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Theme 209
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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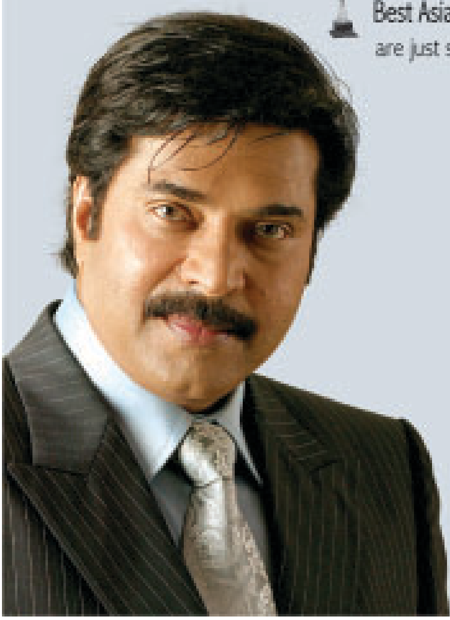

SOUTH INDIAN Bank

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Theme No. 209 : INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

A globally acceptable financial information system requires high quality financial reporting, auditing and equivalent ethical standards. The International Financial Reporting Standards (IFRS) announced under earlier IAS (International Accounting Standard) and later IFRS-series by the IASB (erstwhile IASC) will be accepted as global accounting standards and roadmaps of convergence are already in the offing. It is recognized that convergence of Indian GAAP with IFRS will be beneficial to the Indian economy, investors, industry and accounting professionals. Also, adoption of IFRS for accounting periods beginning on or after April 1, 2011 has been announced by ICAI. It will be fruitful to examine some of the significant differences between the **IFRS/IAS** and the **Indian GAAP** (**AS** – Accounting Standard - India).

Presentation of Financial Statements and Disclosure of Accounting Policies

The financial statements as per **IAS** include statement of financial position, statement of comprehensive income, statement of cash flows, **statement of changes in equity** and notes including summary of accounting policies and explanatory notes. In India, Schedule IV to the Companies Act, 1956 requires that financial statements must include balance sheet, statement of profit and loss, cash flow statement (not mandatory for small and medium sized companies) and explanatory notes including summary of accounting policies.

Valuation of Inventories

IAS covers all aspects of accounting related to inventories including the amount of expense to be recognized upon sale of inventories. The aspect of amount of expense to be recognized upon sale is not covered by **AS**.

Cash flow Statements

AS treats bank overdraft as financing activity; **IAS** considers it as cash or cash equivalent. Cash flows from interest and dividend may be classified as operating, investing or financing in a consistent manner as per **IAS**; **AS** requires treatment according to the nature of enterprise as financial and non-financial. **AS** requires disclosure of extraordinary items, whereas **IAS** does not require so.

Changes in Accounting Policies

As per **AS**, changes in accounting policies are made if required by statute and are applicable on a prospective basis. **IAS** provides for full retrospective application. **IAS** requires disclosure of possible impact on financial statements on initial application of any new accounting policy. **AS** does not stipulate this.

Contingencies and events occurring after Balance sheet date

IAS provides that liability for dividends is not an adjusting event, it is recognized in the period when declared. As per **AS**, dividends are appropriated of the profit, and recorded as liability at the balance sheet date. Under **IAS**, material events are disclosed in the financial statements. Under **AS**, material events are disclosed in the directors' report.

Accounting for fixed assets

Revaluations are required to be made with sufficient regularity under IAS, but there is no specific requirement on frequency under the AS. IAS requires fixed assets to be componentized and depreciated separately, unlike in the AS.

Revenue recognition

As per **IAS**, receivables if deferred are discounted to determine fair value. The same are to be recognized at the nominal amount of consideration as per **AS**.

Consolidated and separate financial statements

In India, it is SEBI, not **AS**, that requires listed companies to present consolidated financial statements. **IAS** spells out the requirement. The difference between the reporting dates of the subsidiary and that of the parent cannot exceed 3 months as per **IAS**; it is not more than 6 months under **AS**.

Reporting in hyperinflationary economics (IAS 29), Investment Property (IAS 40), Agriculture (IAS 41), Insurance Contracts (IFRS 4)

There are no equivalent Indian standards.

Impairment of assets and Intangible assets

IAS requires impairment test of goodwill and intangible assets to be undertaken on an annual basis or earlier in case of impairment indication. Under **AS**, it is required only if there is indication of impairment in the assets.

Provisions, Contingent Liabilities and Contingent Assets

Under **AS**, discounting of liabilities is not permitted and provisions are carried at their full values. **IAS** provides that where the effect of time value of money is material, the amount of provision is the present value of the expenditure expected to be required to settle the obligation. **IAS** provides for contingent assets to be disclosed in the financial statements. According to **AS**, they form part of the director's report.

Intangible Assets

AS provides for such assets to be measured only at cost. **IAS** permits such assets to be measured either at cost or at revalued amounts. As per **IAS**, intangible asset should be amortized over its useful life. Under **AS**, the presumption period of useful life is 10 years.

Share-based Payment

In case of equity settled share-based transactions, **IFRS** provides that goods and services received and the corresponding increase in equity are measured at fair value of the goods and services received. In India, both the guidance note of ICAI and SEBI guidelines permit the use of either the intrinsic value method or the fair value method for determining the cost of benefits.

Business Combinations and Accounting for Amalgamation
IFRS provides that combinations being acquisitions are accounted for using purchase method. **AS** provides for two methods – pooling-of-interests and purchase methods, depending on amalgamation being treated as merger or acquisition. **IFRS** prohibits use of pooling-of-interests method. With regard to treatment of acquisition related costs, there is no specific guidance in the Indian standard. **IFRS** provides for such expenses to be expensed in the period in which the costs are incurred and the services received.

Non-current Assets Held for Sale and Discontinued Operations
As per **IFRS**, non-current assets for sale are not depreciated, and measured at the lower of its carrying value and fair value minus the costs to sell the asset. There is yet no standard in India which deals with non-current assets held for sale. **AS** deals with assets retired from active use and disposed for sale.

Operating Segments and Segment Reporting
The differences between the two standards primarily relate to identification of the segments to be reported, their measurement and disclosure provisions. **AS** uses risks and rewards approach for identifying two sets of segments - business and geographic segments. **IFRS** is based on allocation of resources and performance evaluation. Under **AS**, segment information should be as per accounting policies adopted. **IFRS** employs a management approach in defining segments.

Thus it is evident that serious engagement is required from every entity concerned to bridge the gap between the International Financial Reporting Standards and the Indian GAAP. The convergence of accounting standards is now globally recognized as the future accounting scenario. But there are a number of challenges and constraints involved in convergence process. Some of the key factors in the implementation of convergence are legal and regulatory environment, economic scenario, trade customs and practices and the level of preparedness in the profession and industry. The efforts have to be multi-dimensional for the successful transformation towards global accounting convergence.

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