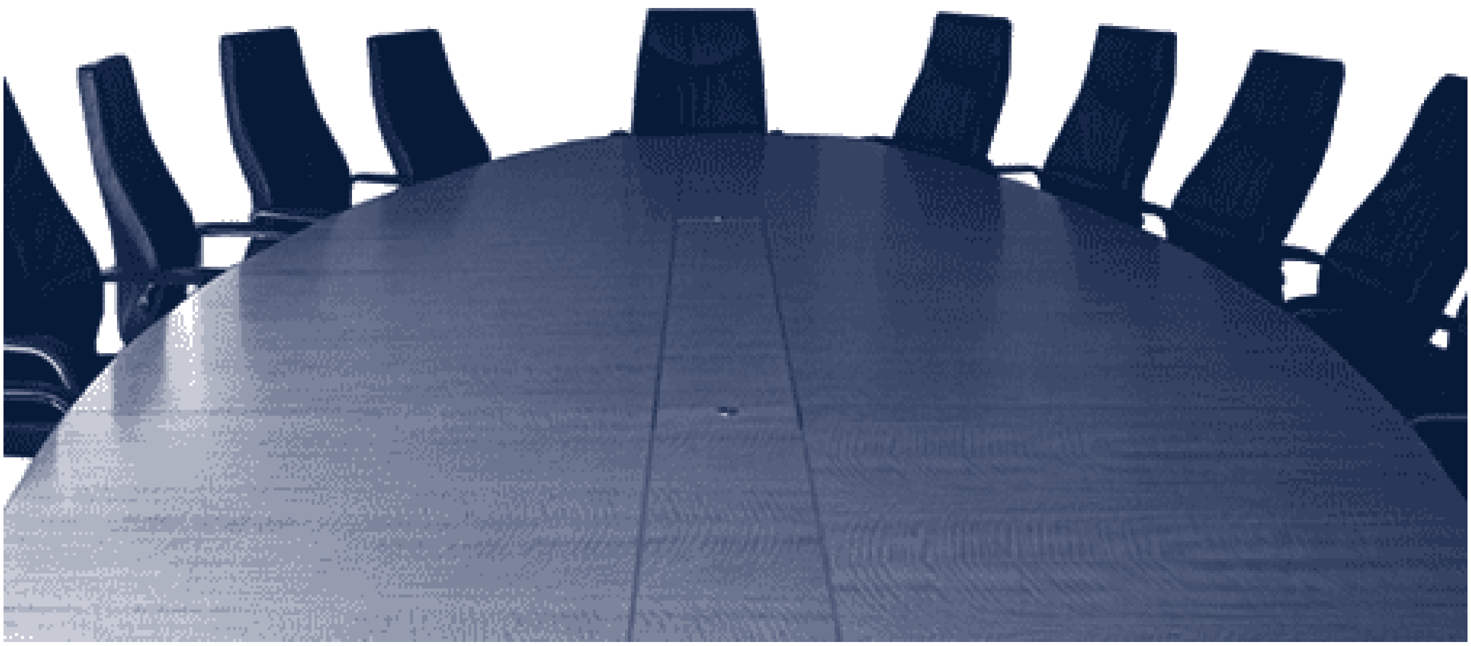
BDO INDIA

Talks on 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 an overview of IFRS in Indian context and way forward convergence roadmap. We advise readers to consult all the relevant accounting standards and applicable regulations.

We at BDO India are committed to help our clients for seamless IFRS convergence, and look forward to teaming with you on this challenging but exciting journey.

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CONTENTS

A. Management Summary

1. OVERVIEW OF IFRS

1.1 IFRS-Global Context

- Formulated by International Accounting Standard Board (IASB)
- Formerly known as International Accounting Standard (IAS)
- 29 International Accounting Standard (IAS), 9 International Financial Reporting Standards (IFRS), 11 Standing Interpretations Committee (SIC) and 17 International Financial Reporting Interpretations (IFRIC)

- Emerging as Global Reporting Standards
- Adoption by over 110 countries (IFRS required for all domestic listed companies 77, IFRS permitted for domestic listed companies 24 and IFRS required for some domestic listed companies 4)
- Acceptance by Stock Markets Globally.
- IFRS for Small and Medium Enterprises issued

1.2 IFRS-Indian Context

- Formation of IFRS Task Force by the Council of ICAI
- Recommendation of the IFRS Task Force submitted to the Council
- Full adoption of IFRS from accounting period commencing on or after 1 April 2011
- Applicable to listed entities and public interest entities such as banks, insurance companies and large sized entities
- Involvement of various regulators (MCA, RBI, IRDA, Tax authorities and SEBI)
- IRDA has come out with a "Report of the committee on IFRS compliance in Indian Insurance Industry" on June 22, 2009
- Draft Schedule VI and Accounting Standard 1 (Exposure Draft) consistent with IFRSs
- Convergence Strategy presented by Technical Directorate of ICAI on 02.02.2009:
  - ICAI has begun the process of issuing IFRS equivalent AS with following proposed changes:
    - Removal of alternative treatments
    - Additional disclosures, where required
    - AS number will continue but IFRS number will be given in parenthesis
    - IFRICs will be issued as appendices
  - ICAI has constituted a Group in liaison with government & regulatory authorities and this group has constituted separate core groups to identify inconsistencies between IFRS and various relevant acts

1.3 Public Interest Entity

Public Interest Entity should be an entity:

- Whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India; or
- Which is a bank (including a cooperative bank), financial institution, a mutual fund, or an insurance entity; or
- Whose turnover (excluding other income) exceeds rupees one hundred crore in the immediately preceding accounting year; or
- Which has public deposits and/or borrowings from banks and financial institutions in excess of rupees twenty five crore at any time during the immediately preceding accounting year; or
- Which is a holding or a subsidiary of an entity which is covered above

1.4 Benefits of adopting IFRS

- *Improved access to international capital markets and reduction in cost of capital*
  Migration to IFRS will enable Indian entities to have improved access to international capital markets. It is accepted as a financial reporting

framework for companies seeking admission to almost all of the world's bourses. 16 of top 20 stock exchanges of the world require or permit IFRS financial statements. SEC also permits foreign filers to file IFRS complied financial statements, without requiring the presentation of reconciliation statement. Other exchanges such as Luxembourg Stock Exchange, London Stock Exchange or Alternate Investment Market require companies to convert their financial statements to IFRS to meet with regulatory requirements or expectations of investment bankers or investors. Thus IFRS eliminates hurdles to cross border listings.

In a developing economy like India, there is huge demand for long term infrastructure funding. As per an estimate of planning commission of India, India needs 500 Billion dollars of investment in infrastructure sector alone by 2012. Such huge demand of money cannot be met through the financial resources available within the country. Thus Indian companies have to tap global financial markets to meet their funding requirements. According to data collated by Bloomberg, Indian companies raised Rs12,672 crore (USD 2.64 billion converted at Rs 48 a dollar) by issuing depository receipts in the September 2009 quarter itself.

Fund raised by Indian companies through GDRs / ADRs in 2009-10

S.No	Company Name	Instrument	Amount Raised (Million USD)	Translation as per
1	Tata Steel	GDR	500	IFRS
2	Tata Power	GDR	335	IFRS
3	Tata Motors	GDR	375	IFRS
4	Suzlon Energy	GDR	108	IFRS
5	Sterlite Industries	ADR	1500	US GAAP

(Sources: Press Release)

Financial statements prepared under IFRS are more transparent and understandable to global investor community. Even in cases where listing on overseas exchanges is permitted using local (Indian) GAAP, international investors generally ascribe an additional risk premium if the underlying financial information is not prepared in accordance with international standards.

Similarly, even companies listed only on the local exchanges in India would be able to better attract international investors and reduce risk premium, by presenting financial statements as per IFRS.

- *Benchmarking with global peers*
  "Adoption of IFRS, the new global reporting standards, would improve comparability, transparency and credibility of financial statements and in a globalized world, would lead to greater economic efficiencies," CII said in a release.

  IFRS would improve the comparability of financial information and financial performance among sectors, countries and companies. It would both improve and initiate new relationships with investors, customers and suppliers across the globe, since financial statements in accordance with IFRS cut across borders. With Indian companies becoming global in terms of their operation and investor base, IFRS will facilitate better comparison of Indian companies with global peers.

  Now that 110+ countries already require or permit the use of IFRS, countries like India, Japan, Sri Lanka, Canada and Korea have committed to adopt IFRS from 2011, IFRS has become a single globally accepted financial reporting system. It has thus made it easy to benchmark the financial statements with that of the global peers.

- *Avoidance of multiple reporting*
  Adoption of IFRS will enable entities across the group residing in different countries to adopt single financial reporting platform. Currently these entities are required to prepare multiple set of financial statements for domestic reporting or regulatory purposes & external financial reporting for consolidation purposes, which involves additional cost and time. Thus group wise adoption of IFRS will eliminate the need for such multiple reporting. It will

harmonize internal and external reporting by creating a single accounting language across the group. It will also result in improvement in quality of management information system resulting in effective management of business.

Besides, with global adoption of IFRS, companies seeking to list their securities on global bourses are not required to convert their financial statements to meet the regulatory requirements of that country. Thus the cost associated with the multiple reporting can be saved.

- *Reflecting true value of acquisitions*
  Under Indian GAAP, business combinations, generally, are accounted at carrying value of assets and liabilities taken over, popularly known as 'Pooling of Interest Method'. IFRS prohibits the pooling of interest method and all business combinations are accounted for using 'Purchase Method' only. Application of purchase method requires assets, liabilities and contingent liabilities acquired under business combination to be recognised at fair value. IFRS also places lots of emphasis on Purchase Price Allocation (PPA). It requires enhanced disclosures in financial statements which provide investors more meaningful information about the performance of the company and success of the acquisition. Thus financial statements prepared under IFRS reflect true value of acquisition and resultant goodwill / negative goodwill.

  In the current economic environment where companies follow inorganic growth strategies for rapid business growth, IFRS adoption will have significant impact on financial statements.

Illustrative list of companies that have disclosed financials under IFRS and have had significant impact, as on 31 March 2008

S.No	Company Name	Increase in Profit	Increase in Net Worth
1	Satyam Computer	USD 20 million*	USD 5,584 million*
2	Sterlite Industries	(INR 1,542 million)	(INR 1,903 million)
3	Tata Motors	INR 856 million	INR 30,989 million

*converted from USD to INR at 40
(Source: Financial Statements)

1.5 Challenges in adopting IFRS

- Regulatory endorsement and acceptance
- Shortage of skilled resources
- Huge cost of enhancement of IT systems
- Acceptance by tax authorities
- Managing market expectations
- Distribution of unrealized profits arising due to fair value regime
- Whole lot of business issues – Management reporting systems, employee benefit plan, employee and executive compensation, tax planning, performance indicators, investor relationship, financial accounting and reporting, mergers and acquisitions, etc.

1.6 Legislative Conflicts

- Format of Financial Statement (Schedule VI of the Companies Act, 1956, RBI, IRDA, SEBI etc.)
- Restatement of Financial Statements (Companies Act)
- Business Combinations (High Court and RBI Order)
- Provisions against non-performing assets (RBI) and interest in suspense
- Accounting and disclosure of Financial Instruments (RBI, IRDA, SEBI)
- Recognition of Premium income & Acquisition Cost (IRDA)

1.7 Key Divergences

The key divergences between Indian GAAP and IFRS have arisen due to:

- Conceptual differences
- Legal and regulatory requirements
- Present economic conditions
- Level of preparedness

The divergences are both in terms of accounting treatment as well as disclosures in the financial statements. Some of the key divergences between Indian GAAP and IFRS are summarized as under:

- Special Purpose Entities (SPE) falling under the definition of 'control' as per IAS 27 on "Consolidated and Separate Financial Statements" shall be consolidated
- 'Potential Voting Rights' that are currently exercisable or convertible shall be considered to assess the existence of 'control'
- All business combinations shall be accounted as per purchase method at fair values
- Contingent liabilities, taken over in a business combination, shall be included in Net Assets, measured at fair value, if contingencies have since been resolved, a reliable estimate can be made and payment is probable
- Negative goodwill arising on business combinations / consolidation shall be accounted as income instead of capital reserve
- Goodwill shall not be amortised. It shall only be tested for impairment
- PP&E and Intangible assets shall be measured either at cost or at revalued amount. Periodical valuation of entire classes of assets is required when revaluation option is chosen
- Intangible assets can be revalued only when there is an active market for the same
- Depreciation on revalued portion cannot be recouped out of revaluation reserve
- Depreciation to be calculated based on useful life, which along with residual value and depreciation method shall be reviewed annually
- Intangible assets may have an indefinite life e.g. Trademarks, Goodwill, Franchise
- Investment property, i.e. land or building held to earn rentals or for capital appreciation, shall be measured either at cost or fair value.
- If fair value model is adopted, changes in fair value, measured annually, shall be recognised in the income statement
- No distinction shall be made between integral and non-integral foreign operations. All foreign operations to be consolidated using non-integral approach
- Exchange differences shall not be capitalised except to the extent of that allowed by IAS 23 *Borrowing Costs*
- Share Based Payments shall be measured at fair value
- Deferred tax shall be created on temporary difference instead of timing differences.
- Liability portion of compound financial instruments, such as convertible debentures, shall be separately accounted for.
- Financial assets and liabilities shall be classified and measured accordingly as per the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*
- All derivative financial assets and liabilities including embedded derivatives shall be accounted for as on the balance sheet items.
- Derivatives classified as 'hedge' shall have to comply with various requirements of IAS 39 viz. documentation, hedge effectiveness testing and ineffectiveness measurement
- Derecognition of financial assets, as in the case of securitization, shall be based on risks and rewards, transfer of 'control' being a secondary test
- Provisions shall be created only to the extent they relate to a specified risk that can be measured reliably and for incurred losses. No provisions are permitted for future or expected losses i.e. general provisions
- Interest income / expense on financial assets and liabilities, such as loans, shall be recorded on an effective interest rate basis after considering associated income and expenses e.g. agency commission, loan processing fees, etc.
- Prior period errors shall be adjusted in the opening balances of assets, liabilities and equity of the earliest period presented i.e. the figures relating to prior years are restated

B. Technical Summary

2. IFRS CONVERGENCE PROCESS

2.1 Step by step Process

- Identifying the dates and the first IFRS financial statements (date of transition, date of adoption and reporting date)
- Identifying the differences between existing accounting policies and IFRS
- Applying the 16 optional exemptions
- Applying 4 mandatory exceptions
- Preparing the opening balance sheet at the date of transition to IFRS
- Preparing the comparative financial statements for one year prior to the first year of adoption as per IFRS
- Preparing the financial statements for the first year of adoption as per IFRS
- Identify the areas where extensive disclosures will be required

2.2 Optional Exemptions

- *Business combinations and scope of consolidation*
  Not to restate business combinations before the date of transition

- *Fair value or revaluation*
  To deem the cost of PPE, Intangible Assets and Investment Property to be either fair value on the date of transition or revaluation done previously or carrying value as per respective IFRS

- *Employee benefits*
  To adopt corridor approach prospectively from the date of transition for actuarial gains and losses

- *Cumulative translation differences*
  To apply IAS 21 prospectively and reset cumulative balances to zero

- *Comparatives for financial instruments*
  Not applicable for India

- *Designation of financial instruments*
  Permits instruments to be classified as available for sale or fair value through profit or loss

- *Share based payments*
  May choose to apply IFRS 2 if previously fair value was publicly disclosed

- *Insurance Contracts*
  Not to restate existing contracts

- *Compound financial instruments*
  Not to identify the two elements of the equity component if the liability component is no longer outstanding

- *Assets and liabilities of subsidiaries, associates and joint ventures- different dates adoption*
  The exemption allows subsidiary to measure its assets and liabilities either at carrying amounts included in the parents' consolidated financial statements or on the basis of IFRS 1

- *Investments in subsidiaries, jointly controlled entities and associates*
  A first time adopter can, in its separate financial statements, measure such investments at either cost as per IAS 27 or Fair Value on transition date or carrying value

- *Leases*
  Not to revisit all existing lease transactions

- *Fair Value measurement of Financial Assets and Liabilities*
  Day 1 gains / losses may be recognised prospectively

- *Decommissioning liabilities included in the cost of property, plant and equipment*
  Adjustments for such liabilities may be made on the date of transition

- *Service Concession Arrangements*
  Transitional provisions of IFRIC 12 may be applied

- *Borrowing Costs*
  Not applicable for India

2.3 Mandatory exceptions

- *Estimates*
  Estimates made at the same date under the previous GAAP to be used for the opening IFRS balance sheet, unless there is objective evidence of an error

- *De-recognition of financial assets and financial liabilities*
  A first-time adopter shall apply the derecognition requirements in IAS 39 prospectively for transactions occurring on or after 1 January 2004

- *Hedge Accounting*
  Hedge accounting after the IAS 32/39 transition date may only be applied if all the IAS 39 hedge accounting criteria are met

- *Non controlling interest*
  Prospective application of some IAS 27 *Consolidated and Separate Financial Statements* requirements

3. FIRST TIME ADOPTION OF IFRS-IFRS1

3.1 Scope

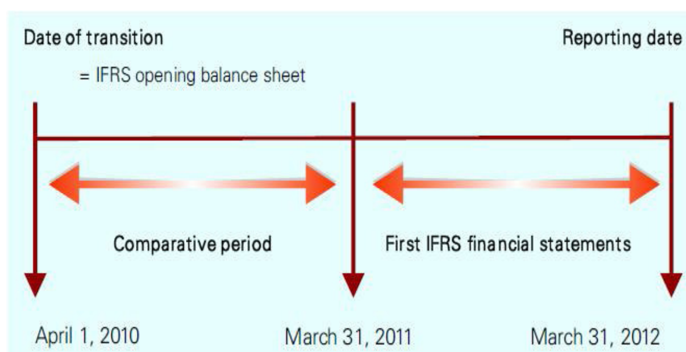
- Mandatory to follow
- An entity that makes **an explicit and unreserved statement of compliance with IFRS** for the first time is the first time adopter
- Even if the entity has prepared IFRS information for internal management use, it will be the first time adopter only when such statement is made in its financial statements
- Even if the entity has complied with some of the IFRS in the earlier years, it will be first time adopter when it makes the above statement in its financial statements

3.2 Requirement

Considering the fact that all listed entities and public interest entities and large sized entities will adopt IFRS from accounting period commencing on or after 1 April 2011, those entities will have to-

- Restate the opening balance sheet (as on 1 April 2010)
- Restate the financial statements for comparative period (2010-2011)
- Prepare the financial statements as per IFRS for first year (2011-2012)

In simple words, an entity will have to prepare balance sheet for 3 years and profit and loss account for 2 years.



Journey of IFRS

3.3 Recognition of assets and liabilities in opening balance sheet

Assets and liabilities in the opening balance sheet not meeting IFRS criteria

- Such Assets and Liabilities would be required to be eliminated (e.g. Proposed Dividend, Deferred Revenue Expenditure)

Assets and liabilities not recognized in I-GAAP

- Recognizing derivative financial assets and liabilities and embedded derivatives
- Recognizing restructuring provisions based on constructive obligations instead of legal obligations
- Recognizing deferred tax for temporary differences not considered under I-GAAP
- Disclosing contingent assets

Classification of assets and liabilities

- Recognizing items which meet the definition of equity
- Recognizing intangibles assets acquired in the past business combinations which do not meet the definition of intangible assets under IFRS as goodwill or vice versa
- Reclassifying equity or liability on the basis of substance rather than form
- Preparing consolidated financial statements

Carrying values of assets and liabilities

- Recognizing the difference between the carrying values under I-GAAP and the carrying value under IFRS in the retained earnings in the opening balance sheet

3.4 Certain critical impacts

- Restating outstanding liability at fair value in case of Employee Share Based Payments
- Consolidating subsidiaries falling under the definition of 'control' as per IAS 27 on "Consolidated and Separate Financial Statements" previously not consolidated
- Recognising / Derecognising intangible assets acquired in a business combination
- Reclassifying negative goodwill treated as capital reserve to retained earnings
- Eliminating unrealized profits on transactions between group companies
- Reclassification and remeasurement of financial assets and liabilities
- Deferred tax on items other than timing differences
- Reclassification of dividend payable to retained earnings
- Adjusting contingent liabilities, taken over in a business combination, with goodwill if contingencies have since been resolved, a reliable estimate can be made and payment is probable
- Recognising all derivative financial assets and liabilities and embedded derivatives

4. IMPACT OF KEY DIFFERENCES

4.1 Presentation of Financial Statements

- IFRS sets out overall requirements for the presentation of financial statements, guidelines for their structures and minimum requirements for their content (In I-GAAP there is no such requirement)
- IFRS requires disclosures of critical management judgments, key sources of estimation and entity's objective, policies and processes for managing capital (In I-GAAP there is no such requirement)
- IFRS considers Consolidated Financial Statements as the General Purpose Financial Statements. It is not mandatory to prepare Consolidated Financial Statements under As 21.
- IFRS recognizes true and fair override (In I-GAAP this is not permitted)

- IFRS prohibits any item to be presented as an extra-ordinary item either on the face of the income statement or in the notes (In I-GAAP this is mandatory)
- IFRS requires clear segregation of current and non-current items for assets and liabilities. In the profit and loss account, both, functional format and format based on nature of expenses is permitted. Even Schedule VI to the Companies Act, 1956 requires information to be given as per the nature of expenses
- For changes in accounting policy, Comparative years' information is restated and the amount is adjusted against opening balances of retained earnings. Under Indian GAAP, restatement is not required.

4.2 Fixed Assets, Intangibles, Investments Property and Leases

- IFRS mandates component accounting (In I-GAAP this is not mandatory)
- IFRS requires depreciation to be based on useful life (In I-GAAP it is higher of useful life or Schedule XIV rates)
- IFRS requires annual review of useful life, depreciation method and residual value (In I-GAAP it is not required)
- Major repairs and overhaul expenditure are capitalized (In I-GAAP it is expensed out)
- IFRS mandates revaluation, for an entity that chooses to apply revaluation model, to be done for the entire class of asset and to be reviewed periodically (In I-GAAP it is not so)
- Under IFRS depreciation on the revaluation portion cannot be recouped out of revaluation reserve and it is charged to the income statement (I-GAAP permits depreciation to be recouped from revaluation reserve
- Intangibles may have indefinite life (In I-GAAP it is not permitted)
- No amortization for Intangibles with indefinite life. In Indian GAAP there is rebuttable presumption of 10 years for amortization of such intangibles.
- Intangibles can be revalued, provided an active market exists (In I-GAAP it is not permitted)
- Land lease is classified as operating lease unless title passes to the lessee at the end of the lease term (In I-GAAP no treatment prescribed, EAC opinion says long term lease should be treated as finance lease)
- Recognizes an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form but conveys the right to use an asset in return of payments, as Lease (e.g. power purchase contracts, waste management contracts, outsourcing contracts) (In I-GAAP, no guidance for such arrangements)
- Capitalisation of exchange difference is prohibited
- IFRS specifies accounting treatment of sub-lease
- IFRS requires difference in fair value of Investment Property to be accounted for in income statement
- Fair value of investment property, when converted into inventory, is considered as deemed cost

4.3 Revenue Recognition

- For recognition of revenue, IAS 18 prescribes the condition that the costs incurred or to be incurred in respect of the transaction can be measured reliably. (In I-GAAP, this is not prescribed)
- When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue.
- For recognition of revenue from rendering of services, IAS 18 prescribes percentage of completion method (In I-GAAP, both, completed contract method or proportionate completion method is permitted)
- IFRS requires interest to be recognized using effective interest method (In I-GAAP, it is based

on time proportion basis taking into account the amount outstanding and the applicable rate)

4.4 Deferred Tax

- Deferred tax is based on the balance sheet liability method which focuses on temporary differences (instead of income statement liability method which focuses on timing differences)
- Requires recognition of deferred taxes in case of business combinations. The cost of business combination is allocated to the identifiable assets acquired and liabilities assumed on fair value basis. If equivalent adjustment is not allowed, it gives rise to temporary differences. (Under I-GAAP business combinations other than amalgamation do not give rise to deferred tax)
- Deferred tax asset is recognized only when there is convincing evidence/probable certainty (instead of virtual certainty/ reasonable certainty)
- Temporary differences arise due to undistributed profits of the subsidiaries, associates, joint ventures and also due to elimination of profits and losses resulting from intra-group transactions
- Deferred tax arises due to revaluation of assets
- Deferred tax on acquired assets, liabilities and contingent liabilities is itself considered as acquired asset or liability and is adjusted against goodwill under IFRS

4.5 Employee Benefits and Share based payments

- Actuarial gains or losses are recognized immediately in the income statement or apply corridor approach (I-GAAP requires all actuarial gains or losses to be recognized immediately in the profit and loss account
- Liability on termination benefits is recognized based on constructive obligation (instead of legal obligation)
- Share based payments are accounted for using fair value (instead of intrinsic value)
- Share based payments to non-employees – Goods and services (other than fixed assets) acquired in exchange of shares are recorded at fair value of the goods or services or the fair value of shares, whichever is clearly evident (In I-GAAP there is no guidance)
- Group ESOP Plan – All entities whose employees are being provided ESOP benefits by its parent or other group entities will have to account for the charge in their income statement to reflect true compensation cost of receiving employee benefit

4.6 Business Combinations

- IFRS requires all business combinations (excludes common control transactions) within its scope to be accounted as per purchase method and prohibits merger accounting
- IFRS requires net assets (including contingent liabilities) taken over to be recorded at fair value (instead of carrying value). Contingent liabilities and intangible assets which are not recorded in the aquiree's balance sheet are recorded in the acquirer's balance sheet. Contingent liabilities are also required to be fair valued and recognized. Depreciation / amortization is also based on fair value.
- Lot of emphasis is given to Purchase Price Allocation (PPA)
- The entities will have to ensure that the scheme filed with the High Court does not prescribe any treatment which is not in accordance with IFRS
- The end of merger accounting for all acquisition will affect the deal structure especially when entities are inclined to give consideration in equity to satisfy conditions of merger accounting.
- IFRS prohibits amortization of goodwill and requires testing for impairment
- IFRS requires negative goodwill to be credited to profit and loss account (instead of capital reserve)
- Acquisition accounting is based on substance (rather than form).

- Costs of Business Combinations should be expenses out unless it meets the criteria of IAS 39.
- Reverse acquisition is accounted assuming the legal acquirer is the acquiree (I-GAAP is silent on this)
- Significant disclosures are required regarding the cost of acquisition, values of the main class of assets and liabilities and the justification for the amount allocated to goodwill

4.7 Group Accounts

- Preparation of Group Accounts is mandatory for all entities (not just listed entities)
- The application of equity method or proportionate consolidation of associates/joint ventures is mandatory even if an entity does not have subsidiary. (It is required only when an entity has subsidiary and prepares CFS)
- Consolidation is required for all subsidiaries and there are no exemptions
- It is mandatory to follow uniform accounting policies and there are no exceptions
- Only 3 months time gap is allowed between the financial statements of parent or investor and subsidiary, associate or jointly controlled entity (instead of 6 months)
- Requires consolidation of SPE (I-GAAP is silent on this)
- Control cannot be held only by one entity and it is unlikely that two entities would consolidate the same company
- IFRS requires negative goodwill to be credited to profit and loss account (instead of capital reserve)

4.8 Financial Instruments

- Requires issuer of a **financial instrument** to classify the same as equity or liability or both on initial recognition in accordance with the substance (e.g. Redeemable Preference Shares with fixed dividend is treated as liability and Convertible Debentures is split into equity and liability components)
- All **financial assets** are classified into 4 categories namely FVTPL, HTM, AFS and L&R.
- **FVTPL assets** are valued at fair value with gain or loss routed through Profit and Loss Account.
- **AFS assets** are valued at fair value with gain or loss routed through equity, which is recycled into profit and loss, either on impairment or on de-recognition of those assets.
- **HTM and L&R assets** are valued at amortized cost using effective interest rate.
- In I-GAAP long term investments are valued at cost less "other than temporary diminution and current investments are valued at lower of cost or market value. L&R is carried are actual cost and interest thereon is recognized at contractual rate
- Reclassification of financial assets:
  a) 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&R in certain rare circumstances
  b) 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 know as 'tainting').
  c) AFS that would have met the definition of L&R (if it had not been designated as AFS) it may be transferred into L&R if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity
- All derivatives (except those used for hedge purposes) are measured at fair value with gain or loss routed through profit and loss **(FVTPL)**. (I-GAAP is silent on this. Recently ICAI issued an announcement which requires entities to provide for losses in respect of outstanding derivative contract by marking them to market)
- Includes detailed provisions for impairment of financial assets (I-GAAP is silent on this)
- Requires comprehensive disclosure for financial instruments (I-GAAP is silent on this)

- Prohibits reversal of impairment on AFS and unquoted equity instruments
- De-recognition of financial assets – Due to strict criteria some financial assets disposal transactions (particularly the sale of trade receivables) may be classified as guaranteed loans
- Compound financial instruments - To be split into liability component and equity component and each component is recorded separately. Example - Convertible bonds.
- Embedded derivatives are also considered as derivatives and may be recognized separately from their host contract (e.g. debts or sales contract)

4.9 Operating Segments

- It does not impose any requirement to report segment information on a product or geographical basis
- Requires that the amount of each segment item reported is the measure reported to the CODM in internal management report – even if this information is not prepared in accordance with the IFRS accounting policies of the entity. This may result in differences between the amounts reported in segment information and those reported in the entity's financial statements (I-GAAP requires the segment information to be prepared in conformity with the entity's accounting policies for preparing its financial statements.
- An entity must disclose how it determined its reportable operating segments and the basis on which the disclosed amounts have been measured. These disclosures include reconciliations of the total key segment amounts to the corresponding amounts reported in financial statements
- A measure of profit or loss and assets for each segment must be disclosed. Additional line items, such as interest revenue and interest expense, are disclosed if they are provided to CODM. (I-GAAP specifies the items that must be disclosed for each reportable segment)
- Disclosures are required when an entity receives more than 10% of its revenue from a single customer (I-GAAP does not require this)

5. GAAP Reconciliation

Indian Accounting Standards (AS)	IFRS/ IAS
AS 1 Disclosure of Accounting Policies	IAS 1 Presentation of Financial Statements
AS 2 Valuation of Inventories	IAS 2 Inventories
AS 3 Cash Flow Statements	IAS 7 Cash Flow Statement
AS 4 Contingencies and Events Occurring after the Balance Sheet Date	IAS 10 Events after the Balance Sheet Date
AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	IAS 8 Accounting policies, Changes in Accounting Estimates and Errors
AS 6 Depreciation Accounting	IAS 16 Property, Plant and Equipment
AS 7 Construction Contracts	IAS 11 Construction Contracts
AS 9 Revenue Recognition	IAS 18 Revenue
AS 10 Accounting for Fixed Assets	IAS 16 Property, Plant and Equipment
AS 11 The Effects of Changes in Foreign Exchange Rates	IAS 21 The Effects of Changes in Foreign Exchange Rates
AS 12 Accounting for Government Grants	IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
AS 13 Accounting for Investments	IAS 39 Financial Instruments: Recognition and Measurement & IFRS 9 Financial Instruments (replacement of IAS 39)
	IAS 40 Investment Property
AS 14 Accounting for Amalgamations	IFRS 3 Business Combinations
AS 15 Employee Benefits	IAS 19 Employee Benefits
	IFRS 2 Share Based Payments
AS 16 Borrowing Costs	IAS 23 Borrowing Costs
AS 17 Segment Reporting	IFRS 8 Operating Segments
AS 18 Related Party Disclosures	IAS 24 Related Party Disclosures
AS 19 Leases	IAS 17 Leases
AS 20 Earnings Per Share	IAS 33 Earnings Per Share
AS 21 Consolidated Financial Statements	IAS 27 Consolidated and Separate Financial Statements
AS 22 Accounting for Taxes on Income	IAS 12 Income Taxes
AS 23 Accounting for Investments in Associates in Consolidated Financial Statements	IAS 28 Investments in Associates
AS 24 Discontinuing Operations	IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
AS 25 Interim Financial Reporting	IAS 34 Interim Financial Reporting
AS 26 Intangible Assets	IAS 38 Intangible Assets
AS 27 Financial Reporting of Interests in Joint Ventures	IAS 31 Interests in Joint Ventures
AS 28 Impairment of Assets	IAS 36 Impairment of Assets
AS 29 Provisions, Contingent Liabilities and Contingent Assets	IAS 37 Provisions, Contingent Liabilities and Contingent Assets
AS 30 Financial Instruments: Recognition and Measurement	IAS 39 Financial Instruments: Recognition and Measurement & IFRS 9 Financial Instruments (replacement of IAS 39)
AS 31 Financial Instruments: Presentation	IFRS 7 Financial Instruments: Disclosures

Indian Accounting Standards (AS)	IFRS/ IAS
No corresponding pronouncement	IAS 26 Accounting and Reporting by Retirement Benefit Plans
No corresponding pronouncement	IAS 29 Financial Reporting in Hyperinflationary Economies
No corresponding pronouncement	IFRS 1 First time adoption of IFRS
No corresponding pronouncement	IFRS 4 Insurance Contracts
No corresponding pronouncement	IFRS 6 Exploration for and Evaluation of Mineral resources
No corresponding pronouncement	IAS 41 Agriculture

Superseded Standards

Indian Accounting Standards (AS)	IFRS/ IAS
AS 8	IAS 3, 4, 5, 6, 9, 13, 14, 15, 22, 25, 30, 35

The above list is exclusive of Interpretations, Guidance Notes and Clarifications.

6. BDO INDIA VISION AND ADVANTAGE

7.1 BDO India Vision

- To be Globally Preferred Services Providers in IFRS Domain

7.2 BDO India Advantage

- Global team with extensive IFRS expertise and past experience in executing IFRS assignments
- Local dedicated and trained resources
- Personalized Senior level Services
- Value-driven Pricing Model
- Solution oriented approach
- Active representation in IASB and ICAI

7.3 India centric focus

- Creating heightened awareness
- Creating value added convergence model and roadmap
- Complete end to end hand-holding
- Imparting extensive and exclusive training
- Continuous sharing of changes and development

7. List of abbreviations

- AFS – Available for Sale
- CODM – Chief Operating Decision Makers
- ESOP – Employee Stock Option Plan
- FVTPL – Fair value through Profit and Loss
- HTM – Held to Maturity
- IAS – International Accounting Standards
- IASB – International Accounting Standards Board
- ICAI – Institute of Chartered Accountants of India
- I-GAAP – Indian Accounting Standards
- IFRIC – International Financial Reporting Interpretation Committee
- IFRS – International Financial Reporting Standards
- IRDA – Insurance Regulatory and Development Authority
- L&R – Loans and Receivables
- MCA – Ministry of Company Affairs
- PPE – Property, Plant & Equipment
- RBI – Reserve Bank of India
- SEBI – Securities and Exchange Board of India
- SEC – U.S. Securities and Exchange Commission
- SIC – Standing Interpretations Committee
- SME – Small and Medium Enterprises
- SPE – Special Purpose Entities

Contact Us

For further assistance, detailed information, presentations, meetings, training workshops please contact-

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