

MODULE 1

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Introduction to Accounting Standards:

Financial Statements provide inputs for most business and economic decisions. However, when these statements are not transparent and reliable, it could have a huge negative impact on growth of business enterprises, and economy at large. Hence it is essential to regulate the accounting process that helps in preparing financial statements. In order to provide transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardise the accounting principles and policies. Accounting standards provide a framework and standard accounting policies so that the financial statements of different enterprises become comparable.

Meaning of Accounting Standards:

According to ICAI, Accounting standards are “written documents, policies, procedures issued by expert accounting body or government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosures of accounting transactions in the financial statement.”

In short, an accounting standard may be regarded as a sort of law- a guide to action, a settled ground or basis of conduct or practice, of accounting.

The accounting Standards deal with the issues of:

- a. Recognition of events and transactions in the financial statements;
- b. Measurement of these transactions and events;
- c. Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader; and
- d. The disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

Need for Accounting Standards:

- a) In order to **avoid the variance** which may arise between the accounting principles and accounting practices and also to find uniformity among various diverse underlying principles of accounting.
- b) **Comparison** between two firms is possible if both of them maintain the same principle, otherwise proper comparison is not possible. For example, if A company follows the FIFO method of valuation of stock whereas firm B follows the LIFO method for valuing stock, the comparison between the two firms becomes useless. The same is possible only when both of them follow identical method of valuing closing stock.
- c) To find **uniformity in accounting practice** while formulating financial reports and make consistency and proper comparison of data which are contained in financial statements for the users of accounting information.
- d) To maintain **fairness, consistency and transparency** in accounting practices which will satisfy the users of accounting.
- e) To **resolve potential conflicts** of financial interest among the various external groups that use and rely upon published financial statements.
- f) Accounting standards reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises. Thus, accounting standards can be seen as providing an important mechanism to help in the resolution of potential financial conflicts interest between the various important groups in society.
- g) To **harmonise accounting policies and practices** followed by different business entities so that the diverse accounting practices adopted for various aspects of accounting can be standardised.

Objectives of Accounting Standards:

- ❖ To standardise the diverse accounting policies
- ❖ To eliminate the extent possible non comparability of financial statements
- ❖ To increase the reliability of financial statements
- ❖ To increase the arithmetical accuracy of financial statements
- ❖ To understand accounting treatment in financial statements
- ❖ To provide a set of standard accounting policies, valuation norms and disclosure requirements

Significance or advantages of Accounting Standards:

The specific advantages of accounting standards to the user group are:

1. They would be useful to investors in judging the yield and risk involved in alternative investments in different companies and different countries.
2. The standards enable the public accountants (the Chartered Accountants in India) to deal with their clients by providing rules of authority to which the accountants have to adhere, in their job of preparing the financial statements on a true and fair basis. This makes the accountants ensure commitments and integrity in the profession.
3. Accounting standards raise the standards of auditing itself in its task of reporting on the financial statements.
4. Government officials, tax authorities and other find accounting reports produced in accordance with established standards to be reliable and acceptable.
5. Financial statements thus produced will be reliable documents for the purpose of analysis and interpretation by analysts, researchers and consultants for economic forecasting and planning.

Limitations of Accounting Standards:

The following are some of the limitations of setting of accounting standards:

- Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.
- There may be a trend towards rigidity and away from flexibility in applying the accounting standards.
- Accounting Standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

Accounting standards in Indian context:

In India, Accounting Standards are issued by the Accounting Standards Board of the Institute of Chartered Accountants of India in consultation with the National Advisory Committee on Accounting Standards. The Institute of Chartered Accountants of India, recognising the need to harmonise the diverse accounting policies and practices at

present in use in India, constituted the **Accounting Standards Board (ASB)** on 21st April, 1977.

The scope and functions of Accounting Standards Board are:

- a. To **formulate** Accounting Standards so that such standards may be established by the council of the Institute in India, while formulating the accounting standards, ASB will take into consideration the applicable laws, customs, usages and business environment.
- b. To **support the objectives** of International Accounting Standards Committees (**IASC**) as the institute is one of the members of IASC. ASB will give due consideration to International Accounting Standards while formulating the Accounting Standards to the extent possible in the light of the conditions and practices prevailing in India.
- c. To **propagate** the Accounting Standards and persuade the concerned parties to adopt them in the preparation and presentation of financial statements.
- d. To **issue guidance notes** on the Accounting Standards and give clarifications on issues arising therefrom.
- e. To **review** the Accounting Standards at periodical intervals.

Procedure for issuing Accounting Standards by Accounting Standards Board of Institute of Chartered Accountants of India:

The following is the procedure followed for issuing Accounting Standards by the Accounting Standards Board:

1. Accounting Standard Board (ASB) shall determine the **broad areas** in which accounting standards need to be formulated and the priority regard to the selection thereof.
2. In the preparation of Accounting Standards, ASB will be **assisted by study groups**; provision will be made for wide participation by the members of the Institute and others.
3. ASB will also **hold a dialogue** with the **representatives of the government**, public sector undertakings, industry and other organisations for ascertaining their views.
4. On the basis of the work of the study groups and the dialogue with the organisations referred above, an example of **draft of the proposed standard** will be

prepared and issued for comments by members of the Institute and the public at large.

5. The draft of the proposed standard will include the following basic points:
 - A statement of concepts and fundamental accounting principles relating to the standard;
 - Definitions of the terms used in the standard;
 - The manner in which accounting principles have been applied for formulating the standards;
 - The presentation of disclosure requirements in complying with standards;
 - Class of enterprises to which the standard will become effective;
 - Data from which the standards will be effective;
6. After taking into consideration the comments received the draft of the proposed standard will be **finalised** by ASB and **submitted to the Council of Institute**.
7. The Council of the Institute will consider the final draft of the propose standards, and if found necessary, **modify** the same in consultation with ASB. The Accounting Standard on relevant subject written will be **issued** under the authority of the Council.

INTRODUCTION TO IFRS:

Multinational and global companies across the world prepare financial statements for each country in which they did business, in accordance with each country's GAAP. In order to reduce this burden of preparing multiple sets of financial statements need for uniform International accounting standards was felt. As a result, International Accounting Standards Committee (IASC) was constituted to issue International Accounting Standards. It operated from 1973 to 2001, when it was restructured to become International Accounting Standards Board (IASB). IASC when it lasted for 27 years had issued 41 accounting standards. At the time of establishment of IASB they agreed to adopt the revised set of standards issued by IASC. But any standards to be published after that, would follow series known as International Financial Reporting Standards (IFRS- Standards issued by IASB).

CAUSES FOR DIFFERENCES IN INTERNATIONAL ACCOUNTING:

The environment in which a country operates shapes its accounting practices according to Nobes “Just as nations have different histories, values and political systems, they also have different patterns of financial accounting development”. According to Robert et al. there are not two countries, which have the same accounting practices.

- Factors influencing variations in national practices and regulation of financial reporting are:
 - Differences in the way that legal systems operate
 - Different political systems, for example the degree of central government control.
 - Different capital markets
 - International variation in the type and scale of economic activity, from agricultural to financial services and from developing economies to industrialised economies
 - The degree of international influences and openness of an economy
 - The stability of the economy and inflation rates
 - Cultural differences
 - The influence of the accounting profession; and
 - National differences in corporate governance, structures and practices

While national variations in accounting practices have endured for many years, more recently there has been pressure to harmonise financial reporting practices and regulation on a global basis in order to reduce such inconsistencies.

Accounting practices and financial reporting should be a universal language. There have been a number of primary drivers encouraging worldwide harmonisation of financial reporting

- Increased globalisation of trade and capital markets
- The rapid pace at which information technology has developed has led to the easing of the electronic movement of funds across national boundaries and increased investor willingness to invest across national borders.

The business community has admitted that the accounting is “the language of business”. They are using the accounting to communicate the existence and the evolution of the financial situation and also of the performance for the economical entities. Financial information is a form of a language and if the language of financial information is to be putted to use,, so that investment and credit decisions can more readily be taken, it should not only be intelligible, it should also be comparable.

- ✓ To improve comparability of financial statements, harmonisations of accounting standards is advocated.
- ✓ Over time, different practices and regulations have evolved to meet the requirements of national economic, financial and legal systems. The challenge of international harmonisation is needed:
- ✓ To reduce or eliminate the differences
- ✓ To produce a level playing field for financial reporting
- ✓ To help create more efficient international capital markets
- ✓ As a reflection of the movement towards international harmonisation of financial reporting there has been increased usage of International Financial Reporting Standards (IFRS) worldwide.

MEANING OF IFRS:

IFRS is an acronym for International Financial Reporting Standards and covers full set of principles and rules on reporting of various items, transactions or situations in the financial statements. Often they are referred to as “principles based” standards because they describe principles rather than dictate rigid accounting rules for treatment of certain items.

In simple words, IFRS are a set of International accounting standards, stating how particular types of transactions and other events should be reported in the financial statements. They are the guidelines and rules set by IASB which the company and organisation can follow while preparing their financial statements.

IFRS are designed as a common global language for business affairs so the company accounts are understandable and comparable across international boundaries.

Components of IFRS:

IFRS comprises the following components:

1. International Accounting Standards (IASs) issued by IASC

2. International Financial Reporting Standards (IFRSs) issued by IASB

Both IAS and IFRS are standards themselves that prescribe rules or accounting treatments for various individual items or elements of financial statements. IASs are the standards issued before 2001 and IFRSs are the standards issued after 2001. There used to be 41 standards named IAS 1, IAS 2, etc., however, several of them were superseded, replaced or just withdrawn.

3. Interpretations originated from Standing Interpretations Committee (SIC)

4. Interpretations originated from the International Financial Reporting Interpretations Committee (IFRICs)

SICs and IFRICs are interpretations that supplements IAS/IFRS standards. SIC were issued before 2001 and IFRIC were issued after 2001. They deal with more specific situations not covered in the standard itself, or issues that arose after publishing of certain IFRS.

OBJECTIVES OF IASB:

- To achieve convergence in accounting standards around the world
- To develop a single set of high quality, understandable, enforceable and globally accepted International Financial Reporting Standards (IFRS) (previously International Accounting Standards (IASs))
- To develop financial reporting standards that provide a faithful portrayal of an entity's financial position and performance in its financial statements
- Those standards should serve investors and other market participants in making informed resource allocation and other economic decisions
- The confidence of all users of financial statements in the transparency and integrity of these statements is critically important for the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth
- To provide guidance on IFRS
- To promote the use of those standards

- To take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs)
- To promote and facilitate adoption of IFRSs through the convergence of national accounting standards and IFRS
- To work actively with national standard setters

IFRS SETTING PROCESS:

International Financial Reporting Standards (IFRSs) are developed through an international consultation process, the "due process", which involves interested individuals and organisations from around the world.

The due process comprises six stages:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the discussion paper
4. Developing and publishing the exposure draft
5. Developing and publishing the standard
6. After the standard is issued

STAGE 1: SETTING THE AGENDA

- The IASB receives requests from constituents to interpret, review or amend existing IFRS
- Reviews such requests:
 - the relevance to users of the information and the reliability of information that could be provided
 - whether existing guidance is available
 - the possibility of increasing convergence
 - the quality of the standard to be developed
 - resource constraints
- Sets agenda priorities

STAGE 2: PROJECT PLANNING

- IASB decides whether to:
 - conduct the project alone, or
 - jointly with another standard-setter
- After considering the nature of the issues a working group is established
- The project manager draws up a project plan

STAGE 3: DEVELOPMENT AND PUBLICATION OF DISCUSSION PAPER

Although a discussion paper is not mandatory, the IASB normally publishes it as its first publication on any major new topic to explain the issue and solicit early comment from constituents.

Typically, a discussion paper includes:

- a comprehensive overview of the issue
- possible approaches in addressing the issue
- the preliminary views of its authors or the IASB
- an invitation to comment

STAGE 4: DEVELOPMENT AND PUBLICATION OF AN EXPOSURE DRAFT

- Publication of an exposure draft is a mandatory step in due process
- Irrespective of whether the IASB has published a discussion paper, an exposure draft is the IASB's main vehicle for consulting the public

STAGE 6: DEVELOPMENT AND PUBLICATION OF AN IFRS

The development of an IFRS is carried out during IASB meetings, when the IASB considers the comments received on the exposure draft.

STAGE 7: PROCEDURES AFTER AN IFRS IS ISSUED

After an IFRS is issued, the staff and the IASB members hold regular meetings with interested parties, including other standard-setting bodies, to help understand issues related to the implementation of IFRS.

FEATURES OF IFRS:

1. **IFRS are principle base standards as compared to the rule based GAAP:** This means that they have distinct advantage that transactions cannot be manipulated easily.
2. IFRS lays down treatments based on the economic substance of various events and transactions rather than their legal form.
3. **Fair value accounting:** Under the IFRS, the historical cost concept has been abandoned and replaced by a current cost system for more accurate financial reporting. The concept of fair value accounting has taken over historical cost accounting in financial reporting to improve the relevance of the information contained in financial reports and getting the balance sheet right.
4. **Format of financial statements:** Presentation of financial statements is significantly different from presentation of financial statements in GAAP, which follows the **Schedule III of the Companies Act, 2013**. For example, IFRS requires clean segregation of assets and liabilities into current and non-current groups. At present, the liquidity basis is preferred as per the Companies Act.
5. **Functional currency:** Indian entities prepare financial statements in Indian Rupees. Under IFRS, an entity measures its assets and liabilities and revenues and expenses in its functional currency. Functional currency is the currency of the primary environment in which the entity operates which may be different from the local currency of a country.
6. IFRS requires **annual reassessment of useful life of the assets**. Earlier depreciation was stopped once asset is retired from active use. But under IFRS depreciation is to be allowed till the time of actual de-recognition of asset from the books.
7. **Component accounting:** IFRS mandates Component Accounting. Under this approach each major part of an item of equipment with a cost that is significant in relation to the total cost of an item has to be maintained and depreciated separately.

Applicability of IFRS:

According to the concept paper on convergence with IFRS in India, issued by ICAI in October 2007, the IFRS should be applicable to public interest entities (PIE). PIE has been defined to include:

- All listed companies
- All banking companies
- All financial institutions
- All scheduled commercial banks
- All insurance companies
- All non-banking financial corporations (NBFCs)

Applicability of IFRS in India:

India, one of the fastest growing global economies is on the verge of converging with International Financial Reporting Standards (IFRS). As on date 123 countries across the globe have converged with IFRS, India is soon to join the bandwagon. The Ministry of Corporate Affairs in its press release dated 25.2.2011 notified 35 Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called Draft IND AS). Further, On 2 January 2015, the Press Information Bureau, Government of India, Ministry of Corporate Affairs (MCA) issued a note outlining the various phases in which Indian Accounting Standards converged with IFRS (Ind AS) is proposed to be implemented in India, for Companies other than Banking Companies, Insurance Companies and NBFCs. Consequently, the companies will need to convert their accounts from Indian GAAP to IFRS.

A. **Voluntary adoption:** Companies can voluntarily adopt Ind AS for accounting periods beginning on or after 1 April 2015 with comparatives for period ending 31 March 2015 or thereafter. However, once they have chosen this path, they cannot switch back.

B. **Mandatory applicability:**

Phase I:

Ind AS will be mandatorily applicable to the following companies for periods beginning on or after **1 April 2016**, with comparatives for the period ending **31 March 2016** or thereafter:

1. Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of ₹ 500 crore or more.
2. Companies having net worth of ₹ 500 crore or more other than those covered above.

3. Holding, subsidiary, joint venture or associate companies of companies covered above.

Phase II:

Ind AS will be mandatorily applicable to the following companies for periods beginning on or after **1 April 2017**, with comparatives for the period ending **31 March 2017** or thereafter:

1. Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than ₹ 500 Crore.
2. Unlisted companies other than those covered in Phase I and Phase II whose net worth are more than ₹ 250 crore INR but less than ₹ 500 crore .
3. Holding, subsidiary, joint venture or associate companies of above companies.

Does not apply:

The above does not apply to the following companies:

- Companies listed or in the process of listing on SME Exchanges
- Insurance, banking and NBFCs

Beneficiaries of IFRS:

- Investors
- Industries
- Accounting professionals
- Corporate world
- Economy

RELEVANCE OF IFRS TO INDIA:

➤ As the world continues to globalise, discussion on convergence of national accounting standards with International Financial Reporting Standards (IFRSs) has increased significantly.

- The **forces of globalisation** prompt more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognise the benefits of having commonly accepted and understood financial reporting standards.
- In India, so far as the **ICIA and the Governmental authorities** such as National Advisory Committee on Accounting Standards and various regulators such as Securities and Exchange Board of India and Reserve Bank of India are concerned, the aim has always been to comply with the IFRSs to the extent possible, with the objective to **formulate sound financial reporting standards**.
- The ICAI, **being a member of the International Federation of Accountants (IFAC)**, **considers the IFRSs** and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. Although, the focus has always been on developing high quality standards, resulting in transparent and comparable financial statements, deviation from IFRSs were made where it was considered that these were not consistent with the laws and business environment prevailing within the country.
- **Difference in laws**: different countries employ different accounting standard while computing the profits of a company. it may happen that if the profit are computed as per US accounting laws the profit are \$ 100 billion when the same profits are computed using the UK accounting laws, the profit may turn out to be say \$ 50 billion and when computed as per the Indian accounting laws it may turn out to be \$ 200 billion.
- **Uniform accounting standards**: Profit computed as per different accounting laws of different countries always yield different figures. So as to remove this discrepancy in accounting across the globe, countries world over decided to apply uniform standards of accounting so as to arrive at uniform profits across the globe.

The main advantages to India by converging with IFRS are as follows:

- a) **Common basis of comparison**: Most of the countries of the European Union have switched over to IFRS. If companies in India also switched over to IFRS, it would make transitions and dealings with companies of other countries who operate under IFRS much easier. It would also give stock holders and other interested parties a common basis of comparability.

- b) **Clarity and productivity**: Under IFRS, financial makers use their own professional judgement as to how to handle a specific transaction. This will lead to less time being spent trying to follow all rules that are coupled with rule based accounting.
- c) **Consistent financial Reporting Basis**: A consistent financial reporting basis would allow a multinational company to apply common accounting standards with its subsidiaries worldwide which would improve internal communication, quality of reporting and group decision making.
- IFRS also expected to result in better quality of financial reporting due to consistent application of accounting principles and improvement in reliability of financial statements. These are very consistent, reliable and easy to adopt ensuring better quality of financial reporting.
- d) **Quality information**: It is expected that the adoption of IFRS will be beneficial to investors and other users of financial statements, by reducing the cost of comparing alternative investments and increasing the quality of information. The companies are also expected to benefit, as investors will be more willing to provide financing.
- e) **Improved access to international capital markets**: Many Indian entities are expanding and making significant acquisitions in the global market for which large amount of capital is required. The majority of the stock exchanges require financial information prepared under IFRS.
- f) **Lower cost of capital**: Migration to IFRS will lower the cost of raising funds, as it will eliminate the need for preparing dual sets of financial statements. It will also reduce accountant's fees abolish risk premiums and will enable access to all major capital markets as IFRS is globally acceptable.
- g) **Escape multiple Reporting**: Convergence to IFRS will eliminate the need for multiple reports and significant adjustments for preparing consolidated financial statements. Firms registered in India prepare their accounts as per Indian Accounting Standards whereas firms registered in other countries prepare their financial statements as per the Reporting Standards of the respective country. Adoption of IFRS ensures the elimination of multiple financial reporting standards by these firms as they are following single set of Financial Reporting.
- h) **Reflect true value of acquisition**: In Indian GAAP business combinations are recorded at carrying values rather than fair value of net assets in the acquirer's books is not reflected separately in the financial statements, instead the amount

gets added to the goodwill. IFRS will overcome this flow as it mandates accounting of net assets taken over in a business combination at fair value.

- i) **Benchmarking with global peers**: Adoption of IFRS will facilitate companies to set targets and milestones based on global business environment, rather than merely local ones.

INDIAN ACCOUNTING STANDARDS (Ind AS):

These are a set of accounting standards notified by the Ministry of Corporate Affairs which are converged with International Financial Reporting Standards (IFRS). These accounting standards are formulated by Accounting Standards Board of Institute of Chartered Accountants of India. With India deciding to converge with IFRS and not to adopt IFRS, Ind AS is certainly the way forward for Indian Companies.

Convergence with IFRS means that India would not be following the IFRS as issued by the IASB but would issue its own accounting standards in sync with the International Financial Reporting Standards. And these synced Indian Accounting Standards are popularly referred to as 'Ind-AS'.

Meaning of convergence with IFRS:

Convergence means to achieve or harmony with IFRS. It can be considered to design and maintain national accounting standards in a way that financial statements prepared in accordance with national draw unreserved statement of compliance with IFRS i.e., National Accounting Statements (NAS) comply with all the requirements of IFRS. Convergence doesn't mean that IFRS should be adopted word by word.

Need and process of Convergence with IFRS:

In the present globalisation era a number of multinational companies are establishing their business in various countries including in emerging economies and even companies from emerging economies are establishing their business in developed economies. The entities in emerging economies are increasingly accessing the global markets to fulfil their capital needs by getting their securities listed on the stock exchanges outside their country. More and more Indian companies are being listed on overseas stock exchanges. The use of different accounting frameworks in different countries leads to inconsistent treatment and presentation of the same underlying

economic transactions which creates confusion for users of financial statements. This confusion leads to inefficiencies in capital markets across the world. Therefore, increasing complexity of business transactions and globalisation of capital markets call for a single set of high quality accounting standards. Thus, IFRS came to existence to serve as single set of globally accepted accounting standards.

Process of convergence in India:

The Institute of Chartered Accountants of India (ICAI) being the accounting standards setting body in India, way back in 2006, initiated the process of moving towards the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) with a view to enhance acceptability and transparency of the financial information communicated by the Indian corporates through their financial statements. This move towards IFRS was subsequently accepted by the Government of India.

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRSs requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS-converged Indian accounting standards (Ind AS), efforts have been made to keep these standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. These changes have been made considering various factors, such as; various terminologies related changes have been made to make it consistent with the terminology used in law, e.g., statement of profit and loss in place of statement of comprehensive income and balance sheet in place of statement of financial position. Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS.

Government of India towards Ind AS:

Initially Ind AS was expected to be implemented from the year 2011. However, keeping in view the fact that certain issues including tax issues were still to be

addressed, the Ministry of Corporate Affairs decided to postpone the date of implementation of Ind AS.

In July 2014, the Finance Minister of India at that time in his budget speech announced an urgency to converge the existing accounting standards with the international financial reporting standards (IFRS) through adoption of the new Ind AS by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis.

Moving in this direction, the Ministry of Corporate Affairs (MCA) has issued the companies (Indian Accounting Standards) Rules, 2015 vide notification dated February 16, 2015 covering the revised roadmap of implementation of Ind AS for companies other than Banking Companies, Insurance companies and NBFCs.

As per the notification, Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) shall be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April 2016.

MERITS OF IFRS:

Major advantages of IFRS can be summarised according to benefited groups which are as follows:

I. ADVANTAGES FOR COMPANIES:

Companies prepare financial statements. Therefore, the following advantages can be seen from the standpoint of preparers of financial reports. It is quite obvious to understand that international companies are not interested in dealing with a new set of Accounting Standards in each country they invest.

- a) Uniform Accounting Standards provide **efficiency** gains both internally and externally.
- b) Internally multinational companies would make **savings** if all their subsidiaries could use the same Accounting System.
- c) A similar internal reporting system gives the chance of better **comparisons, less confusion and mistakes** between the parts of the company.
- d) It allows **uncomplicated communication and transfers** of finance personnel.

- e) One set of Accounting Standards could be used in various jurisdictions and capital markets.
- f) With one set of Accounting Standards as well the **credibility** of the externally reporting could be raised.
- g) A business can present its financial statements on the same basis as its **foreign competitors**.
- h) Further **cost savings** can be realised, because the preparation of consolidated financial statements will be easier for companies. Because, there are no longer costly changes from several different Accounting Systems of each subsidiary necessary, when the parts of the company are consolidated to one.
- i) No longer are **different performance figures** shown for the same company in different companies.
- j) Furthermore, international companies can realise significant cost savings if they do not have to change their financial statements to conform to each country's rules, when **listing on security exchanges**. In other words the access to main financial markets will become easier for global acting companies.

II. ADVANTAGES FOR USERS:

There are many beneficiaries of convergence with IFRSs such as the economy, investors and industry and accounting professionals. From the standpoint of the users of financial statements one can see the following advantages:

- a) Investors, banks or owners are interested in obtaining information, which enables them to make buy/sell/hold investment decisions. Similar financial statements would make it possible for users of financial statements to make useful **comparisons** between countries and companies.
- b) Similar Accounting Standards lead to a better comparability between companies.
- c) It would enable **investors, banks or financial analysts** to make better decisions. Therefore, greater comparability results in better understanding lower risks and more efficient selections of investments.
- d) For the society at large it can be said that harmonised and converged Accounting Standards are important, because they lead to a **well-developed and good functioning of capital markets**.

III. ADVANTAGES TO THE ECONOMY:

As the markets expands globally the need for convergence increases.

- a) The convergence benefits the economy by increasing **growth of its international business**.
- b) It facilitates **maintenance of orderly and efficient capital markets** and also helps to increase the **capital formation** and thereby *economic growth*.
- c) It encourages international investing and thereby leads to more **foreign capital flows** to the country.

IV. ADVANTAGES TO THE INVESTORS:

- a) Investors who wish to invest outside their own country want the information that is more relevant, reliable, timely and comparable across the jurisdictions.
- b) Financial statements prepared using a common set of standards help investors **better understand investment opportunities** as opposed to financial statements prepared using a different set of national standards. For better understanding of financial statements global investors have to incur more cost in terms of the time and efforts to convert the financial statements so that they can confidently compare opportunities.
- c) Convergence with IFRSs contributes to investor's understanding and **confidence in high quality** financial statements.

V. ADVANTAGES TO THE INDUSTRY:

A major force in the movement towards convergence has been the interest of the industry.

- a) The industry is able to **raise capital from foreign markets at lower cost** if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards.
- b) The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the individual and group financial statements and thereby reduces the costs of preparing the financial statements using different sets of accounting standards.

VI. ADVANTAGES TO THE ACCOUNTING PROFESSIONALS:

- a) Convergence with IFRSs also benefits the accounting professionals in a way that they are **able to sell their services** as experts in different parts of the world. The

- thrust of the movement towards convergence has come mainly from accountants in public practice.
- b) It offers them more opportunities in any part of the world if same accounting practices prevail throughout the world. They are able to quote IFRSs to clients to give them backing for recommending certain ways of reporting.
 - c) For accounting professionals in industry as well as in practice, their **mobility to work** in different parts of the world increases.

Disadvantages of IFRS:

- o Small companies that have no dealings outside the countries have no incentive to adopt IFRS unless mandated.
- o It increases the cost as the accountants' and auditor's fees will increase for transition process.

CHALLENGES OF CONEVRGENCE WITH IFRS:

In spite of the various benefits, adoption of IFRS in India is difficult task and faces many challenges. Few of these have been listed below:

- a. **Wide Gap:** IFRS is very much different from present accounting policies being followed. There are big differences expected in accounting for financial instruments deferred taxes, business combinations and employees benefits.
- b. **Increased responsibility:** The change to IFRS opens up certain choices a company will have in flow to account for some items. This carries with it the responsibility to investors the reasons for the choices and the impact on financial statements.
- c. **Awareness of International Financial Reporting Practices:** Convergence with IFRS means a set of converged reporting standards have to bring in. the awareness of these reporting standards is still not there among the stakeholders like firms, banks, stock exchanges and commodity exchanges etc. to bring a complete awareness of these standards among these parties is a difficult task.
- d. **Training:** Professional Accountants are looked upon to ensure successful convergence with IFRS. Along with these accountants, government officials, chief executive officers, chief information officers are also responsible for a smooth adoption process. India is lacking facilities to train such a large group. It has also been

observed that India does not have enough number of fully trained professionals to carry out this task of convergence with IFRS in India.

- e. **Amendments to Existing laws**: In India, Accounting Practices are governed by Companies Act 1956 and Indian generally accepted accounting principles (GAAP). Existing laws such as SEBI regulations, Indian Banking Laws & Regulations, Foreign Exchange Management Act also provide some guidelines on preparation of Financial Statements in India. IFRS does not recognise the presence of these laws and the Accountants will have to follow the Ind AS fully with no overriding provisions from these laws, Indian lawmakers will have to make necessary amendments to ensure a smooth transition to IFRS.

Changes may be required to various regulatory requirements under The Companies Act, 1956, Income Tax Act, 1961, SEBI, RBI, etc., so that IFRS financial statements are accepted generally.

- f. **Tax implications**: IFRS convergence will have a significant impact on the financial statements and consequently tax liabilities tax authorities should ensure that there is clarity on the tax treatment of items arising from convergence with IFRS.

Currently, Indian tax laws do not recognise the Accounting Standards. A complete overhaul of tax laws is the major challenge faced by the Indian Law Makers immediately. Enough changes are to be made in Tax laws to ensure that tax authorities recognise Ind AS compliant financial statements otherwise it will duplicate the administrative work for the firms.

- g. **Re-negotiation of contracts**: The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP.

- h. **Financial Reporting systems**: Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, and related party disclosures.

IFRS provides a complete set of reporting systems for companies to make their financial statements. In India, various laws and acts provide the financial reporting systems but not as comprehensive as provided by the IFRS. Indian firms will have to ensure that existing business reporting model is amended to suit the requirements of IFRS.

The amended reporting system will take care of various new requirements of IFRS. Enough control systems have to be put in place to ensure the minimum business disruption at the time of transition.

- i. **Use of Fair value measurement basis**: it also involves a lot of hard work in arriving at the fair value and valuation experts have to be used. IFRS uses fair value to measure majority items in financial statements. The use of Fair Value Accounting can bring a lot of volatility and subjectivity to the financial statements. Adjustments to fair value result in gains or losses which are reflected in the Income statements and valuation is reflected in Balance sheet. Indian corporate world which has been preparing its financial statements on historical cost basis will have tough time while shifting to fair value accounting.
- j. **Distributable profits**: IFRS is fair value driven which often results in unrealised gains and losses. Whether this can be considered for the purpose of computing distributable profits is still to be debated.
- k. **Other challenges**:
 - ✓ **Increase in cost initially** due to dual reporting requirement which entity might have to meet till full convergence is achieved.
 - ✓ Entity would need to incur **additional cost for modifying their IT systems and procedures** to enable it to collate data necessary for meeting the new disclosures and reporting requirements.
 - ✓ Differences between Indian GAAP and IFRS may impact business decisions/financial performance of an entity.
 - ✓ **Limited** pool of trained resource and persons having expert knowledge on IFRSs.

List of Indian Accounting Standards:

The Accounting Standards Board of the Institute of Chartered Accountants of India has issued the following Accounting Standards:

- AS 1 – Disclosure of Accounting policies
- AS 2 – Valuation of Inventories
- AS 3 – Cash Flow Statement
- AS 4 – Contingencies and Events Occurring after the Balance Sheet Date

- AS 5 – Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies
- AS 6 – Depreciation Accounting
- AS 7 – Construction Contracts (revised 2002)'''
- AS 8 – Accounting for Research and Development (AS-8 is no longer in force since it was merged with AS-26)
- AS 9 – Revenue Recognition
- AS 10 – Accounting for Fixed Assets
- AS 11 – The Effects of Changes in Foreign Exchange Rates (revised 2003),
- AS 12 – Accounting for Government Grants
- AS 13 – Accounting for Investments
- AS 14 – Accounting for Amalgamations
- AS 15 – Employee Benefits (revised 2005)
- AS 16 – Borrowing Costs
- AS 17 – Segment Reporting
- AS 18 – Related Party Disclosures
- AS 19 – Leases
- AS 20 – Earnings Per Share
- AS 21 – Consolidated Financial Statements
- AS 22 – Accounting for Taxes on Income.
- AS 23 – Accounting for Investments in Associates in Consolidated Financial Statements
- AS 24 – Discontinuing Operations
- AS 25 – Interim Financial Reporting
- AS 26 – Intangible Assets
- AS 27 – Financial Reporting of Interests in Joint Ventures
- AS 28 – Impairment of Assets
- AS 29 – Provisions, Contingent` Liabilities and Contingent Assets
- AS 30 – Financial Instruments: Recognition and Measurement and Limited Revisions to AS 2, AS 11 revised 2003), AS 21, AS 23, AS 26, AS 27, AS 28 and AS 29
- AS 31 – Financial Instruments: Presentation
- AS 32 – Financial Instruments: Disclosures

List International Accounting Standards:

No	Title	Originally issued	Effective Date	Superseded by
IAS 1	Presentation of Financial Statements	1975	1/1/1975	
IAS 2	Inventories	1976	1/1/1976	
IAS 3	Consolidated Financial Statements	1976	1/1/1977	IAS 27 & IAS 28
IAS 4	Depreciation Accounting	1976	1/1/1977	IAS 36
IAS 5	Information to Be Disclosed in Financial Statements	1976	1/1/1977	IAS 1
IAS 6	Accounting Responses to Changing Prices	1977	1/1/1978	IAS 15
IAS 7	Statement of Cash Flows	1977	1/1/1979	
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1978	1/1/1979	
IAS 9	Accounting for Research and Development Activities	1978	1/1/1980	IAS 38
IAS 10	Events after the Reporting Period	1978	1/1/1980	
IAS 11	Construction Contracts	1979	1/1/1980	
IAS 12	Income Taxes	1979	1/1/1981	

IAS 13	Presentation of Current Assets and Current Liabilities	1979	1/1/19 81	IAS 1
IAS 14	Segment reporting	1981	1/1/19 83	IFRS 8
IAS 15	Information Reflecting the Effects of Changing Prices	1981	1/1/19 83	N/A
IAS 16	Property, Plant and Equipment	1982	1/1/19 83	
IAS 17	Leases	1982	1/1/19 84	IFRS 16
IAS 18	Revenue	1982	1/1/19 84	IFRS 15
IAS 19	Employee Benefits	1983	1/1/19 85	
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1983	1/1/19 84	
IAS 21	The Effects of Changes in Foreign Exchange Rates	1983	1/1/19 85	
IAS 22	Business Combinations	1983	1/1/19 85	IFRS 3
IAS 23	Borrowing Costs	1984	1/1/19 86	
IAS 24	Related Party Disclosures	1984	1/1/19 86	
IAS 25	Accounting for Investments	1986	1/1/19 87	IAS 39 & IAS 40
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1987	1/1/19 88	

IAS 27	Separate Financial Statements	1989	1/1/19 90	
IAS 28	Investments in Associates and Joint Ventures	1989	1/1/19 90	
IAS 29	Financial Reporting in Hyperinflationary Economies	1989	1/1/19 90	
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions	1990	1/1/19 91	IFRS 7
IAS 31	Interests in Joint Ventures	1990	1/1/19 92	IFRS 11 & IFRS 12
IAS 32	Financial Instruments: Presentation	1995	1/1/19 96	
IAS 33	Earnings per Share	1997	1/1/19 99	
IAS 34	Interim Financial Reporting	1998	1/1/19 99	
IAS 35	Discontinuing Operations	1998	1/7/19 99	IFRS 5
IAS 36	Impairment of Assets	1998	1/7/19 99	
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1998	1/7/19 99	
IAS 38	Intangible Assets	1998	1/7/19 99	
IAS 39	Financial Instruments: Recognition and Measurement	1998	1/1/20 01	IFRS 9
IAS 40	Investment Property	2000	1/1/20 01	

IAS 41	Agriculture	2000	1/1/20 03	
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LIST OF IFRS:

No	Title	Originally issued	Effective Date
IFRS 1	First-time Adoption of International Financial Reporting Standards	2003	1/1/2004
IFRS 2	Share-based Payment	2004	1/1/2005
IFRS 3	Business Combinations	2004	1/4/2004
IFRS 4	Insurance Contracts	2004	1/1/2005
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	2004	1/1/2005
IFRS 6	Exploration for and Evaluation of Mineral Resources	2004	1/1/2006
IFRS 7	Financial Instruments: Disclosures	2005	1/1/ 2007
IFRS 8	Operating Segments	2006	1/1/2009
IFRS 9	Financial Instruments	2009 (updated 2014)	1/1/2018
IFRS 10	Consolidated Financial Statements	2011	1/1/2013
IFRS 11	Joint Arrangements	2011	1/1/2013
IFRS 12	Disclosure of Interests in Other Entities	2011	1/1/2013
IFRS 13	Fair Value Measurement	2011	1/1/2013
IFRS 14	Regulatory Deferral Accounts	2014	1/1/2016
IFRS 15	Revenue from Contracts with Customers	2014	1/1/2018
IFRS 16	Leases	2016	1/1/2019

LIST OF IND AS CORRESPONDING TO IFRS AND IAS:

Standard	Title	Corresponding IAS/IFRS
Ind AS 101	First-time Adoption of Indian Accounting Standards	IFRS 1
Ind AS 102	Share based Payment	IFRS 2
Ind AS 103	Business Combinations	IFRS 3
Ind AS 104	Insurance Contracts	IFRS 4
Ind AS 105	Non-current Assets Held for Sale and Discontinued Operations	IFRS 5
Ind AS 106	Exploration for and Evaluation of Mineral Resources	IFRS 6
Ind AS 107	Financial Instruments: Disclosures	IFRS 7
Ind AS 108	Operating Segments	IFRS 8
Ind AS 1	Presentation of Financial Statements	IAS 1
Ind AS 2	Inventories	IAS 2
Ind AS 7	Statement of Cash Flows	IAS 7
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
Ind AS 10	Events after the Reporting Period	IAS 10
Ind AS 11	Construction Contracts	IAS 11

Ind 12	AS	Income Taxes	IAS 12
Ind 16	AS	Property, Plant and Equipment	IAS 16
Ind 17	AS	Leases	IAS 17
Ind 18	AS	Revenue	IAS 18
Ind 19	AS	Employee Benefits	IAS 19
Ind 20	AS	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20
Ind 21	AS	The Effects of Changes in Foreign Exchange Rates	IAS 21
Ind 23	AS	Borrowing Costs	IAS 23
Ind 24	AS	Related Party Disclosures	IAS 24
Ind 27	AS	Consolidated and Separate Financial Statements	IAS 27
Ind 28	AS	Investments in Associates	IAS 28
Ind 29	AS	Financial Reporting in Hyperinflationary Economies	IAS 29
Ind 31	AS	Interests in Joint Ventures	IAS 31
Ind 32	AS	Financial Instruments: Presentation	IAS 32

Ind 33	AS	Earnings per Share	IAS 33
Ind 34	AS	Interim Financial Reporting	IAS 34
Ind 36	AS	Impairment of Assets	IAS 36
Ind 37	AS	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
Ind 38	AS	Intangible Assets	IAS 38
Ind 39	AS	Financial Instruments: Recognition and Measurement	IAS 39
Ind 40	AS	Investment Property	IAS 40

THEOREICAL FRAMEWORK OF IFRS:

IFRS 1: First time adoption of IFRS:

IFRS 1 sets out the rules and procedures that an entity must follow when it reports in accordance with IFRSs for the first time. The main aim is to ensure that entity's first financial statements and related interim financial reports are in line with IFRS and can be generated at cost not exceeding the benefits. It prescribes how the opening statement of financial position shall be prepared for the first time adopters and what accounting policies shall be used.

Necessary comparative information is prescribed:

- At least 3 statements of financial position
- 2 statements of comprehensive income statement
- 2 separate income statement if presented
- 2 statements of cash flow statements

- 2 statements of changes in equity and
- Related notes including comparative information.

IFRS 1 then orders that an entity must explain how transition to IFRSs affected its reported financial statements and prepare reconciliations of equity and total comprehensive income.

IFRS 2: Share Based Payments:

The objective is to set out the rules for reporting the share-based payment transactions in entity's profit or loss and financial position, including transactions in which share options are granted to employees.

IFRS 2 deals with 3 types of share based payments transactions:

- ❖ The first type is **equity settled share based payment transactions** where an entity receives goods or services in exchange for equity instruments. For example, providing share options to employees as a part of their remuneration package.
- ❖ The second type is **cash settled share based payment transactions** in which the entity receives or acquires goods or services in exchange for liabilities to these suppliers. Liabilities are in amounts based on the price or value of entity's shares or other equity instruments. For example, a company grants share appreciation rights to their employees, whereby employees will be entitled to future cash payment based on increase of company's share price over some specified period of time.
- ❖ The third type is **share-based payment transactions with cash alternatives**, where entity receives or acquires goods or services in exchange for either cash settlement or equity instrument.

IFRS 2 prescribes how various transactions shall be measured and recognised, lists all necessary disclosures and provides application guidance on various situations.

IFRS 3: Business Combinations:

Objectives:

- To provide rules for recognition and measurement of business combinations when an acquirer acquires assets and liabilities of another company (acquire) and those constitute a business (parent- subsidiary company situations)
- To prescribe what acquisition method should be applied in accounting for business combinations.

Scope: IFRS 3 does not set out the rules for preparation of consolidated financial statements for business combinations, such as group of companies under the control of parent, etc.

Applying the acquisition method comprises 4 steps:

- ✓ Identifying the acquirer.
- ✓ Determining the acquisition date
- ✓ Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acuiree.
- ✓ Recognising and measuring goodwill or a gain from a bargain purchase.

IFRS 3 sets out the details for all of these steps.

IFRS 4: Insurance Contracts:

IFRS 4 is the first standard dealing with insurance contracts. It defines the rules of financial reporting for insurance contracts (including reinsurance contracts) by entity who issues such contracts (insurer, for example, any insurance company) and also for reinsurance contracts by entity who holds them. Scope: IFRS 4 does not apply to other assets and liabilities of an insurer. Also, IFRS 4 does not apply to policy holders (insured entities, etc).

IFRS 4 defines insurance contracts and establishes accounting policies applied to them, including recognition and measurement rules. It addresses some specific issues, such as embedded derivatives in insurance contracts, situations when insurance contract contain both insurance and deposit component, shadow accounting practices etc.

IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations:

Objectives:

- To specify the accounting for assets or disposal groups held for sale (those whose carrying amount will be recovered principally through a sale transaction rather than continuing use) and the presentation and disclosure of discontinued operation (component of an entity- subsidiary, line of business, geographical area of operations, etc.-that either has been disposed of or is classified as held for sale).
- To establish conditions when the entity shall classify a non-current asset or disposal group as held for sale.
- To set out the rules for measurement of assets or disposal groups held for sale, recognition of impairment losses and their reversals, and rules for the situation when an entity makes changes to a plan of sale and assets or disposal group can no longer be classified as held for sale.

IFRS 5 explains the term “discontinued operations” and prescribes what shall be reported in the statement of comprehensive income and statement of cash flows with regard to it. Additional disclosures in the notes to the financial statements are also required.

IFRS 6: Exploration for and Evaluation of Mineral Resources:

IFRS 6 specifies financial reporting of the expenditures for the exploration for and evaluation of mineral resources (oil, natural gas and similar non-regenerative resources.)

IFRS 6 prescribes that exploration and evaluation assets shall be measured at cost. It permits the entity to determine accounting policy specifying which expenditures are recognised as exploration and evaluation assets and gives examples of acceptable types of expenditures (acquisition of rights to explore, exploratory drilling, trenching, sampling, etc).

IFRS 6 then prescribes the rules for subsequent measurement, changes in accounting policies and impairment of these assets). In relation to presentation, IFRS 6 describes classification and reclassification of exploration and evaluation assets and finally number of disclosures is prescribed.

IFRS-7: Financial Instruments: Disclosures:

IFRS 7 prescribes what disclosures an entity shall provide about financial instruments in its financial statements and thus it complements standard IAS 32 on presentation and IAS 39/ IFRS 9 on recognition and measurement of financial instruments. Before, standard IAS 32 dealt also with disclosures, but IAS 32's part on disclosures was superseded by IFRS 7.

IFRS 7 requires disclosures in 2 main categories:

The **first category** represents disclosures about significance of financial instruments for financial position and performance. Within this category, an entity is required to disclose the following information related to the statement of financial position:

- i. Information by categories of financial assets and liabilities.
- ii. Specific disclosures about financial assets or financial liabilities at fair value through profit or loss and financial assets valued at fair value through other comprehensive income.
- iii. Reclassification of financial instruments among categories.
- iv. De-recognition.
- v. Collaterals
- vi. Allowances for credit losses
- vii. Compound financial instruments with multiple embedded derivatives
- viii. Defaults and breaches of loan agreement terms, etc.

The **second category** represents disclosures about **nature and extent of risks** arising from financial instruments. IFRS 7 then prescribes specific disclosures about credit risk, liquidity risk and market risk. IFRS 7 sets guidelines related to disclosures about transfer of financial assets. It states which information shall be disclosed when transferred financial asset is derecognised in its entirety and which information shall be disclosed when transferred financial asset is not derecognised in its entirety.

IFRS-8: Operating Segments:

IFRS 8 replaced the standard IAS 14 – Segment reporting with effective date for periods beginning 1 January 2009 or later.

It prescribes the information that an entity must disclose about its business activities- operating segments, products and services, the geographical areas in which it operates and its major customers.

Scope: Standard IFRS 8 applies only to entities whose debt or equity instruments are traded in a public market or in the process of filing its financial statements with a security commission or other regulatory organisation for that purpose.

IFRS 8 defines operating segments and explains what can be deemed operating segment. Then it prescribes criteria for reportable segments, including aggregation criteria and quantitative thresholds for segment to be reported separately.

IFRS- 9: Financial Instruments:

The first version of IFRS 9 was issued in November 2009 and then it was amended in October 2010 and November 2013. Once it is fully finalised, it will replace standard IAS 39 in the future.

IFRS 9 deals with recognition, classification, measurement and de-recognition of financial instruments as well as with the hedge accounting rules. The current version of IFRS 9 does not include mandatory effective date, but entities can adopt it voluntarily. IASB will add the mandatory effective date later when all phases are completed. IFRS 9 consists of 7 chapters and 3 appendices. It sets rules when the financial assets shall be derecognised in its entirety, or just partially. Basically, financial asset shall be derecognised when the contractual rights to the cash flows from the financial asset expire, or the entity transfers the financial asset as set out and the transfer qualify for de-recognition. With regard to de-recognition of financial liabilities, an entity can remove financial liability from the statement of financial position when it is extinguished- i.e., when the obligation specified in the contract is discharges or cancelled or expires. IFRS 9 also deals with classification of financial assets and liabilities. Financial assets are divided into 2 categories – those measured at amortised cost and those measured at fair value.

IFRS- 10: Consolidated Financial Statements:

The objective of IFRS 10 is to establish principles for consolidation related to all investees based on control that parent exercise over the investee rather than the nature of investee. IFRS 10 defines when investor controls the investee:

- ✚ When the investor is exposed, or has rights to variable returns from its involvement with the investee and
- ✚ Has the ability to affect those returns through its power over the investee.

Investor controls the investee when it has all three elements:

- Power over the investee.
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 then sets the accounting requirements for preparation of consolidated financial statements, consolidation procedures, reporting non-controlling interests and treatment of changes in ownership interests. Standard does not set any requirements for disclosures, as those are covered by IFRS 12.

IFRS – 11: Joint Arrangements:

IFRS 11 sets principles for reporting of joint arrangements- arrangements of which two or more parties have joint control. This standard effectively amends IAS 27 and IAS 28. IFRS 11 explains characteristics of joint control:

- ✓ The parties are bound by a contractual arrangement and
- ✓ The contractual arrangement gives two or more of those parties joint control of the arrangement.

IFRS 11 classifies joint arrangements into 2 categories: **Joint Operation** and **Joint Venture** and prescribes how each of these forms shall be recognised and reported in the financial statements of parties to a joint arrangement.

IFRS- 12: Disclosure of Interest in Other Entities:

IFRS prescribes what disclosures shall be provided in the financial statements with regard to interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. Reporting entity must present disclosures about significant judgements and assumptions made in determining the existence of control over another entity, the type of such control and existence and type of joint arrangement. IFRS 12 then sets broad range of disclosures for interests in subsidiaries, interests in joint arrangements and associates and interests in unconsolidated structured entities (entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity). IFRS 12 also requires disclosures for interests in unconsolidated subsidiaries in line with the newest amendments of IFRS 10.

IFRS – 13: Fair Value Measurements:

IFRS 13 defines fair value, provides guidance for its measurement as well as sets disclosure requirements with respect to fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

In order to increase consistency of fair value measurement, IFRS sets fair value hierarchy which classifies inputs used in valuation techniques into 3 levels:

- Quoted prices in active markets for identical assets or liabilities that an entity can access at the measurement date.
- Other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly (quoted prices of similar assets)
- Unobservable inputs for the asset or liability. IFRS 13 then outlines a fair value measurement approach by stating what an entity shall determine when assessing fair value.

With reference to valuation, IFRS 13 discusses 3 valuation techniques:

- a) **Market approach**: it utilises the information from market transactions.
- b) **Cost approach**: it involves current replacement cost.
- c) **Income approach** based on future cash flows, income or expenses discounted to present value.

IFRS 13 sets broad range of disclosures related to fair value measurement, including identification of classes, specific disclosure for each class of assets and liabilities measured at fair value, and many more, both in a descriptive and quantitative format.

IFRS – 14: Regulatory Deferral Accounts:

IFRS 14 is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

Its purpose is to allow rate-regulated entities adopting IFRS for the first time to avoid changes in accounting policies in respect of regulatory deferral accounts.

Presentation in financial statements: The impact of regulatory deferral account balances are separately presented in an entity's financial statements.

- a. Separate line items are presented in the statement of financial position for the total of all regulatory deferral account debit balances, and all regulatory deferral account credit balances.
- b. Regulatory deferral account balances are not classified between current and non-current, but are separately disclosed using subtotals.
- c. The net movement in regulatory deferral account balances are separately presented in the statement of profit or loss and other comprehensive income using subtotals.

IFRS – 15: Revenue from Contracts with Customers:

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2017 onwards.

IFRS 15 applies to all contracts with customers except for leases within the scope of IAS 17 Leases.

The core principle of IFRS 15 has shown in the 5 step model framework:

- a. Identify the contracts with customers
- b. Identify the performance obligations in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligations in the contract
- e. Recognise the revenue when the entity satisfies a performance obligation

Presentation in Financial Statements: Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. A **Contract Liability** is presented in the statement of financial position where a customer has paid an amount of consideration prior to the entity performing by transferring the related good or service to the customer.

When the entity has performed by transferring a good or service to the customer and the customer has not yet paid the related consideration, a **Contract Asset** or a receivable is presented in the statement of financial position.

IFRS -16: Leases

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

An asset is typically identified by being explicitly specified in a contract, but an asset can also be identified by being implicitly specified at the time it is made available for use by the customer.

Objective: To establish principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

Scope: IFRS 16 *Leases* applies to all leases, including subleases, except for:

- leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;

- leases of biological assets held by a lessee (IAS 41 Agriculture);
- service concession arrangements (IFRIC 12 Service Concession Arrangements);
- licences of intellectual property granted by a lessor (IFRS 15 Revenue from Contracts with Customers); and
- rights held by a lessee under licensing agreements for items such as films, videos, plays, manuscripts, patents and copyrights within the scope of IAS 38 Intangible Assets

A lessee can elect to apply IFRS 16 to leases of intangible assets, other than those items listed above.

IFRS 17 — Insurance Contracts:

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

Objective of IFRS 17:

To ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021. It replaces IFRS 4.

Insurance contracts combine features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period. To provide useful information about these features, IFRS 17:

- combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract;
- presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and

- requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income.

The key principles in IFRS 17 are that an entity:

- identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- divides the contracts into groups that it will recognise and measure;
- recognises and measures groups of insurance contracts at:
 - i. a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)
 - ii. an amount representing the unearned profit in the group of contracts (the contractual service margin);
- recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately;
- presents separately insurance revenue (that excludes the receipt of any investment component), insurance service expenses (that excludes the repayment of any investment components) and insurance finance income or expenses; and
- Discloses information to enable users of financial statements to assess the effect that that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

Scope: An entity shall apply IFRS 17 *Insurance Contracts* to:

- Insurance contracts, including reinsurance contracts, it issues;
- Reinsurance contracts it holds; and

- Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

Insurance contract: A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Insurance risk: Risk, other than financial risk, transferred from the holders of a contract to the issuer.

Presentation in the statement of financial position

An entity shall present separately in the statement of financial position the carrying amount of groups of

- insurance contracts issued that are assets;
- insurance contracts issued that are liabilities;
- reinsurance contracts held that are assets; and
- Reinsurance contracts held that are liabilities.

IFRIC Interpretations

No.	NAME	ISSUED YEAR
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	2004
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	2004
IFRIC 3	Emission Rights (Withdrawn June 2005)	2004
IFRIC 4	Determining Whether an Arrangement Contains a Lease Will be superseded by IFRS 16 as of 1 January 2019	2004
IFRIC 5	Rights to Interests arising from Decommissioning,	2004

	Restoration and Environmental Rehabilitation Funds	
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	2005
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	2005
IFRIC 8	Scope of IFRS 2 (Withdrawn effective 1 January 2010)	2006
IFRIC 9	Reassessment of Embedded Derivatives	2006
IFRIC 10	Interim Financial Reporting and Impairment	2006
IFRIC 11	IFRS 2: Group and Treasury Share Transactions Withdrawn effective 1 January 2010	2006
IFRIC 12	Service Concession Arrangements	2006
IFRIC 13	Customer Loyalty Programmes (Will be superseded by IFRS 15 as of 1 January 2018)	2007
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	2007
IFRIC 15	Agreements for the Construction of Real Estate Will be superseded by IFRS 15 as of 1 January 2018	2008
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	2008
IFRIC 17	Distributions of Non-cash Assets to Owners	2008
IFRIC 18	Transfers of Assets from Customers Will be superseded by IFRS 15 as of 1 January 2018	2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	2009
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	2011
IFRIC 21	Levies	2013

IFRIC 22	Foreign Currency Transactions and Advance Consideration	2016
IFRIC 23	Uncertainty over Income Tax Treatments	2017

SIC Interpretations

No.	NAME	ISSUED YEAR
SIC- 1	Consistency – Different Cost Formulas for Inventories (Superseded)	1997
SIC-2	Consistency – Capitalisation of Borrowing Costs (Superseded)	1997
SIC- 3	Elimination of Unrealised Profits and Losses on Transactions with Associates (Superseded)	1997
SIC- 5	Classification of Financial Instruments - Contingent Settlement Provisions (Superseded)	1998
SIC- 6	Costs of Modifying Existing Software (Superseded)	1998
SIC- 7	Introduction of the Euro	1998
SIC- 8	First-Time Application of IASs as the Primary Basis of Accounting (Superseded)	1998
SIC- 9	Business Combinations – Classification either as Acquisitions or Unitings of Interests (Superseded)	1998
SIC- 10	Government Assistance – No Specific Relation to Operating Activities	1998
SIC- 11	Foreign Exchange – Capitalisation of Losses Resulting from Severe Currency Devaluations (Superseded)	1998
SIC-12	Consolidation – Special Purpose Entities (Superseded)	1998

	by IFRS 10 and IFRS 12 effective 1 January 2013)	
SIC- 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers (Superseded by IFRS 11 and IFRS 12, effective for annual periods beginning on or after 1 January 2013)	1998
SIC- 14	Property, Plant and Equipment – Compensation for the Impairment or Loss of Items (Superseded)	1998
SIC- 15	Operating Leases – Incentives (Will be superseded by IFRS 16 as of 1 January 2019)	1999
SIC- 16	Share Capital – Reacquired Own Equity Instruments (Treasury Shares) Superseded	1999
SIC- 17	Equity – Costs of an Equity Transaction (Superseded)	2000
SIC- 18	Consistency – Alternative Methods (Superseded)	2000
SIC- 19	Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29 (Superseded)	2000
SIC- 20	Equity Accounting Method – Recognition of Losses (Superseded)	2000
SIC- 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets (Superseded by, and incorporated into, IAS 12 by amendments made by Deferred Tax: Recovery of Underlying Assets, effective for annual periods beginning on or after 1 January 2012)	2000
SIC- 22	Business Combinations – Subsequent Adjustment of Fair Values and Goodwill Initially Reported (Superseded)	2000

SIC- 23	Property, Plant and Equipment – Major Inspection or Overhaul Costs (Superseded)	2000
SIC- 24	Earnings Per Share – Financial Instruments and Other Contracts that May Be Settled in Shares (Superseded)	2000
SIC- 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders	2000
SIC- 27	Evaluating the Substance of Transactions in the Legal Form of a Lease (Will be superseded by IFRS 16 as of 1 January 2019)	2000
SIC- 28	Business Combinations – 'Date of Exchange' and Fair Value of Equity Instruments (Superseded)	2001
SIC- 29	Disclosure – Service Concession Arrangements	2001
SIC- 30	Reporting Currency – Translation from Measurement Currency to Presentation Currency (Superseded)	2001
SIC- 31	Revenue – Barter Transactions Involving Advertising Services (Will be superseded by IFRS 15 as of 1 January 2018)	2001
SIC- 32	Intangible Assets – Web Site Costs	2001
SIC- 33	Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests (Superseded 2001)	

Ind AS roadmap for banks, insurance companies and NBFCs:

In pursuance to the budget announcement by the Union Finance Minister, after consultation with the Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA), the Ministry of Corporate Affairs (MCA) issued a press release on

18 January 2016, announcing the Ind AS roadmap for scheduled commercial banks (excluding regional rural banks [RRBs]), insurers/ insurance companies and non-banking financial companies (NBFCs). Draft, notifications/rules will be issued, as required, by MCA, RBI and IRDA in due course. In summary, all scheduled commercial banks (except RRBs), all-India term-lending refinancing institutions, insurers/insurance companies and NBFCs (all listed and unlisted companies having a net worth of 250 crore INR or more) will be required to adopt Ind AS. Ind AS will be applicable to both consolidated and individual financial statements.

Mandatory for accounting periods beginning from 1 April 2018 onwards

- Scheduled commercial banks (excluding RRBs)
- All-India term-lending refinancing institutions (i.e. Exim Bank, NABARD, NHB and SIDBI)
- Insurers/insurance companies
- Notwithstanding the roadmap for companies, holding, subsidiary, joint venture or associate companies of scheduled commercial banks
- Comparative information required for the period ending 31 March 2018 or thereafter

Phase 1: Mandatory for accounting periods beginning from 1 April 2018 onwards

- NBFCs having a net worth of 500 crore INR or more
- Holding, subsidiary, joint venture or associate companies of the above, other than those companies already covered under the corporate roadmap announced by MCA
- Comparative information required for the period ending 31 March 2018 or thereafter

Phase 2: Mandatory for accounting periods beginning from 1 April 2019 onwards

- NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having a net worth less than 500 crore INR
- NBFCs that are unlisted companies, having a net worth of 250 crore INR or more but less than 500 crore INR
- Holding, subsidiary, joint venture or associate companies of companies covered above, other than those companies already covered under the corporate roadmap announced by MCA

- Comparative information required for the period ending 31 March 2019 or thereafter

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