge on basis of 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 and estimates | Retrospective application and re-statement of comparative numbers of previous years.   | Effect is disclosed in current year income statement.   |
| Valuations                                | Provides specific guidance and standards to deal with mergers, acquisitions, take over, etc.   | Position taken under AS is debatable.   |
| Adoption methodology`                     | Spells out the methodology and systems 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. Provides a historical perspective.        |

### Key variations between Ind AS and IFRS

| Basis  | IFRS   | IND-AS  |
|--|--|---|
| Presentation of financial statements - formats | Specific line items to be presented in the statements of financial position (SOPF), profit and loss (SOPL), other comprehensive income (OCI) and statement of changes in equity (SOCIE). | Financial statements to be presented in line with Ind-AS per Schedule III of Companies Act, 2013. |

|   |  |  |
|---|--|--|
| Presentation of SOPL and OCI            | Option to either present a single statement or separate statements of SOPL and OCI.  | Permits only single statement of profit and loss 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 based on either nature or their function.   | Classification based on nature of expenses.  |
| Investment in Associates                | Requires accounting policies of associate and investor to be consistent. Reporting period difference not to exceed 3 months. | Similar requirement except where it is impractical.  |

#### 4. 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, 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.

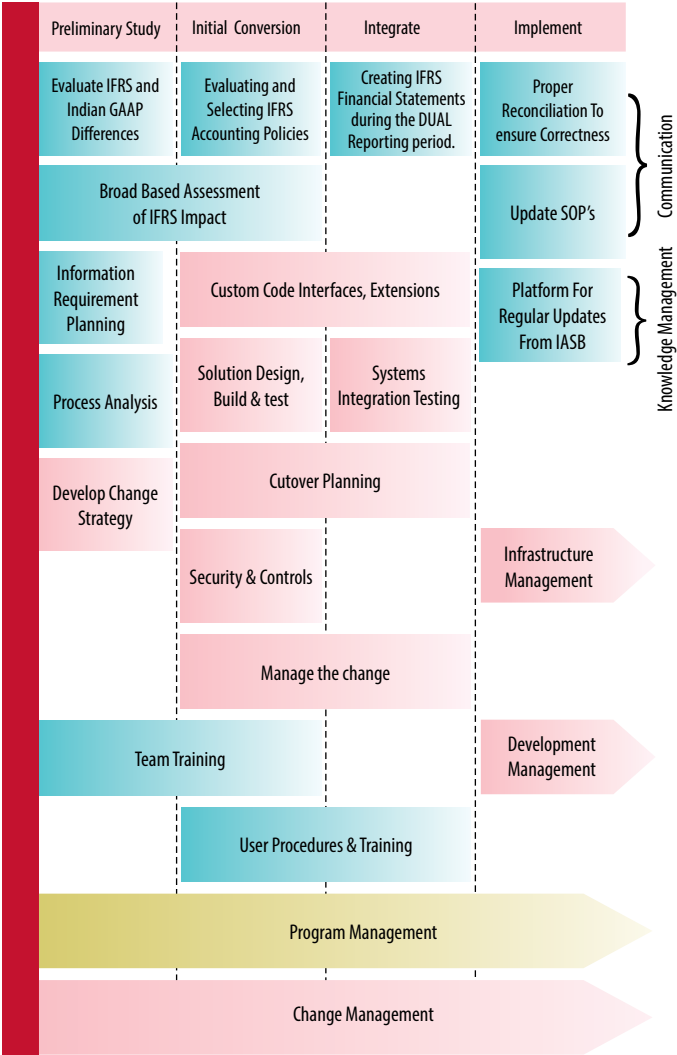
#### 5. ASA - Your Partner in Change

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.

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**



**New Delhi**

Tel : +91 11 4100 9999

**Ahmedabad**

Tel : +91 79 4005 4985

**Bengaluru**

Tel : +91 80 4151 0751

Fax : +91 80 4113 5109

**Chennai**

Tel : +91 44 4904 8200

Fax : +91 44 4904 8222

**Gurgaon**

Tel : +91 124 4333 100

Fax : +91 124 4333 101

**Hyderabad**

Tel : +91 40 2776 0423

**Kochi**

Tel : +91 484 410 9999

Fax : +91 484 410 9990

**Mumbai**

Tel : +91 22 4921 4000

Fax : +91 22 4921 4099

**Contact : [info@asa.in](mailto:info@asa.in)**



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**National Affiliates**

Chandigarh, Jaipur, Jammu, Kolkata, Lucknow, Ludhiana, Pune

**International Affiliates**

Australia, Austria, Belgium, Canada, China, Denmark, Egypt, France, Finland, Germany, Hongkong, Hungary, Indonesia, Ireland, Israel, Italy, Japan, Luxembourg, Malaysia, Mauritius, Myanmar, Netherlands, Norway, Philippines, Poland, Portugal, Russia, South Korea, Singapore, Slovenia, Spain, Switzerland, Sweden, Thailand, Turkey, UAE, UK, USA, Vietnam