

# Key Differences Indian GAAP Vs IFRS



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# Preface

India, in 2011, joins the global accounting revolution: International Financial Reporting Standards. Convergence with IFRS is not just about switching over from one set of accounting & reporting standards to another. It takes the description of a revolution because conceptual differences are expected, as evidenced in this publication.

Convergence is more about a complete business and financial strategy to adopt international standards which is expected to be a long drawn process involving investment of time and resources. We believe that now is the right time to gear up for IFRS.

This BDO India publication is an endeavor to provide a concise summary of the measurement differences that exist between IFRS and Indian GAAP. We advise readers to consult all the relevant accounting standards and applicable regulations.

We at BDO India are committed to help you migrate to IFRS as smoothly as possible, and look forward to teaming with you on this challenging but exciting journey.

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IFRS	Indian GAAP
<b>Cost V/s Fair Value</b>	
<p>Generally uses historical cost, but intangible assets, property, plant and equipment (PPE) and investment property may be measured at fair value.</p> <p>Derivatives, certain other financial instruments and biological assets must be revalued.</p>	<p>Uses historical cost, but Fixed Assets may be revalued.</p> <p>Certain derivatives are carried at fair value. No comprehensive guidance on derivatives and biological assets.</p>
<b>Presentation of Financial Statements</b>	
<b>Components of Financial Statements</b>	
<p>IAS 1 provides overall requirements for the presentation of financial statements, guidance on their structure, and the minimum requirements for their content. Although it does not prescribe a particular format, it prescribes the components of the financial statements that together would be considered as a complete set of financial statements.</p> <ol style="list-style-type: none"> <li>1. Statement of Financial Position (Balance sheet),</li> <li>2. Statement of Comprehensive Income / Income Statement (Profit and Loss Account),</li> <li>3. Statement of Changes in Equity (SOCIE),</li> <li>4. Statement of Cash Flows,</li> <li>5. Notes comprising a summary of significant accounting policies and other explanatory information, and</li> <li>6. Statement of Financial Position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its Financial Statements</li> </ol>	<p>Companies Act requires preparation of:</p> <ol style="list-style-type: none"> <li>1. Balance Sheet,</li> <li>2. Profit and Loss Account, and</li> <li>3. Notes to Accounts</li> </ol> <p>As per AS 3 <i>Cash Flow Statements</i> Level 1 enterprises are required to prepare a Cash Flow Statement using the direct or indirect method. SEBI mandates the use of indirect method for listed companies.</p> <p>The insurance regulator IRDA requires insurance companies to prepare the Cash Flow Statement using the direct method.</p> <p>The concept of SOCIE does not prevail; however, they are represented by the captions share capital and reserves and surplus in the balance sheet.</p>
<b>Statement of Financial Position (Balance Sheet) – Format</b>	
<p>A current/non-current presentation of assets and liability is used, unless a liquidity presentation provides more relevant and reliable information. Certain minimum items are presented on the face of the balance sheet.</p>	<p>Accounting standards do not prescribe a particular format; certain items must be presented on the face of the balance sheet. Formats are prescribed by the Companies Act and other regulations like Banking Regulation Act, Insurance Regulatory and</p>

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	Development Authority Act etc.
<b>Statement of Comprehensive Income (Profit and Loss Account) – Format</b>	
<p>Presented in one of two formats (function or nature). Certain minimum items are presented on the face of the income statement.</p> <p>Under the nature of expense method expenses are aggregated in the income statement according to their nature, (for example depreciation, purchases of materials, transport costs, wages and salaries, advertising costs), and are not reallocated amongst various functions within the enterprise.</p> <p>The function of expense or ‘cost of sales’ method classifies expenses according to their function as part of cost of sales, distribution or administrative activities.</p>	<p>Does not prescribe a standard format; but certain income and expenditure items are disclosed in accordance with accounting standards and the Companies Act.</p> <p>Industry-specific formats are prescribed by industry regulations.</p>
<b>Statement of Comprehensive Income- Structure</b>	
<p>Entities have the option to present either:</p> <ol style="list-style-type: none"> <li>1. Single Statement of Comprehensive Income or</li> <li>2. Two separate statements- <ol style="list-style-type: none"> <li>a. An Income Statement displaying components of profit or loss; and</li> <li>b. A Statement of Comprehensive Income beginning with profit or loss and displaying components of other comprehensive income.</li> </ol> </li> </ol> <p>Components of Other Comprehensive Income include:</p> <ol style="list-style-type: none"> <li>a. Changes in revaluation surplus</li> <li>b. Actuarial gains and losses on defined benefit plans</li> <li>c. Gains or losses arising from translating the financial statements of foreign operations</li> <li>d. Gains and losses on remeasuring available-for-sale financial assets</li> <li>e. The effective portion of gains and losses on hedging instruments in a cash flow hedge.</li> </ol>	<p>No comprehensive income statement is prepared. Only a Profit and Loss Account is prepared.</p>

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<b>Statement of Changes in Equity (SoCIE)</b>	
Statement shows capital transactions with the owners, the movement in accumulated profit/loss and a reconciliation of all other components of equity.	No separate statement is required.
<b>Cash Flow Statements- Bank Overdraft</b>	
Bank Overdraft repayable on demand is treated as Cash and Cash Equivalents if they form an integral part of the entity's Cash Management	AS – 3 Cash Flow Statements does not provide any guidance on Bank Overdrafts. However, Bank overdraft are treated as Financing Activities as a normal practice
<b>Cash Flow Statements- Dividend/ Interest</b>	
There is no guidance for classifying cash flows arising due to Dividend & Interest. They may be classified as Operating, Financial or Investing activities.	Interest and Dividends paid are classified as cash flows from Financing Activities. Interest and Dividend received are classified as cash flows from Investing Activities. Only in case of a financial enterprise, interest paid, interest received and dividend received should be classified as operating activities.
<b>Events after the Balance Sheet Date – Non adjusting events</b>	
IFRS requires disclosure of significant non adjusting event in the notes to the Financial Statements	Indian GAAP requires disclosure of such events in the report of the approving authority.
<b>Disclosure of critical judgements</b>	
IAS 1 requires disclosure of critical judgements and estimates made by management in applying accounting policies	There is no such specific disclosure requirement in AS 1 or Schedule VI.
<b>Consolidated Financial Statements</b>	
IFRS considers Consolidated Financial Statements as the General Purpose Financial Statements.	It is not mandatory to prepare Consolidated Financial Statements under AS 21. SEBI requires from listed companies to submit Consolidated Financial Statements. Banking Companies are also required to prepare Consolidated Financial Statements.
<b>Extraordinary Items</b>	
Disclosure as extraordinary items either on the face of the income statement or in the notes is prohibited.	Are defined as income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or

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	<p>regularly.</p> <p>The nature and the amount of each extraordinary item should be separately disclosed in the statement of Profit and loss.</p>
<b>Override of True and Fair View</b>	
<p>In extremely rare circumstances when management concludes that compliance with a requirement of a Standard or Interpretation would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation, an enterprise should disclose:</p> <p>(a) that management has concluded that the financial statements fairly present the enterprise's financial position, financial performance and cash flows;</p> <p>(b) that it has complied in all material respects with applicable IAS except that it has departed from a Standard in order to achieve a fair presentation;</p> <p>(c) the Standard from which the enterprise has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be misleading in the circumstances and the treatment adopted; and</p> <p>(d) the financial impact of the departure on the enterprise's net profit or loss, assets, liabilities, equity and cash flows for each period presented.</p> <p>The override does not apply where there is a conflict between local company law and IFRS; in such a situation, the IFRS requirements must be applied.</p>	<p>Fair presentation requires compliance with the applicable requirements of the Companies Act, 1956 and the other regulatory requirements and the application of the qualitative characteristics of the Accounting Standards Framework.</p>
<b>Restatement of Financial Statements</b>	
<b>Changes in Accounting Policy</b>	
<p>Comparative years' information is restated and the amount of the adjustment relating to prior period is adjusted against opening balances of retained earnings of the earliest prior period presented, unless specifically exempted.</p>	<p>Restatement is not required. The effect of changes is included in current year income statement. The impact of change is disclosed.</p>

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<b>Correction of errors</b>	
The opening balances of assets, liabilities and equity for the earliest prior period presented are restated.	Restatement is not required. The effect of correction is included in current year's income statement with separate disclosures.
<b>Property, Plant and Equipments (PPE)</b>	
<b>Component Accounting</b>	
IAS 16 mandates component accounting. Under this approach, each major part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.	AS 10 does not require full adoption of the component approach. It nearly recognizes the said approach in one paragraph by stating that accounting for tangible fixed assets may be improved if total cost thereof is allocated to its various parts.
<b>Cost of PPE</b>	
Historical cost or revalued amounts are used. Regular valuations of entire classes of assets are required when revaluation option is chosen.	Historical cost is used. Revaluations are permitted, however, no requirements on frequency of revaluation. Revaluation for the whole class of assets is not required.
<b>Depreciation on Revaluation of Property, Plant and Equipment</b>	
Depreciation on revalued portion cannot be recouped out of revaluation reserve	Depreciation on revalued portion can be recouped out of revaluation reserve
<b>Useful Life of PPE</b>	
Depreciation to be calculated based on useful life.	Depreciation calculation is based on higher of useful life of the Assets or Schedule XIV rates
<b>Asset dismantlement, removal and restoration costs</b>	
The cost of an item of property, plant and equipment includes the present value of the costs of its dismantling, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item and/or using the item during a particular period for purposes other than to produce inventories during that period. Change in decommission or restoration obligations are generally added/ deducted to/from the related asset.	Appendix to AS 29 <i>Provisions, Contingent Liabilities and Contingent Assets</i> requires any the best estimate of an obligation being removal and restoration costs are to be included in the cost of the asset and a provision is to be recognised for the same. No discounting required.
<b>Major Inspection Cost</b>	
Cost of major inspections and overhauls are recognised in the carrying amount of property	Costs of major inspection are expensed when incurred.

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plant and equipment.	
<b>Revaluation Reserve of Property, Plant and Equipment</b>	
Revaluation Reserve is directly transferred to Retained Earnings on derecognition.	Revaluation Reserve is transferred to Income Statement on derecognition.
<b>Review of Useful Life, Residual Value, Depreciation Method</b>	
IAS 16 mandates review of useful life, residual value and depreciation method at each year end.	AS 10 does not specify any such requirement.
<b>Biological Assets</b>	
Measured at fair value less estimated point of sale costs, with changes in valuation recognized in the Income Statement.	Not specified .Generally Historical cost used.
<b>Intangible Assets</b>	
<b>Valuation Models</b>	
Cost Model and Revaluation Model: An entity shall choose either the cost model or the revaluation model as its accounting policy.	Cost Model only: After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses. Revaluation of intangible assets is prohibited.
<b>Active market</b>	
Revaluation model is permitted only where there is an active market for the underlying intangibles.	Revaluation is prohibited.
<b>Life of Intangible Assets</b>	
<p>An entity shall assess whether the useful life of an intangible asset is finite or indefinite. If finite, the length of, or number of production or similar units would constitute useful life.</p> <p>An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.</p>	There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use.
<b>Review of residual value</b>	
An entity is required to review the residual value of the intangible assets at each year end	No such requirement.

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and give the effect accordingly. In case revised residual value exceeds carrying value no depreciation will be charged against those.	
<b>Intangibles acquired as a part of business combination</b>	
If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The intangible is recorded by the acquirer irrespective of whether the asset had been recognised by the acquiree before the business combination or not.	If an intangible asset is acquired in an amalgamation in the nature of purchase, the same should be accounted at cost or fair value if the cost/fair value can be reliably measured. If the same is not reliably measurable it is included as a part of goodwill. Intangible is recorded even if that intangible asset had not been recognised in the financial statements of the transferor. Intangible assets acquired in an amalgamation in the nature of merger, or acquisition of a subsidiary are recorded at book values, which means that if the intangible asset was not recognized by the acquiree, the acquirer would not be able to record the same.
<b>Impairment of Assets</b>	
<b>Reversal of Impairment Loss</b>	
An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, be increased to its recoverable amount. That increase is a reversal of an impairment loss.	An impairment loss recognised for an asset in prior accounting periods should be reversed if there has been a change in the estimates of cash inflows, cash outflows or discount rates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset should be increased to its recoverable amount. That increase is a reversal of an impairment loss.
<b>Allocation of goodwill in case of CGU</b>	
For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal	Goodwill is allocated to CGU based on bottom-up approach, i.e. identify whether allocated to a particular CGU on consistent and reasonable basis and then, compare the recoverable amount of the cash-generating unit under review to its carrying amount and recognize impairment loss.  However, if none of the carrying amount of goodwill can be allocated on a reasonable and consistent basis to the cash-generating unit under review; and if, in performing the 'bottom-up' test, the enterprise could not allocate the carrying amount of goodwill on a reasonable and consistent

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<p>management purposes; and not be larger than a segment based on either the entity's primary or the entity's secondary reporting format determined in accordance with IFRS 8 Operating Segment.</p>	<p>basis to the cash-generating unit under review, the enterprise should also perform a 'top-down' test, that is, the enterprise should identify the smallest cash-generating unit that includes the cash-generating unit under review and to which the carrying amount of goodwill can be allocated on a reasonable and consistent basis (the 'larger' cash-generating unit); and then, compare the recoverable amount of the larger cash-generating unit to its carrying amount and recognize impairment loss.</p>
<b>Investment Property</b>	
<b>Definition</b>	
<p>IAS 40 defines investment property as property (land or a building-or part of a building-or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.</p>	<p>AS 13 defines an investment property as an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.</p>
<b>Subsequent Measurement</b>	
<p>An entity has an option to apply either cost model or fair value model. If fair value model is adopted, then changes in fair value are recognised in P&amp;L A/c. In the fair value model the carrying amount is not depreciated. In the cost model, the asset is carried at cost less depreciation.</p>	<p>EAC has opined that the investment property needs to be depreciated as it is a depreciable asset. Hence, depreciated cost model must be applied for subsequent measurement. Impairment is provided for where applicable, and reversal of impairments is permitted</p>
<b>Transfers to/ from Investment Property</b>	
<p>When there is a change in use of the investment property, the standard provides detailed guidance for subsequent classification and its measurement.</p>	<p>No Guidance</p>
<b>Inventory</b>	
<b>Net realizable value</b>	
<p>A new assessment of NRV is required to be made in each subsequent period. Write down of inventory is reversed if circumstances that previously caused inventories to be written down below cost no longer exist or when</p>	<p>No specific guidance in AS 2.</p>

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there is clear evidence of an increase in the NRV because of changes in economic circumstances.	
<b>Inventories of a service provider</b>	
IAS-2 includes provisions relating to the work-in-progress of a service provider. Under IAS-2 such WIP consists primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred.	AS 2 excludes work in progress arising in the ordinary course of business of service providers. Hence, there is no guidance for the same.
<b>Inventories acquired on deferred settlement terms</b>	
IAS 2 specifically requires that where inventory is acquired on deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is to be accounted as interest expense over the period of financing.	There is no express requirement under AS 2 specifying treatment of inventories acquired on deferred settlement terms.
<b>Non current assets held for sale and discontinued operations</b>	
<b>Scope</b>	
IFRS-5 sets out requirements for classification, measurement and presentation of Non-current assets held for sale and the classification and presentation of discontinued operations.	There is no specific standard which prescribes classification, measurement and presentation of all non-current assets held for sale. However as per AS 10 items of Fixed assets that have been retired from active use and are held for disposal are stated at lower or their net book value and net realizable value and shown in the financial statements. As 24 deals with disclosures relating to discontinued operations.
<b>Classification</b>	
An entity shall classify a non-current asset(or disposal group) as held for sale if its carrying value will be recovered principally through a sale transaction rather than through continuing use	AS 10 gives a very limited guidance
<b>Measurement</b>	
Non-current assets held for sale should be measured at the lower of carrying value or fair value less cost to sell. After	No specific guidance except above.

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reclassification these assets will no longer be subject to systematic depreciation.	
<b>Period of disposal for Non-current assets held for sale</b>	
Completed within a year, with limited exceptions.	No time frame specified.
<b>Definition- Discontinued Operations</b>	
<p>A component of an entity that either has been disposed of or is classified as held for sale and:</p> <p>(a) represents a separate major line of business or geographical area of operations,</p> <p>(b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or</p> <p>(c) is a subsidiary acquired exclusively with a view to resale.</p>	<p>A discontinuing operation is a component of an enterprise:</p> <ol style="list-style-type: none"> <li>a. that the enterprise, pursuant to a single plan, is (i) disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin off of ownership of the component to the enterprise's shareholders; (ii) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or (iii) terminating through abandonment;</li> <li>b. that represents a separate major line of business or geographical area of operations; and</li> <li>c. that can be distinguished operationally and for financial reporting purposes</li> </ol>
<b>Method of discontinuance</b>	
Operations and cash flows that have been disposed of are classified as held for sale	Pursuant to a single plan, either substantially in its entirety or piecemeal or terminated through abandonment.
<b>Presentation</b>	
A single amount is presented on the face of the income statement comprising the post tax profit or loss or discontinued operations and an analysis of this amount either on the face of the income statement or in the notes for both current and prior periods. Separate classification on the balance sheet for assets and liabilities for the current period only	<p>The following is separately disclosed on the face of the profit and loss account separately from continuing operations:</p> <ul style="list-style-type: none"> <li>▪ pre-tax profit or loss and related taxes</li> <li>▪ pre-tax gain or loss on disposal</li> </ul> <p>Income/expense line items from continuing and discontinuing operations are segregated and disclosed in the notes to account; but is presented on a combined basis in the income statement. No separate presentation is required for Balance Sheet items.</p>
<b>Financial Instruments</b>	
Under Indian GAAP there was no accounting standard specifically for financial instruments. The ICAI has issued standards for recognition and measurement of financial instruments and their presentation and disclosure which are recommendatory from 1.4.2009 and mandatory from	

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1.4.2011. Hence the comparison given below is without considering the impact of these Standards. Also, it is necessary to note that recognition, measurement, presentation and disclosure of financial instruments is governed by the respective regulators of various industries like RBI, SEBI and IRDA.	
<b>Definition</b>	
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.	No specific standard on financial instruments. However, accounting of certain financial instruments are provided in AS 13 “Accounting for Investments” and Guidance Note on Accounting for Equity Index and Equity Stock Futures and Options issued by the ICAI.
<b>Financial Assets – Classification</b>	
Financial asset is classified in four categories: 1) Financial Asset at Fair Value through P&L A/c 2) Held to Maturity 3) Loans and Receivables 4) Available for Sale.	AS 13 classifies investments into long-term and current investments. Detailed classification of Investments for banks is prescribed by RBI which is similar to IFRS.
<b>Financial Assets- Measurement</b>	
1) <b>Initial measurement</b> of financial assets is at fair value. Transaction cost is also included in the initial carrying value unless they are carried at fair value through profit or loss 2) <b>Subsequent measurement</b> is at: a. amortised cost using effective interest method for ‘Loans and Receivables’ and ‘Held-to-maturity investments’ b. fair value for ‘Financial assets at fair value through profit or loss’ and ‘Available-for-sale financial assets’. Changes in carrying amount are accounted in the Income Statement for all financial assets except for ‘Available-for-sale financial assets’ which is accounted through Equity.	Long term investments are recorded at cost less diminution, other than temporary. Current investments are recorded at lower of cost or market value in accordance with AS 13. However for Banking, Mutual Fund and Insurance sectors, the respective regulators (i.e. RBI, SEBI and IRDA) prescribe guidelines for measurement of Investments.
<b>Financial Liabilities – Classification</b>	
Financial Liabilities is classified in two categories: 1) Financial Liabilities at Fair Value through P&L A/c 2) Other Liabilities	No Guidance.

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<b>Financial Liabilities – Measurement</b>	
<p><b>Initial measurement</b> of financial liabilities is at fair value of the consideration received.</p> <p><b>Subsequent measurement</b> is at:</p> <ol style="list-style-type: none"> <li>amortised cost using effective interest method for other liabilities</li> <li>fair value for ‘Financial Liabilities’ at fair value through profit or loss</li> </ol>	No Guidance.
<b>Financial Assets- Reclassification</b>	
<ol style="list-style-type: none"> <li><b>FVTPL:</b> <ol style="list-style-type: none"> <li>Reclassification into and out FVTPL on initial recognition and reclassification of derivatives is prohibited. Held for trading may be reclassified into AFS, HTM and L&amp;R in certain rare circumstances.</li> </ol> </li> <li><b>HTM:</b> <ol style="list-style-type: none"> <li>If significant amount of HTM is reclassified or sold, the remaining investments in HTM category are to be reclassified into AFS and no investment can be classified as HTM for a period of 2 years (also known as ‘tainting’).</li> </ol> </li> <li><b>AFS:</b> <ol style="list-style-type: none"> <li>AFS that would have met the definition of L&amp;R (if it had not been designated as AFS) it may be transferred into L&amp;R if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.</li> </ol> </li> </ol>	Where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. Where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.
<b>Financial Assets- Derecognition</b>	
Financial assets are derecognised based on risks and rewards first; control is secondary test.	There is limited guidance for derecognition. Usually, financial assets are derecognised based on transfer of risks and rewards. The ICAI has issued a Guidance Note on securitization which requires derecognition based on control.

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<b>Classification between liability and equity</b>	
<p>The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. The application of these principals requires certain instruments which have the form of equity to be classified as liability. For example redeemable preference share on which a fixed dividend is payable are classified as liability.</p>	<p>Classification is based on form rather than substance. For example preference shares are treated as capital, even though in many case in substance it may be a liability.</p>
<b>Compound Financial Instruments</b>	
<p>IAS 32 requires compound financial instruments, such as convertible bonds, to be split into liability component and equity component and each component is recorded separately.</p>	<p>No split accounting required and financial statements are classified either as equity or liability depending on their primary nature. For example a convertible debenture is generally treated as liability.</p>
<b>Derivatives</b>	
<p>A derivative is a financial instrument or other contract within the scope of this IAS 39 with all three of the following characteristics :</p> <ol style="list-style-type: none"> <li>1) its value changes in response to the change in a specified interest rate, financial instrument price etc.</li> <li>2) it requires no or smaller initial net investment; and</li> <li>3) it is settled at a future date.</li> </ol>	<p>There is no specific standard dealing with derivatives; though, there are some pronouncements which deal with specific types of derivatives. Consequently, many derivatives remain outside the balance sheet.</p>
<b>Embedded Derivatives</b>	
<p>All embedded derivatives are required to be recognized separately from host contract if:</p> <ol style="list-style-type: none"> <li>1. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,</li> <li>2. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and</li> <li>3. the hybrid (combined) instrument is not</li> </ol>	<p>There is no specific guidance dealing with separate recognition of embedded derivatives.</p>

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<p>measured at fair value with changes in fair value recognised in profit or loss</p> <p>If an embedded derivative is separated,</p> <ol style="list-style-type: none"> <li>1) the host contract shall be accounted for under this Standard if it is a financial instrument, and</li> <li>2) in accordance with other appropriate Standards if it is not a financial instrument.</li> </ol>	
<b>Deferred Tax</b>	
<b>Basis</b>	
<p>IFRS requires entities to account for taxation using the <b>Balance Sheet liability approach</b> which focuses on <b>temporary difference</b> between the carrying amount of an asset or liability in the statement of financial position and its tax base.</p>	<p>Deferred tax is accounted for using the <b>Income statement approach</b>, which focuses on <b>timing difference</b>.</p>
<b>Deferred tax on revaluation of PPE and Intangible Assets</b>	
<p>Deferred tax is to be created on revaluation of PPE and Intangible assets and the same is recognised in other comprehensive income</p>	<p>Deferred tax is not recognised as it is considered to be a permanent difference.</p>
<b>Recognition of deferred tax assets in case of business combination</b>	
<p>Under IFRS, the cost of business combination is allocated to the identifiable assets and liability assumed by reference to fair values. However, if no equivalent adjustment is allowed for tax purpose, it would give rise to a temporary difference.</p>	<p>Under Indian GAAP, business combination (other than amalgamation) will not give rise to a deferred tax adjustment.</p>
<b>Deferred Tax on Consolidation</b>	
<p>Temporary difference arise when the carrying amount of investments in subsidiaries, branches or associates or interests in joint ventures (namely the parent or investor's share of the net assets including carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment / interest.</p>	<p>Under Indian GAAP, consolidation will not give rise to a deferred tax adjustment.</p>

IFRS	Indian GAAP
<b>Deferred tax on unrealised Intra- group profits</b>	
Deferred tax on unrealised intra group profit is recognised at the buyer's rate.	Deferred tax is not recognised as deferred tax expense is an aggregation from separate financial statement of each group entity and no adjustment is made on consolidation.
<b>Recognition Criteria</b>	
A deferred tax asset is recognised if it is probable (more likely than not) that sufficient taxable profit will be available against which the unused tax losses and tax credits can be utilised.	Deferred tax assets is recognised (a) if realisation is virtually certain for entities with tax losses carry-forward, whereas (b) if realisation is reasonably certain for entities with no tax losses carry- forward
<b>Liabilities</b>	
<b>Provisions – General</b>	
Provision are discounted to Present value where the effect of the time value of money is material	Discounting of provisions is not permitted
<b>Proposed Dividend</b>	
Liability for dividends declared to holders of equity instruments are recognised in the period when declared	Dividends are recognised as an appropriation from profits and recorded as liability at the balance sheet date, if proposed or declared subsequent to the reporting period but before approval of the financial statements
<b>Financial Liabilities versus Equity Classification</b>	
Capital Instruments are classified, depending on substance of issuer's contractual obligations as either liability or equity or equity and liability.  Mandatory redeemable preference shares are classified as liabilities.	No specific guidance. In practice, classification is based on legal form rather than substance.  All preference shares are disclosed separately as share capital under shareholder's funds.
<b>Revenue</b>	
<b>Additional condition for recognition of revenue from sale of goods or rendering of services</b>	
IAS 18 prescribes an additional condition that the costs incurred or to be incurred in respect of the transaction can be measured reliably to be fulfilled before the recognition of revenue from sale of goods.	This condition is not required to be fulfilled for recognizing revenue under AS 9.
<b>Barter Transactions</b>	
The accounting treatment depends on whether the exchange transaction involves goods and	No Specific Guidance

IFRS	Indian GAAP
<p>services of similar nature and value (for example, exchange of commodities like oil or milk). Exchanges of similar assets:</p> <ol style="list-style-type: none"> <li>1. Carrying amount of the asset received = Carrying amount of the asset surrendered + cash or cash equivalent transferred.</li> <li>2. No gains or losses are recognised.</li> </ol> <p>Exchanges of dissimilar assets:</p> <ol style="list-style-type: none"> <li>1. Carrying amount of the asset received = Fair value of the asset received +/- cash or cash equivalent transferred</li> <li>2. Gain or loss to be recognised = Fair value of the asset received +/- cash or cash equivalent transferred - carrying amount of the asset surrendered</li> </ol>	
<b>Interest</b>	
Interest income is recognised using the effective interest method.	Interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable
<b>Rendering of Services</b>	
Requires recognition using percentage of completion method. Revenues from installation fees and production commission are recognised with reference to stages of completion, unless the installation is incidental to sale	Completed service contract method or proportionate completion method permitted
<b>Customer Loyalty Programs</b>	
Award credits are accounted for as a separate identifiable component of a sales transaction, with the consideration allocated between the awards credit and the other components of sale.	No specific guidance.
<b>Employee Benefits</b>	
<b>Actuarial gains and losses</b>	
<p>Actuarial gains and losses may be:</p> <ul style="list-style-type: none"> <li>• recognised immediately in profit or loss;</li> <li>• recognised immediately in other comprehensive income; or</li> <li>• deferred upto a maximum with any excess of 10% of the greater of the defined benefit obligation or the fair value of the plan assets at the end of the</li> </ul>	Actuarial gains and losses should be recognised immediately in the statement of profit and loss as an income or expense.

IFRS	Indian GAAP
<p>previous reporting period being recognised over the expected average remaining working lives of the participating employees or other accelerated basis</p>	
<b>Effects of Changes in Foreign Exchange Rates</b>	
<b>Functional and Presentation Currency</b>	
<p>There is a concept of 3 currencies: Functional Currency, Foreign Currency and Presentation/ Reporting Currency, which are defined as under.</p> <p>Functional Currency is the currency of the primary economic environment in which the entity operates.</p> <p>Foreign currency is a currency other than functional currency.</p> <p>Presentation currency is the currency in which the Financial Statements are presented.</p>	<p>There is no concept of Functional Currency.</p> <p>Foreign currency is a currency other than the reporting currency which is the currency in which Financial Statements are presented.</p>
<b>Translations in the Consolidated Financial Statements</b>	
<p>No distinction is made between integral and non- integral foreign operations under IAS 21. All entities are required to prepare their Financial statements in Functional currency. Any exchange gain/loss to record a transaction in its functional currency is recognised in the income statement. In translating the Financial Statement from functional currency to presentation currency, the reporting entity should use the following procedures:</p> <ol style="list-style-type: none"> <li>Assets and liabilities, both monetary and non-monetary should be translated at the closing rate.</li> <li>Income and expenses items should be translated at exchange rates at the date of transactions; and</li> <li>All resulting exchange differences should be accumulated in foreign currency translation reserve until the disposal of the investment.</li> </ol>	<p>Translation of financial statements to the reporting currency of the parent/investee depends on the classification of that operation as integral or non integral.</p> <p>In the case of an integral operation, monetary assets are translated at closing rate; non-monetary items are translated at historical rate if they are valued at cost and at closing rate if they are valued on other valuation basis and income and expense items are translated at historical/average rate. Exchange differences are taken to the statement of profit and loss.</p> <p>For non-integral operations, closing rate method should be followed (i.e. all assets and liabilities are to be translated at closing rate while profit and loss account items are translated at actual/average rates). The resulting exchange difference is taken to reserve and is recycled to profit and loss on the disposal of the non-integral foreign operation.</p>

<b>IFRS</b>	<b>Indian GAAP</b>
<b>Operating Segments (IFRS 8 v/s AS 17)</b>	
<b>Applicability</b>	
<p>This standard is applicable to</p> <ul style="list-style-type: none"> <li>• separate or individual financial statements of an entity whose debt or equity instruments are listed or proposed to be listed, and</li> <li>• Consolidated Financial Statements of a group with a parent whose debt or equity instruments are listed or proposed to be listed.</li> </ul>	<p>This standard is applicable to all level I entities.</p>
<b>Determination of Segments</b>	
<p>IFRS imposes a “Management Approach” to the identification of operating segments which is to be based on internal reports that are regularly reviewed by the entity’s Chief Operating Decision Maker (CODM) in order to allocate resources to the segment and assess its performance.</p>	<p>AS 17 requires an enterprise to identify two sets of segments (business and geographical), using a risks and rewards approach, with the enterprise’s system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.</p>
<b>Measurement</b>	
<p>Segment profit or loss is reported on the same measurement basis as that used by the chief operating decision maker. There is no definition of segment revenue, segment expense, segment result, and segment asset or segment liability</p>	<p>Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the enterprise as a whole. Segment revenue, segment expense, segment result, segment asset and segment liability have been defined</p>
<b>Conformity with accounting policies</b>	
<p>IFRS 8 does not define segments as either business or geographical segment and does not require measurement of segment amount based on entity’s accounting policies, an entity must disclose how it determined its reportable operating segments and the basis on which disclosed amount have been measured</p>	<p>AS 17 requires that segment information must be prepared in conformity with the accounting policies adopted for preparing and presenting the Financial Statements of the consolidated group or entity.</p>
<b>Reconciliation</b>	
<p>Requires reconciliation of segment performance measures, and segment assets and liabilities with the corresponding amounts reported in the financial statements</p>	<p>Reconciliation is presented between the information disclosed for reportable segments and the aggregated information in the enterprise’s financial statements.</p>

IFRS	Indian GAAP
<b>Discrete reporting</b>	
IFRS 8 allows for discrete reporting of a component of an entity that sells primarily or exclusively to other operating segments of an entity.	AS 17 requires only those segments which sell exclusively or primarily to external customers to be deemed reportable segments.
<b>Share Base Payment (Grant Date Accounting)</b>	
<b>Accounting standard</b>	
There is a detailed standard with respect to share based payment	No specific standard. However, ICAI has issued a recommendatory Guidance Note for Employee share based payment
<b>Measurement</b>	
Employee share base payment should be accounted for using fair value method.	Employee share based payments are accounted either at intrinsic value or fair value
<b>Consolidated Financial Statements (CFS)</b>	
<b>Applicability</b>	
All entities have to prepare Consolidated Financial Statements under IFRS	Consolidated Financial Statements are mandated only by the regulator i.e. Securities Exchange Board of India (SEBI) for listed companies
<b>Definition of Control</b>	
Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.	Control is: <ol style="list-style-type: none"> <li>1. the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or</li> <li>2. control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.</li> </ol> <p>Therefore a mere ownership of more than 50% of equity shares is sufficient to constitute control under Indian GAAP, whereas this is not necessarily so under IFRS.</p>
<b>Dual Control</b>	
Only one entity can have control (as distinct from joint control) over another entity. Therefore, when two or more entities each hold significant voting rights, certain factors are reassessed to determine which party has control.	In a rare situation, when an enterprise is controlled by two enterprises one which controls by virtue of ownership of majority of the voting power and the other which controls, by virtue of an agreement or otherwise, the composition of the board of directors, the first mentioned enterprise will be considered as subsidiary of both the controlling enterprises and therefore, both the enterprises will need to consolidate the financial statements of that

IFRS	Indian GAAP
	enterprise.
<b>Potential Voting Rights</b>	
The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing control.	As per ASI 18, potential voting rights are not considered for determining significant influence in the case of an associate.
<b>Subsidiaries excluded from consolidation</b>	
CFS includes all subsidiaries. A subsidiary that meets, on acquisition, the criteria to be classified as held for sale in accordance with IFRS 5, Non Current Assets Held for Sale and Discontinued Operation, applies the presentation for assets held for sale (i.e. separate presentation of assets and liabilities to be disposed), rather than normal line by line consolidation.	Preclude consolidation of a subsidiary when control over that subsidiary is likely to be temporary. Considers a subsidiary to be temporarily controlled when it is acquired and held exclusively with a view to its subsequent disposal in the near future. Also precludes consolidation of a subsidiary that operates under severe long term restrictions, which significantly impair its ability to transfer funds to the parent. In the CFS, the precluded subsidiaries are accounted as per AS-13 and the reasons for not consolidating are disclosed.
<b>Reporting period</b>	
When financial statements of a subsidiary used in preparation of CFS are prepared as of a reporting date different from that of the parent, adjustments shall be made for the effects of significant transactions or events that occur between that and the date of the parents financial statements. In any case the difference between the reporting date of the subsidiary and that of the parent shall be no more than three months.	Similar to IFRS, except that the difference between the reporting dates should not be more than six months.
<b>Uniform accounting policies</b>	
Compliance with uniform accounting policies is mandatory.	CFS should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the CFS, that fact should be disclosed together with the proportions of the items in the CFS to which the different accounting policies have been applied.
<b>Special Purpose Entities</b>	
SIC – 12 states that a Special Purpose Entity (SPE) should be consolidated when the	No specific guidance.

IFRS	Indian GAAP
substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.	
<b>Accounting for Investment in Subsidiary in Parents Separate Financial Statements</b>	
Parent's investment in a subsidiary be accounted for in the parent's separate financial statements (a) at cost, or (b) as available-for-sale financial assets as described in IAS 39.	Investments in subsidiary should be accounted for in accordance with AS 13, Accounting for Investments, which is cost as adjusted for any diminution other than temporary in value of those investments.
<b>Investments in Joint ventures</b>	
If the reporting enterprise does not prepare consolidated financial statements because it has no subsidiaries, its Jointly Controlled Entities should be either proportionately consolidated or equity accounted.	At cost less impairment if consolidated financial statements are not prepared.
<b>Business Combinations</b>	
<b>Scope</b>	
Applies to most business combination – both amalgamation (where acquiree loses its identity) and acquisition (where acquiree continues its existence). IFRS 3 does not apply to common control transactions, formation of JVs, combinations involving mutual entities and combinations through contract alone.	There is no one comprehensive standard. AS-14 applies only to amalgamation. AS-21, 23, 27 applies to accounting for investments in subsidiaries, associates and joint ventures respectively. AS-10 would apply where a demerged division is acquired on a lump-sum basis by another entity.
<b>Acquisition date</b>	
The date on which the acquirer effectively obtains control of the acquiree.	The date of amalgamation as defined in Amalgamation/ acquisition scheme of High Court/RBI.
<b>Contingent Liabilities</b>	
Contingent Liabilities are to be included in Net Assets at fair value.	Contingent liabilities are not recorded as Liabilities.
<b>Method of Accounting</b>	
All business combinations are accounted under Purchase Method at fair values. Pooling of Interest Method is prohibited.	Both Purchase Method (agreed values) and Pooling of Interest Method (carrying amount) are permitted.

IFRS	Indian GAAP
<b>Subsequent adjustment to Assets and Liabilities</b>	
<p>A 12 month window period is allowed to get the acquisition accounting right. Upto the 12 month period, any adjustments to the fair value of assets/liabilities taken over are recognized with a corresponding effect to goodwill. After the 12 months period, any adjustments to the fair value of assets/liabilities taken over are recognized in the income statement. In respect of adjustments arising out of contingent consideration, correction of errors and deferred taxes, the 12 months time barring period is not applicable and any adjustments on these accounts, the corresponding effect is taken to goodwill, even if the same is made after 12 months.</p>	<p>No change is permitted</p>
<b>Contingent Consideration</b>	
<p>Consideration for the acquisition includes the acquisition date fair value of contingent consideration. Changes in Contingent consideration resulting from the events after the end of the reporting period are recognised in profit or loss.</p>	<p>No specific guidance.</p>
<b>Accounting for Goodwill</b>	
<p>The acquirer shall, at the acquisition date recognise goodwill acquired in a business combination as an asset; and initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less any accumulated impairment losses. Goodwill amortization is prohibited.</p>	<p>Treatment of goodwill differs in different accounting standards. Goodwill arising on amalgamation in nature of purchase is amortised to P&amp;L over 5 years. Goodwill under AS-21, 23 and 27 need not be amortised though there is no prohibition. In case of amalgamation in nature of merger, excess amount over net assets taken over is adjusted against revenue reserves. All goodwill is tested for impairment.</p>
<b>Negative Goodwill</b>	
<p>If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the acquirer shall reassess the identification and</p>	<p>Recorded as Capital Reserve.</p>

IFRS	Indian GAAP
<p>measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and recognise immediately in profit or loss any excess remaining after that reassessment.</p>	
<p><b>Acquisition related costs</b></p>	
<p>Acquisition related costs such as finder's fees, due diligence fees, legal fees etc, are accounted for an expenses in the period in which the cost are incurred and services are received.</p>	<p>No specific guidance.</p>

# Appendix: List of IFRS

## IFRS

<b>IFRS 1</b>	First-time Adoption of International Financial Reporting Standards
<b>IFRS 2</b>	Share-based Payment
<b>IFRS 3</b>	Business Combinations
<b>IFRS 4</b>	Insurance Contracts
<b>IFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations
<b>IFRS 6</b>	Exploration for and Evaluation of Mineral Resources
<b>IFRS 7</b>	Financial Instruments: Disclosures
<b>IFRS 8</b>	Operating Segments
<b>IFRS 9</b>	Financial Instruments (replacement of IAS 39)

## IAS

<b>IAS 1</b>	Presentation of Financial Statements
<b>IAS 2</b>	Inventories
<b>IAS 7</b>	Statement of Cash Flows
<b>IAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors
<b>IAS 10</b>	Events after the Reporting Period
<b>IAS 11</b>	Construction Contracts
<b>IAS 12</b>	Income Taxes
<b>IAS 16</b>	Property, Plant and Equipment
<b>IAS 17</b>	Leases
<b>IAS 18</b>	Revenue
<b>IAS 19</b>	Employee Benefits
<b>IAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance
<b>IAS 21</b>	The Effects of Changes in Foreign Exchange Rates
<b>IAS 23</b>	Borrowing Costs
<b>IAS 24</b>	Related Party Disclosures
<b>IAS 26</b>	Accounting and Reporting by Retirement Benefit Plans
<b>IAS 27</b>	Consolidated and Separate Financial Statements
<b>IAS 28</b>	Investments in Associates
<b>IAS 29</b>	Financial Reporting in Hyperinflationary Economies
<b>IAS 31</b>	Interests in Joint Ventures
<b>IAS 32</b>	Financial Instruments: Presentation
<b>IAS 33</b>	Earnings per Share
<b>IAS 34</b>	Interim Financial Reporting
<b>IAS 36</b>	Impairment of Assets
<b>IAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets
<b>IAS 38</b>	Intangible Assets
<b>IAS 39</b>	Financial Instruments: Recognition and Measurement
<b>IAS 40</b>	Investment Property
<b>IAS 41</b>	Agriculture

## IFRIC

<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities
<b>IFRIC 2</b>	Members' Shares in Co-operative Entities and Similar Instruments
<b>IFRIC 4</b>	Determining whether an Arrangement contains a Lease
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment
<b>IFRIC 7</b>	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
<b>IFRIC 8</b>	Scope of IFRS 2
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment
<b>IFRIC 11</b>	IFRS 2—Group and Treasury Share Transactions
<b>IFRIC 12</b>	Service Concession Arrangements
<b>IFRIC 13</b>	Customer Loyalty Programmes
<b>IFRIC 14</b>	IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
<b>IFRIC 15</b>	Agreements for the Construction of Real Estate
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners
<b>IFRIC 18</b>	Transfers of Assets from Customers

## SIC

<b>SIC 7</b>	Introduction of the Euro
<b>SIC 10</b>	Government Assistance—No Specific Relation to Operating Activities
<b>SIC 12</b>	Consolidation—Special Purpose Entities
<b>SIC 13</b>	Jointly Controlled Entities— Non-Monetary Contributions by Venturers
<b>SIC 15</b>	Operating Leases—Incentives
<b>SIC 21</b>	Income Taxes—Recovery of Revalued Non-Depreciable Assets
<b>SIC 25</b>	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders
<b>SIC 27</b>	Evaluating the Substance of Transactions Involving the Legal Form of
<b>SIC 29</b>	Service Concession Arrangements: Disclosures
<b>SIC 31</b>	Revenue—Barter Transactions Involving Advertising Services
<b>SIC 32</b>	Intangible Assets—Web Site Costs