

Convergence to IFRS

► *IFRS poses a great challenge to the drafters of financial statements and auditors. There is an urgent need to understand the nuances of IFRS implementation.*

Revathi Iyer

Though many Indian Accounting Standards (IAS) are based on IFRS and are fairly consistent with them, there has been a growing need for interpretation of IFRS and the effect of this convergence to preparers and interpreters of financial statements.

Students of finance would benefit greatly by trying to understand concepts and core suggestions given by the Institute of Chartered Accountants of India (ICAI) in an effort to educate the preparers of financial statements for a smooth transition to IFRS.

Users of financial statements have always demanded transparency in financial reporting and disclosures. The willingness and need for better disclosure practices has arisen only recently.

Globalisation has helped Indian business look for offshore capital. This necessitated Indian companies desirous of looking for foreign capital to report their accounting procedures in the GAAP of the investing country. The different dis-



Move to harmonise diverse disclosure practices.

closure requirement for listing purposes has hindered the free flow of capital and made comparison of financial statements almost impossible.

The International Organisation of Securities Commission has initiated a movement to harmonise diverse disclosure practices. This resulted in a uniform global reporting and disclosure practice called the IFRS.

IFRS VS GAAP

IFRS does not permit the LIFO method of valuing inventory; it uses the single step method for impairment of asset; it has a different probability threshold and measurement objective for contingencies; and it does not permit debt for which a covenant violation has occurred to be classified as noncurrent.

ADOPTION OF IFRS IN INDIA

Policymakers in India have realised the need to follow IFRS. This poses a great challenge to the drafters of

financial statements and also to auditors. There is an urgent need to understand the nuances of IFRS implementation. The revenue recognition concept of accounting practices has been significantly dealt with in IFRS. Industry-specific instructions are not so clearly dealt with.

The convergence note of the ICAI states that IFRS is applicable from 2011. The first wave of IFRS would cover listed companies; banks, insurance companies, mutual funds and financial institutions; companies whose turnover in the preceding years exceeding Rs 100 crore; companies whose borrowing in previous years exceeded Rs 25 crore; holding or subsidiary companies of such companies.

FIRST-TIME ADAPTATION

Applicability to financial statements: IFRS-1 is applicable to the following financial statements: first annual financial statements in which the entity adopts IFRS by an explicit and unreserved statement

of compliance; each interim financial report that the entity presents as part of its first annual financial statement in which the entity adopts IFRS by an explicit and unreserved statement of compliance with IFRS.

Period of compliance: The first IFRS reporting period for entities in India having accounting period beginning on April 1 would be April 1, 2011, to June 30, 2011. For an entity whose accounting period begins on January 1 the first IFRS reporting period would be January 1 to March 31, 2012.

Date of transition: According to the ICAI's announcement an entity in India should have its financials as per IFRS on April 1, 2010, which is the date of transition. An entity that presented financial statements the previous year containing an explicit and unreserved statement of compliance with IFRS would not be a first time adopter of IFRs even though it contains a qualified audit report.

Accounting policies: The entity

cannot change its accounting policy during the periods presented in its first IFRS financial statements.

The entity should adopt accounting policies that are in compliance with each IFRS effective as on June 30, 2011, if the entity prepares and presents an interim financial report or March 31, 2012.

The adjustments due to changes in accounting policies from previous GAAP to IFRS at the date of transition to IFRS should be adjusted directly in retained earnings or a specific reserve such as IFRS transition reserve.

Derecognising some old assets and liabilities: The entity should eliminate previous GAAP assets and liabilities from the opening balance sheet if they do not qualify for IFRS.

IAS 38 does not permit recognition of expenditure on any of the following as an intangible asset: research, start-up, pre-operating, pre-opening costs, training, advertising and promotion moving and relocation. If the entity's previous GAAP had recognised these as assets they are eliminated in the opening IFRS Balance Sheet.

If the entity's previous GAAP had allowed accrual of liabilities for general reserve, restructurings, future operating losses or major overhauls that do not meet the conditions for recognition as a provision under IAS 37 these are eliminated in the opening IFRS balance-sheet.

>>More on the Web:

www.businessline.in/webextras

(The author is Associate Professor-Finance at IFIM Business School, Bangalore)