Lesson 12

Adoption, Convergence and Interpretation of International Financial Reporting Standards (IFRS) and Accounting Standards in India

Key Concepts One Should Know

- Qualifying Net worth
- Ind AS
- IFRS
- Indian GAAP

Learning Objectives

To understand the:

- Importance of relevance and reliability characteristics of financial information
- Need for quality, understandable and enforceable global accounting standards
- Roadmap for convergence of Indian Accounting Standards with IFRS
- Major difference between Indian GAAP, IFRS and converged Indian Accounting Standards (Ind AS)

Lesson Outline

- Calculation of Qualifying Net Worth of Companies
- Details of Ind AS
- Comparison of Indian GAAP, IFRS and Ind AS
- Comparison of Ind AS with IFRS
- LESSON ROUND UP
- TEST YOURSELF

INTRODUCTION

According to International Accounting Standard Board (IASB) conceptual framework, the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to their entities. Consequently, the two important characteristics of financial information that emanates from the above objective relates to relevance and reliability. According to IASB Framework for the Preparation and Presentation of Financial Statement, information is deemed to be relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming or correcting, their past evaluations. Similarly to be reliable, information must represent faithfully the transactions and other events, it either purports to represent or could reasonably be expected to represent.

However, given the different social, regulatory and accounting structures across different countries, there is a lacuna in terms of absence of a single set of high quality, understandable and enforceable global accounting standards available to investors for comparison of financial statements of companies around the world. Consequently, convergence of varied accounting standards with international financial reporting standards (IFRS) has gained worldwide momentum in recent years as it would increase uniformity and transparency in reporting standards.

India, being one of the important emerging countries has also committed to convergence of its Indian Accounting Standards (Indian GAAP) with IFRS in a phased manner. While the initial roadmap was to achieve convergence in three phases starting April 2011 and ending April 2014, it could not be implemented due to various reasons. In February 2011, the Ministry of Corporate Affairs (MCA) concluded the process of convergence of Indian Accounting Standards (Ind ASs) in consultation with the National Committee on Accounting Standards (NACAS) and the Institute of Chartered Accountants of India (ICAI) and notified 35 Ind ASs. Though the standards were notified, the date of their implementation was not.

In March 2014, the ICAI proposed a roadmap for the adoption of Ind ASs from the accounting year beginning on or after 1 April 2016, with previous year comparatives in Ind AS for the year 2015-16. In order to keep the tax issues at bay, the revised roadmap recommended Ind ASs to be implemented for the preparation of Consolidated Financial Statements only.

> The Ind AS are basically standards that have been harmonised with the IFRS to make reporting by Indian companies more globally accessible. Since Indian companies have a far wider global reach now as compared to earlier, the need to converge reporting standards with international standards was felt, which has led to the introduction of Ind AS.

The Ministry of Corporate Affairs (MCA), in 2015, had notified the Companies (Indian Accounting Standards (IND AS) Rules 2015, which stipulated the adoption and applicability of Ind AS in a phased manner beginning from the Accounting period 2016-17. The MCA has since issued four Amendment Rules, one each in year 2016, 2017, 2018 and 2019 to amend the 2015 rules.

Applicability of Indian Accounting Standards

(a) The Government of India notified the Indian Accounting Standards (Ind ASs) in the Gazette of India on 16th February, 2015 which contained the application by Indian companies as per the roadmap given therein as under:

(b) For companies other than Banking companies, Non-banking Financial Companies (NBFCs) and Insurance companies:

  (i) *For the Accounting period beginning on or after 1st April, 2016*: The following companies were Adoption, Convergence and Interpretation of IFRS and Accounting Standards in India required to prepare their financial statements by adopting Indian Accounting Standards (Ind ASs):

    (a) Companies whose equity or debt securities are listed or are in the process of listing on any stock exchange either in India or out of India and having the net worth of Rs. 500 crore or more;

    (b) Unlisted companies having the net worth of Rs. 500 crore or more; and

(c) Holding companies, subsidiary companies, joint venture or associate companies of the companies mentioned at (a) or (b) above.

Comparatives for the above periods shall be for the period ending on 31st March, 2016 or thereafter.

(ii) *For the Accounting period ending on or after 1st April, 2017: The following companies were required* to prepare their financial statements by adopting Indian Accounting Standards (Ind ASs):

(a) Listed companies having net worth of less than Rs. 500 crores;

(b) Unlisted companies having net worth of Rs. 250 crore or more but less than Rs. 500 crores; and

(c) Holding, subsidiary, joint venture and associate companies of the companies mentioned at

(a) or (b) above.

Comparatives for the above periods shall be for the period ending on 31st March, 2017 or thereafter.

Once a company starts applying Indian Accounting Standards (Ind ASs) for the preparation of the financial statements based on the mandatory criteria specified above, it will have to prepare the financial statements in compliance with the Indian Accounting Standards (Ind ASs) for all the subsequent years even if the criterion later on does not apply to it. A company may voluntarily apply the Indian Accounting Standards (Ind ASs) for the preparation of the financial statements for the accounting period starting on or after 1st April, 2015. However, such a company cannot subsequently revert back to the preparation of financial statements by adopting the Accounting Standards specified under the Companies (Accounting Standards) Rules, 2006.

It may be noted that the net worth of the company will be considered based on the audited financial statements of the company concerned as at 31st March, 2014 or based on the first audited financial statements of the company concerned as at any date after 31st March, 2014.

Once the Indian Accounting standards (Ind ASs) are required to be applied in the preparation of the financial statements by a company, the same will apply to both the stand-alone financial statements and consolidated financial statements.

Companies whose securities are listed or are in the process of being listed on SME Exchanges will continue to apply the existing Accounting Standards specified under the Companies (Accounting Standards) Rules, 2006.

Companies which are not required to mandatorily follow Indian Accounting Standards (Ind ASs) are required to follow the existing Accounting Standards specified under the Companies (Accounting Standards) Rules, 2006 unless they voluntarily choose to apply Indian Accounting Standards (Ind ASs).

For Non-banking Financial Companies (NBFCs):

(i) For the Accounting period beginning on or after 1st April, 2018: The following NBFCs will be required to adopt Ind ASs:

(a) NBFCs having net worth of Rs. 500 crore or more; and

(b) Holding, subsidiary, joint venture and associate companies of the above companies.

The comparatives will be for the period ending on 31st March, 2018 or thereafter

(ii) For the Accounting period beginning on or after 1st April, 2019: The following NBFCs will be required to follow Ind ASs:

(a) Listed NBFCs having net worth of less than Rs. 500 crores;

(b) Unlisted NBFCS with net worth of Rs.250 crore or more but with net worth of less than Rs. 500 crores; and

(c) Holding, subsidiary, joint venture and associate companies of the above companies.

The comparatives will be for the period ending on 31st march, 2019 or thereafter.

Note: The net worth for the above purpose will be computed as per the audited financial statements for the year ended 31st March, 2016 or the first audited financial statements thereafter.

For the Scheduled commercial banks (excluding regional rural banks) and insurance companies

The following will be required to apply Indian Accounting Standards (Ind ASs) for preparing their financial statements for the period ending beginning on or after 1st April, 2018:

(a) Scheduled Commercial banks (excluding regional rural banks);

(b) All India term lending refinancing institutions (i.e. Exim Bank, NHB, NABARD, SIDBI);

(c) Insurers/insurance companies; and

(d) Holding, subsidiary, joint venture and associate companies of the above companies.

The comparatives will be given for the period ending on 31st March, 2018 or thereafter.

Details of Ind AS

1. Ind AS 101 First-time Adoption of Indian Accounting Standards

The objective of this Indian Accounting Standard (Ind AS) is to ensure that an entity's first Ind-AS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

(a) is transparent for users and comparable over all periods presented;

(b) provides a suitable starting point for accounting in accordance with Ind-ASs; and

(c) can be generated at a cost that does not exceed the benefits.

An entity shall apply this Ind-AS in:

(a) its first Ind-AS financial statements, and

(b) each interim financial report, if any, that it presents in accordance with Ind AS 34 Interim Financial Reporting for part of the period covered by its first Ind-AS financial statements.

An entity's first Ind AS financial statements are the first annual financial statements in which the entity adopts Ind ASs according to the Ind ASs notified under the Companies Act, 2013 and makes an explicit and unreserved statement in those financial statements of compliance with Ind ASs.

2. Ind AS 102 Share-based Payment

The objective of this Standard is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

An entity shall apply this Standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

(a) equity-settled share-based payment transactions,

(b) cash-settled share-based payment transactions, and

(c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

A share based payment arrangement is an agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:

(a) cash or other assets of the entity for amounts that are based on the price(or value) of equity instruments (including share or share options) of the entity or another group entity, or

(b) equity instruments(including shares or share options) of the entity or another group entity.

Provided that specified vetsing conditions, if any, are met.

A share-based payment transaction is a transaction in which the entity:

(a) receives goods or services from the supplier of those goods or services(including an employee) in a share based payment arrangement, or

(b) incurs an obligation to settle the transaction with the supplier in a share based payment arrangement when another group entity receives those goods or services.

3. Ind AS 103 Business Combinations

The objective of this Indian Accounting Standard is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this Indian Accounting Standard establishes principles and requirements for how the acquirer:

(a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

(b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and

(c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This Indian Accounting Standard applies to a transaction or other event that meets the definition of a business combination. This Indian Accounting Standard does not apply to:

(a) the formation of a joint venture.

(b) the acquisition of an asset or a group of assets that does not constitute a business. In such cases the acquirer shall identify and recognize the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in Ind AS 38 Intangible Assets) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

(c) Appendix C deals with accounting for combination of entities or businesses under common control.

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also referred to as business combinations as that term is used in this Ind AS.

4. Ind AS 104 Insurance Contracts

The objective of this Indian Accounting Standard is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this Indian Accounting Standard as an insurer). In particular, this Indian Accounting Standard requires:

(a) limited improvements to accounting by insurers for insurance contracts.

(b) disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

An entity shall apply this Indian Accounting Standard to:

(a) Insurance contracts (including reinsurance contracts) that it issues, and reinsurance contracts that it holds.

(b) financial instruments that it issues with a discretionary participation feature. Ind AS 107 Financial Instruments: Disclosures requires disclosure about financial instruments, including financial instruments that contain such features.

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified future event(the insured event) adversely affects the policyholder.

5. Ind AS 105 Non-Current Assets Held for Sale and Discontinued Operations

The objective of this Indian Accounting Standard is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, the Indian Accounting Standard requires:

(a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and

(b) assets that meet the criteria to be classified as held for sale to be presented separately in the balance sheet and the results of discontinued operations to be presented separately in the statement of profit and loss.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:

(a) represents a separate major line of business or geographical area of operations, or

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or

(c) is a subsidiary acquired exclusively with a view to sale.

6. Ind AS 106 Exploration for and Evaluation of Mineral Resources

The objective of this Indian Accounting Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. In particular, the Indian Accounting Standard requires:

a. limited improvements to existing accounting practices for exploration and evaluation expenditures.

b. entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Indian Accounting Standard and measure any impairment in accordance with Ind AS 36 Impairment of Assets.

c. disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.

Exploration for and evaluation of mineral resources is the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area as well as the determination of the technical feasibility and commercial viability of extracting the mineral resources.

7. Ind AS 107 Financial Instruments: Disclosures

The objective of this Indian Accounting Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate:

(a) the significance of financial instruments for the entity's financial position and performance; and

(b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

The principles in this Indian Accounting Standard complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Ind AS 39 Financial Instruments: Recognition and Measurement and Ind AS 32 Financial Instruments: Presentation.

8. Ind AS 108 Operating Segments

An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind AS) notified under the Companies Act apply.

If an entity that is not required to apply this Indian Accounting Standard chooses to disclose information about segments that does not comply with this Indian Accounting Standard, it shall not describe the information as segment information.

If a financial report contains both the consolidated financial statements of a parent that is within the scope of this Indian Accounting Standard as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements.

An operating segment is a component of an entity:

(a) that engages in business activities for which it may earn revenues and incur expenses(including revenues and expenses relating to transactions with other components of the same entity),

(b) whose operating results are regularly reviewed by the chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete fianncial information is available.

9. Ind AS 109 Financial Instruments

The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

10. Ind AS 110 Consolidated Financial Statements

The objective of this Indian Accounting Standard (Ind AS) is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, expenses, income and cash flows of the parents and its subsidiaries are presented as those of a single economic entity.

11. Ind AS 111 Joint Arrangements

The objective of this Indian Accounting Standard (Ind AS) is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet the objective, this Ind AS defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

This Ind AS shall be applied by all entities that are a party to a joint arrangement.

A joint arrangement is an arrangement is an arrangement of which two or more parties have joint control. A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement.

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement is either a joint operation or a joint venture.

12. Ind AS 112 Disclosure of Interests in Other Entities

The objective of this Indian Accounting Standard (Ind AS) is to require an entity to disclose information that enables users of its financial statements to evaluate:

(a) the nature of, and risks associated with, its interests in other entities; and

(b) the effects of those interests on its financial position, financial performance and cash flows.

Interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as provision of funding, liquidity support, credit enhancement and guarantees. It includes other means by which the entity has control or joint control of, or significant influence over another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

13. Ind AS 113 Fair Value Measurement

This Ind AS:

(a) defines fair value;

(b) sets out in a single Ind AS a framework for measuring fair value; and

(c) requires disclosures about fair value measurements.

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date.

14. Ind AS 114, Regulatory Deferral Accounts

The objective of this Standard 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.

An entity is permitted to apply the requirements of this Standard in its first Ind AS financial statements if and only if it: (a) conducts rate-regulated activities; and (b) recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP.

A regulatory deferral account balance is a regulatory asset or a regulatory liability as defined in the Guidance Note on Accounting for Rate regulated activities. Rate regulated activities are the entity's activities that are subject to rate regulation.

15. Ind AS 115, Revenue from Contracts with Customers

The objective of this Standard 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.

A contract is an agreement between two or more parties that creates enforceable rights and obligations. Revenue is the income arising in the course of an entity's ordinary activities. Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than the contributions from equity participants.

16. Ind AS 116, Leases

The objective of this Ind AS is to set out the principles for recognition, measurement, presentation of disclosure of leases so that the lessees and lessors provide the relevant information in a manner that faithfully represent those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

To apply this standard, an entity shall consider the terms and conditions of contracts and all relevant facts and circumstances. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.

A lease is a contract, or part of a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

17. Ind AS 1 Presentation of Financial Statements

This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their contents.

An entity shall apply this Standard in preparing and presenting general purpose financial Statements in accordance with Ind AS.

General purpose financial statements are those financial statements that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

18. Ind AS 2 Inventories

The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard deals with the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also deals with the cost formulas that are used to assign costs to inventories.

Inventories are assets:

(a) held for sale in the ordinary course of busness;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to eb consumed in the production process or in the rendering of services.

19. Ind AS 7 Statement of Cash Flows

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation. The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

A statement showing cash flows is called a Statement of Cash Flows. Cash flows are the inflows and outflows of cash and cash equivalents. Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

20. Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in Ind AS 1 Presentation of Financial Statements.

This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. A change in an accounting estimate is the adjustment in the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations with the asset or liability. Changes in accounting estimates result from new estimates or new developments, and accordingly are not correction of errors.

21. Ind AS 10 Events after the Reporting Period

The objective of this Standard is to prescribe:

(a) When an entity should adjust its financial statements for events after the reporting period; and

(b) the disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period. Events after the reporting period are those events, favourbale and unfavourable, that occur between the end of the reporting period and that date when the financial statements are approved by the Board of directors in the case of a company and by the corresponding approving authority in the case of any other entity for issue.

22. Ind AS 12 Income Taxes

The objective of this Standard is to prescribe the accounting treatment for income tax. The principal issue in accounting for income tax is how to account for the current and future tax consequences of:

(a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's balance sheet; and

(b) transactions and other events of the current period that are recognized in an entity's financial statements.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. This Standard requires an entity to recognize a deferred tax liability (deferred tax asset), with certain limited exceptions.

23. Ind AS 16 Property, Plant and Equipment

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts, and the depreciation charges and impairment losses to be recognized in relation to them.

This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.

Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and

(b) are expected to be used during more than one period.

24. Ind AS 19 Employee Benefits

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognize:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the entity consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

25. Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance

This Standard shall be applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.

This Standard does not deal with:

(a) the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature.

(b) government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation.

(c) government participation in the ownership of the entity.

(d) government grants covered by Ind AS-41, Agriculture.

(e) Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance does not include benefits provided only indirectly through actions affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on the competitors. Government grants are assistance by government in the form of transfer of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with the government which cannot be distinguished from the trading transactions of the entity.

26. Ind AS 21 The Effects of Changes in Foreign Exchange Rates

An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

27. Ind AS 23 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

An entity shall apply this Standard in accounting for borrowing costs.

The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:

(a) a qualifying asset measured at a fair value, for example, a biological asset; or

(b) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

28. Ind AS 24 Related Party Disclosures

The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

This Standard shall be applied in:

(a) identifying related party relationships and transactions;

(b) identifying outstanding balances, including commitments, between an entity and its related parties;

(c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and

(d) determining the disclosures to be made about those items.

A related party is a person or entity that is related to the entity preparing its financial statements. A relaed party transaction is a transfer of resources, services or obligations between a reporting entity and a related party regardless of whether the price is charged.

29. Ind AS 27 Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

This Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by law, to present separate financial statements.

This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with Indian Accounting Standards.

Separate financial statements are those presented by a parent (i.e. an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or as per Ind AS 9 "Financial Instruments".

30. Ind AS 28 Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

This Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.

An associate is an entity over which the investor has significant influence. A joint venture is a joint arrangement whereby the parties that have the joint control of the arrangement has rights to the net assets of the arrangement.

31. Ind AS 29 Financial Reporting in Hyperinflationary Economies

This Standard shall be applied to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.

In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

32. Ind AS 32 Financial Instruments: Presentation

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in Ind AS 39 Financial Instruments: Recognition and Measurement, and for disclosing information about them in Ind AS 107 Financial Instruments: Disclosures.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or an equity instrument of another entity.

33. Ind AS 33 Earnings per Share

The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity. Even though earnings per share data have limitations because of the different accounting policies that may be used form determining 'earnings', a consistently determined denominator enhances financial reporting. The focus of this Standard is on the denominator of the earnings per share calculation.

An entity shall calculate basic earnings per share amounts for profit or loss attributable to the ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. Basic earnings per share shall be calculated by dividing profit or loss attributable to the ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

An entity shall calculate diluted earnings per share amounts for profit or loss attributable to the ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to the ordinary equity holders of the parent entity and weighted average number of ordinary shares outstanding during the period, from the effects of all dilutive potential ordinary shares.

34. Ind AS 34 Interim Financial Reporting

The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flow and its financial condition and liquidity.

Interim financial report is a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period. An interim period is a financial reporting period shorter than a full financial year.

35. Ind AS 36 Impairment of Assets

The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognize an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

An impairment loss is the amount by which the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. Carrying amount is the amount at which an asset is reocgnized after deducting any accumulated depreciation (amortization) and any accumulated impairment losses thereon. A cash generating unit is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash inflows from other assets or group of assets.

36. Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

A provision is a liability of uncertain timing or amount. A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not reocgnized because:

  (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

  (ii) the amount of obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the entity.

37. Ind AS 38 Intangible Assets

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognize an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Monetary assets are money held and assets to be received in fixed or determinable amount of money. An intangible asset to be identifiable should be distinguishable from goodwill. An asset is identifiable if it either:

(a) is separable i.e.is capable of being separated or dividend from the entity and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferrable or separable form the entity or from other rights and obligations.

38. Ind AS 40 Investment Property

The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

This Standard shall be applied in the recognition, measurement and disclosure of investment property.

Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in Ind AS 17 Leases, including:

(a) classification of leases as finance leases or operating leases;

(b) recognition of lease income from investment property (see also Ind AS 18 Revenue);

(c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;

(d) measurement in a lessor's financial statements of its net investment.

(e) accounting for sale and lease back transactions; and

(f) disclosure about finance leases and operating leases.

Investment property is a property (i.e. land or a building or part of a building or both) held (by the owner or a lessee as a right of use asset) to earn rentals, or for capital appreciation, or both rather than for:

(a) use in the production or supply of goods or serviced or for administrative purposes; or

(b) sale in the ordinary course of business.

Ind AS 41 Agriculture

The objective of this Standard is to prescribe the accounting treatment and disclosures related to agricultural activity. This Standard shall be applied to account for the following when they relate to agricultural activity: (a) biological assets; (b) agricultural produce at the point of harvest; and (c) government grants covered by paragraphs 34 and 35.

Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets. Agricultural produce is the harvested produce of the entity's biological asset. A biological asset is a living animal or plant. Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

Comparison of Indian GAAP, IFRS and Ind AS

The significant difference between the Indian GAAP (current Indian Accounting Standards) converged Indian Accounting Standards (Ind AS) and IFRS (International Financial Reporting Standards) are discussed in detail in the following pages.

Comparison of Ind AS with Existing Indian GAAP

- Ind AS 1 prohibits presentation of any item as extraordinary item in the statement of profit and loss or in the notes as compared to existing AS 1 which allows for extraordinary items to be disclosed separately.
- Ind AS 1 requires disclosure of critical assumptions about the future and other sources of measurement uncertainty that can affect carrying amounts of assets and liabilities within next financial year. Existing AS 1 does not require any such disclosure.
- Ind AS 1 requires that classification of expenses be presented on the basis of nature of expenses.
- Ind AS 1 requires that in case of reclassification of items, nature, amount and reason for reclassification are disclosed in notes to financial statement. No such nature, amount and reason for reclassification are required to be disclosed under existing AS 1.
- Ind AS 1 requires that a statement of changes in equity is including reconciliation between opening and closing balance for each component of equity. Under existing AS 1, Statement of changes in equity is not required.

Comparison of Ind AS with IFRS (International Accounting Standards)

- With regards to preparation of statement of profit and loss. International Accounting Standard IAS 1. Presentation of Financial Statement provides with an option to follow either the single statement approach or the two statements approach. While single statement approach allows for all items of income and expense to be recognized in the statement of profit and loss, two statements approach requires preparation of two statements, one displaying components of profit or loss (separate income statement) and the other beginning with profit or loss and displaying components of other comprehensive income. In comparison to IAS 1, Ind AS 1 allows only for the single statement approach.
- As against IAS 1, which requires separate statement of changes in equity, Ind AS 1 requires statement of changes in equity to be shown as a part of balance sheet.
- Ind AS 1 does not permit periodicity as against IAS 1 which allows for periodicity (for example, of 52 weeks for preparation of financial statements).
- IAS I allows classification of expenses based on either their nature or their function within the equity as compared to Ind AS 1 which requires only nature wise classification of expenses.

Comparison of Ind AS with Existing Indian GAAP

- Ind AS 2 provides for reversal of the write-down of inventories to net realizable value limited to the amount of original write-down, and requires recognition and disclosure thereof in the financial statements. Existing AS 2 does not provide any specific guidance on the same.
- Existing AS 2 excludes from its scope inventories held by commodity broker traders (who measure their inventories at a fair value minus costs to sell), producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products. In contrast, Ind AS 2 excludes from its scope only the measurement of such inventories. Further Ind AS 2 defines fair value and provides an explanation in respect of distinction between net realizable value and fair value.
- While Ind AS 2 provides explanation with regard to inventories of service providers, existing AS 2 does not contain such an explanation.

While Ind AS 2 requires only the use of consistent cost formulas for all inventories having a similar nature and use to the entity, existing AS 2 specifically requires that the formula used in determining the cost of an item of inventory should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.

STATEMENT OF CASH FLOWS

Comparison of Ind AS 7 with AS 3

S. No.	Bases of Comparison	Ind AS 7 "Statement of Cash Flows"	AS 3 "Cash Flow Statements"
(i)	Bank overdraft repayable on demand	Ind AS 7 specifically provides that the bank borrowings are generally classified as financing activities. However, bank overdraft repayable on demand is treated as part of cash and cash equivalents.	As 3 is silent on this aspect.
(ii)	Treatment of cash payments in specific cases	Ind AS 7 provides for the treatment of cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary c0urse of business as cash flows from operating activities. Further, treatment of cash receipts from rent and subsequent sale of such assets as cash flow from operating activities is also provided.	AS 3 does not contain such requirements.
(iii)	New examples of cash flows arising from financing activities	Ind AS 7 includes the following new examples of cash flows arising from financing activities: (a) Cash payments to owners to acquire or redeem the entity's shares; (b) cash proceeds from mortgages; (c) Cash payments by the lessee for the reduction of the outstanding liability relating to a finance lease.	AS 3 does not contain such examples.
(iv)	Adjustments of the profit or loss for the effects of undistributed profits of the associates and non-controlling interests	Ind AS 7 specifically requires the adjustment of the profit or loss for the effects of 'undistributed profits of associates and non-controlling interests' while determining the net cash flows from operating activities using the indirect method.	AS 3 does not contain such requirements.
(v)	Cash flows associated with extraordinary activities	Ind AS 7 does not contain this requirement.	AS 3 requires cash flows associated with extraordinary activities to be separately classified as arising from, operating, investing and financing activities.
(vi)	Investing activities	Ind AS 3 requires that only the expenditures results in a recognized asset in the balance sheet are eligible for classification as investing activities.	AS 3 does not contain such requirements.

(vii)	Disclosure of the amount of cash and cash equivalents in specific situations	Ind AS 7 requires and entity (except an investment entity) to disclose the amounts of cash and cash equivalents and other assets and liabilities in the subsidiaries or other businesses over which control is obtained or lost. It also requires to report the aggregate amount of cash paid or received as consideration for obtaining or losing control of such subsidiaries or other businesses in the Statement of Cash Flows, net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.	AS 3 does not contain such requirements.
(viii)	Cash flows arising from changes in ownership interest in subsidiaries	Ind AS 7 requires to classify cash flows arising from changes in ownership interest in subsidiaries that do not result in a loss of control as cash flows from financing activities.	AS 3 does not contain such requirements.
(ix)	Investments in subsidiaries associates and joint ventures (investees)	Ind AS 7 mentions the use of equity or cost method while accounting for an investment in an associate, joint venture or a subsidiary. It also specifically deals with the reporting of interest in an associate or a joint venture using equity method.	AS 3 does not contain such requirements.
(x)	Use of different terminology and translation of cash flows of a foreign subsidiary	Ind AS uses the term 'functional currency instead of 'reporting currency' (as in AS 3). It also deals with the translation of cash flows of a foreign subsidiary.	AS 3 uses the term 'reporting currency'. AS 3 does not deal with the translation of cash flows of a foreign subsidiary.
(xi)	Disclosures	Ind AS 7 requires more disclosures as compared to AS 3.	As 3 requires less disclosures as compared to Ind AS 7.

Comparison of Ind AS 7 with IAS

S. No.	Bases of Comparison	IAS 7	Ind AS 7
(i)	Treatment of interest paid and interest and dividend received	IAS 7 gives an option to classify the interest paid and interest and dividend received as an item of operating cash flows.	Ind AS 7 does not provide such an option and requires these items to be classified as an item of financing activity and investing activity respectively.
(ii)	Treatment of dividend paid	IAS 7 gives an option to classify the dividend paid as an item of operating activity.	Ind AS 7 requires dividend paid to be classified as an item of financing activity only.

Accounting Policies Changes in Accounting Estimates and Errors

Comparison of Ind AS with existing Indian GAAP

- Ind AS 8 requires rectification of prior period errors with retrospective effect subject to limited exceptions; whereas existing AS 5 requires the rectification of prior period items with prospective effect.

While existing AS 5 defines prior period items as incomes or expenses which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods, Ind AS 8 defines the term errors as arising from a failure to use or misuse reliable information that was available when the financial statements of the prior periods were approved for issuance and could reasonably be expected to obtained and taken into account in the preparation and presentation of those financial statements.

Comparison of Ind AS with IFRS (International Accounting Standards)

No significant differences

Income Taxes

Comparison of Ind AS with existing Indian GAAP

- Existing AS 22, based on income statement approach, recognizes tax consequences of differences between taxable income and accounting income. Ind AS 12, in contracts, is based on balance sheet approach and recognizes tax consequences of differences between the carrying amounts of assets and liabilities and their tax base.
- Existing AS 22 recognizes and carries forward deferred tax assets only to the extent where there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be utilized. Ind AS 12 recognizes deferred tax assets for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.
- Under existing AS 22, deferred tax assets in case of unused tax losses and unabsorbed depreciation is recognized to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized. Under Ind AS 12, deferred tax assets in case of unused tax losses and unabsorbed depreciation are recognized only to the extent that the entity has sufficient taxable temporary differences, or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity.

Comparison of Ind AS with IFRS

No significant differences

Property Plant and Equipment

Comparison of Ind AS 16 with AS 10

S. No.	Bases of comparison	Ind AS 16	AS 10
(i)	Property, plant and equipment retired from active use and held for sale	Ind AS 16 does not deal with the assets held for sale because the treatment of such assets is covered under Ind AS 105 "Non-current assets held for sale and Discontinued operations".	AS 10 deals with the accounting for items of fixed assets retired from active use and held for sale.
(ii)	Stripping costs in the production phase of a surface mine	Ind AS 16 provides guidance on measuring the stripping cost in the production phase of a surface mine.	AS 10 does not contain this guidance.

Comparison of Ind AS 16 with IAS 16

There is no major difference between the two.

Leases

Comparison of Ind AS 116 with AS 19

Bases of comparison	Ind AS 116	AS 19
(i) Coverage	Ind AS 116 deals with specific provisions related to leases of land and building.	AS 19 does not deal with all types of leases.
(ii) Residual value	Ind AS 116 does not define residual value	AS 19 defines residual value.
(iii) Inception of lease and commencement of lease	Ind AS 116 defines and distinguishes between inception of lease and commencement of lease.	AS 19 neither defines nor distinguishes between the two.
(iv) Recognition of finance lease	As per Ind AS 116, lessee should recognize finance lease as assets and liabilities at the commencement of lease.	As per AS 19, the lessee should recognize the finance lease at the inception of lease.
(v) Upward revision of unguaranteed residual value	Ind AS 116 permits the upward revision of unguaranteed residual value during the lease term.	AS 19 prohibits such upward revision.
(vi)Initial direct costs	Ind AS 116 provides that the initial direct costs incurred by the lessor in case of an operating lease should be included in the carrying amount of the leased asset and amortized as an expense over the lease term.	AS 19 provides that such costs should be charged off by the lessor or amortized over the lease term.
(vii) Sale and leaseback transactions n case of fi lease	Ind AS 116 also requires that the excess of sale proceeds over the carrying amount of the asset should be deferred and amortized but it does not specify the method of amortization.	AS 19 provides that the excess of sale proceeds over the carrying amount of the asset should be deferred and amortized over the lease term in proportion to depreciation of the leased asset.
(viii) Single lease accounting model for lessee	Ind AS 116 now has a single lease accounting model for the leassee by eliminating the difference between operating lease and finance lease i.e. the lessee has to reocgnise the lease liability with a corresponding 'right of use' asset.	As 19 prescribes for the lessee lease accounting depending on the type of lease i.e. operating lease and finance lease.

Comparison of Ind AS 116 with IFRS 16

Bases of comparison	IFRS 16	Ind AS 116
(i) Presentation in Balance sheet	'Right of use' assets may be presented either separately or within the same line item within which the corresponding owned asset would be presented. Similar option is available for presentation to lease liability.	'Right of use' assets and lease liabilities may be presented either on the balance sheet or separately in the notes from other assets and other liabilities.
(ii) Presentation in income statement	The Income Statement recognition shall comprise of the amortization of the right of use asset and interest expense related to the lease liability.	Similar to IFRS.

(iii) Presentation in the Statement of Cash Flows	Repayment of interest expense may be presented either as an operating activity or as a financing activity.	Repayment of interest expense will be presented only as a financing activity.
(iv) Exemption	Recognition and measurement exemption are available for low value leases.	Similar to IFRS.
(v) Variable lease payments	Reassessment of lease liability is required if the change in the lease payment occurs as a result of change in the index or rate.	Similar to IFRS.

Comparison between Ind AS 115 and AS 7 and AS 9

Bases of comparison	Ind AS 115	AS 7 and AS 9
(i) Framework of revenue recognition	Ind AS 115 gives a framework of revenue recognition within the standard. It specifies the core principle for revenue recognition which requires the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	AS 7 and AS 9 do not provide any such principle to fall upon in case of doubt.
(ii) Comprehensive guidance on recognition and measurement of multiple elements of contracts with a customer	Ind AS 115 provides comprehensive guidance on how to recognize and measure multiple elements of contracts with a customer.	AS 7 and AS 9 do not provide any such guidance on this aspect.
(iii) Coverage	Ind AS deals with all types of performance obligation contracts with customers. However, it does not deal with interest and dividend dealt with in the standard on financial instruments.	AS 7 deals only with the revenue from construction contracts which measures the revenue at the consideration received/ receivable. AS 9 deals with only the revenue from sale of goods, rendering of services and income form royalty, dividend and interests.
(iv) Measurement of revenue	Ind AS 115 measures the revenue at the transaction price i.e. the consideration to which the entity expects to be entitled in exchange for the transfer of the promised goods or services, excluding the amounts collected on behalf of third parties.	AS 9 provides for the measurement of revenue at the amount of charges made to the customers or clients for the goods transferred or services supplied or the rewards arising from the use of resources by others. AS 7 measures the revenue at the consideration received or receivable.

(v) Recognition of revenue	Ind AS 115 provides that the revenue is recognized when the control is transferred to the customer.	AS 9 provides that revenue is recognized upon the transfer of significant riskas and rewards of ownership to the clients. AS 7 provides that the revenue is recognized when the outcome fo a construction contract can eb reliably estimated.
(vi) Capitalization of costs	Ind AS 115 provides guidance on the recognition of costs to obtain and fulfil a contract as an asset.	AS 7 and 9 do not deal with capitalization of such costs.
(vii) Guidance on service concession arrangements	Ind AS 115 gives guidance on service concession arrangements and disclosures thereof.	ASs do not provide such guidance
(viii) Disclosure requirements	Ind AS 115 contains more disclosure requirements as compared to AS 7 and 9.	AS 7 and AS9 contain very less disclosure requirements as compared to Ind AS 115.

Comparison of Ind AS 115 with IFRS 15

IFRs 15 provides that all types of penalties which may be levied in the performance of a contract should be considered in the nature of variable consideration for recognizing revenue. Ind AS 115 provides that the penalties shall be dealt with as per the substance of the contract. Where the penalty is inherent in the determination of transaction price, it should form part of variable consideration, otherwise the same shall not be considered for determining the consideration and the consideration shall be treated as fixed.

Employee Benefits

Comparison of Ind AS with existing Indian GAAP

- While Ind AS 19 covers employee benefits arising from constructive obligations, existing AS 15 is silent on the same. Further under Ind AS 19 the term employee includes directors as against existing AS 15 where the term employee includes whole time directors.
- Ind AS 19 in its scope, covers situations of contractual agreement between a multi-employer plant and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). Existing AS 15 is silent on the same.
- Existing AS 15 defines the limit for asset ceiling as present value of economic benefits available in the form of refunds from the plant or reductions in future contributions to the plan. Ind AS 19 defines the same as the total of (i) any cumulative unrecognized past service cost and (ii) the present value of economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan.

Comparison of Ind AS with IFRS

- While Ind AS 19 recognize actuarial gains and losses in other comprehensive income, both for post-employment defined benefit plans and other long-term employment benefit plants. IAS 19 permits various options for treatment of actuarial gains and losses for post-employment defined benefit plants.
- IAS 19 does not contain any guidance on detailed actuarial valuation of defined benefit obligations.
- For discounting post-employment benefit obligation, Ind AS 19 specifies use of reference rates as market yields on government bonds. IAS 19 on the other hand, requires use of yields on government bonds only when reference rates for high quality corporate bonds are not available.

Accounting for Government Grants and Disclosure of Government Assistance

Comparison of Ind AS with existing Indian GAAP

- Existing AS 12 requires government grants of the nature of promoters contribution to be credited directly to capital reserve and treated as a part of shareholders funds. Ind AS 20 does not recognize government grants of such nature and accordingly recognize as income over the periods.
- Ind AS 20 value non-monetary grants at their fair value as against AS 12 which records it at nominal value.
- While under existing AS 12, grants related to assets (including non-monetary grants) can be presented as deferred income or by deducting the grant from the gross value of asset concerned in arriving at its book value, Ind AS 20 requires such grants to be presented as deferred income only.

Comparison of Ind AS with IFRS

- Ind AS 20 measures non-monetary grants at their fair value, whereas IAS 20 gives an option to measure the same either at their fair value or at nominal value.
- While Ind AS 20 requires grants related to assets (including non-monetary grants) to be presented as deferred income only, IAS 20 gives an option to present the same as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

THE EFFECTS OF CHANGE IN FOREIGN EXCHANGE RATES

Comparison of Ind AS with existing Indian GAAP

- Existing AS 11 covers in its scope, forward exchange contracts and other similar financial instruments. Ind AS 21 excludes the same (as it gets treated in accordance with Ind AS 39 Financial Instruments: Recognition and Measurement).
- As against existing AS 11 which is based on reporting currency approach. Ind AS 21 is based on functional currency approach.
- While Ind AS 21 allows for presentation currency to be different from local currency, existing AS 11 does not allow it.
- Ind AS 21 allows recognizing of exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity and transferring the same to profit or loss over the term of such items in an appropriate manner. Existing AS 11 permits such an option for items not related to acquisition of fixed assets up to 31st March 2011, where such items are related to acquisition of fixed assets, the foreign exchange differences can be recognized as part of the cost of the asset.

Comparison of Ind AS with IFRS

Ind AS 21 allows recognizing of exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity and transferring of the same to profit or loss over the term of such items in an appropriate manner. IAS 21 does not allow for such a treatment.

Borrowing Costs

Comparison of Ind AS with existing Indian GAAP

- As against AS 16. Ind AS 23 given an option to an entity to exclude from this standards, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset measured at fair value. Further it also excludes application of this standard to borrowing costs directly attributable to the acquisition, construction or production of inventories that are manufactured, otherwise produced, in large quantities on a repetitive basis.

Comparison of Ind AS with IFRS

No Significant Differences

Related Party Disclosures

Comparison of Ind AS with existing Indian GAAP

Under Ind AS 24, the scope and definition of relatives (or close members of the family) government enterprises, key management personnel (KMP) and joint ventures have been expanded. Further Ind AS 24 requires additional disclosures in case of government related enterprises and compensation of KMP under different categories.

Comparison of Ind AS with IFRS

While Ind AS 24 does not require disclosures which conflict with confidentiality requirements of statute/ regulations, IAS 24 do requires some minimum disclosures of such nature.

Consolidated and Separate Financial Statements

Comparison of Ind AS with existing Indian GAAP

- Under Ind AS 27 preparation of consolidated financial statements is mandatory for a parent as compared to existing AS 21 which does not mandate the same.
- Under existing AS 21 there is no guidance regarding accounting for investments in subsidiaries, jointly controlled entities and associates in preparing the separate financial statements Ind AS 27 contains guidance regarding the same.
- Unlike AS 21 which provides for exclusion of subsidiary from consolidation under circumstances where control is intended to be temporary or when subsidiary operates under serve long term restrictions. Ind AS 27 does not provide any such exemption from consolidation.
- AS 21 does not take into account potential equity shares of the investee held by investor for considering share ownership. Ind AS 27 takes into account existence and effect of potential voting rights that are currently exercisable or convertible while assessing the control of entity over the subsidiary.

Comparison of Ind AS with IFRS

No Significant Differences

Investment in Associates

Comparison of Ind AS with existing Indian GAAP

- Existing AS 23 includes in its scope, investments in associates held by venture capital organizations, mutual funds, unit trusts and similar entities including investment linked insurance funds Ind AS 28 excludes them from its scope as the same is included in Ind AS 39 (Financial Instruments : Recognition and Measurement)
- Existing AS 23 does not consider potential equity shares of the investee held by investor for determining significant influence. Ind AS 28 considers existence and effect of potential voting rights that are currently exercisable or convertible for assessing significant influence.
- While existing AS 23 requires application of the equity method only in case of subsidiary consolidation, Ind AS 28 requires application of equity method in financial statement, even if the entity does not have subsidiaries.
- While existing AS 23 specifies no maximum difference between the reporting date of the associate and that of the parent, as per Ind AS 28, length of difference in the reporting dates of the investor and the parent should not be more than three months unless it is impractical.
- While both existing AS 23 and Ind AS 28 require uniform accounting policies for the preparation of investor's financial statements for alike transactions and events in similar circumstances, existing AS 23 provides exemption to the same, if it is not possible to make adjustments to the accounting policies of the associates. However, the fact needs to be disclosed along with a brief description of the differences between the accounting policies

Comparison of Ind AS with IFRS (International Accounting Standards)

Where the financial statements of an associate used in applying equity method are prepared as date from that of the investor, IAS 28 requires that this gap of the time on a different should not be more than three months. However, paragraph 25, Ind AS 28 also provides that this difference should not be more than three months, unless it is impractical. Similarly, paragraph 26 of Ind AS 28 requires use of uniform accounting policies, unless impractical which IAS 28 does not provide

Financial Instruments Presentation

Comparison of Ind AS with existing Indian GAAP

- Exiting AS 31 exempts contracts for contingent consideration in a business combination in case of acquirers. Ind AS 32 does not exempt the same.
- Ind AS 32 specifies that a financial asset and a financial liability shall be off set when an entity has a legally enforceable right to set off the recognized amounts and intends to either settle on a net basis, or realize the asset and settle the liability simultaneously. Existing AS 31 does not specify the same.
- Ind AS 32 defines and deals with puttable instruments. Existing AS 31 does not do so.
- Ind AS 32 requires that in some circumstances because of the differences between interest and dividends with respect to matters such as tax deductibility it is desirable to disclose them separately in the statement of profit and loss. Existing AS 31 does not specify the same.
- Ind AS 12 specifically requires that the related amount of income tax recognized directly in equity is included in the aggregate amount of current and deferred income tax credited or charged to equity that is disclosed under Ind AS 12 (Income Taxes). Existing AS 31 does not specify the same.
- As an exception to the definition of financial liability, Ind AS 32 considers the equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instrument as an equity instrument if the exercise price is fixed in any currency.

Comparison of Ind AS with IFRS

As an exception to the definition of financial liability in paragraph 11(b), (ii) Ind AS 32 considers the equity conversation option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments as an equity instrument, if the exercise price is fixed in any currency. This exception is not provided in IAS 32.

Earnings Per Share

Comparison of Ind AS with existing Indian GAAP

- Ind AS 33 specifically deals with options held by the entity on its share. Existing AS 20 does not deal with the same.
- In AS 33 requires presentation of basic and diluted EPS from continuing and discontinued operations separately. Existing AS 20 does not require the same.
- Existing AS 20 requires the presentation of EPS with and without extraordinary items. Ind AS 33 does not require the same as Ind AS 1 (Presentation of Financial Statements) prohibits the disclosure of items as extraordinary.

Comparison of Ind AS with IFRS

Ins AS 33 requires EPS related information to be disclosed both in consolidated financial statement and as a separate financial statement; IAS 33 requires EPS related information to be presented only in consolidated financial statements.

Interim Financial Reporting

Comparison of Ind AS with existing INDIAN GAAP

- Under existing AS 25 if an entity is required or elects to prepare and present an interim financial report, it should comply with that Standard. Ind AS 34 requires such compliance only if the interim financial report is required to be prepared and presented in accordance with accounting standards.

- Existing AS 25 requires at a minimum condensed balance sheet, a condensed statement of profit and loss, a condensed cash flow statement and selected explanatory notes in the contents of an interim financial report, Ind AS 34, in addition, requires a condensed statement of changes in equity for the period in addition to above requirements.
- While existing AS 25 requires preparation of both consolidated and separate financial statements, complete or condensed, Ind AS 34 neither requires nor prohibits the inclusion of the parents' separate statements in the entity's interim report prepared on a consolidate basis.
- Ind AS 34 specifies that information, if significant, on both contingent liabilities and contingent assets is required to be furnished. Existing AS 25 requires furnishing of information on contingent liabilities only.

Comparison of Ind AS with IFRS

- For preparation of statement of profit and loss. IAS 34 (Interim Financial Reporting) provides option either to follow single statement approach, two statement approach. Ind AS 34 allows for only single statement approach (on the line of Ind AS 1 Presentation of Financial Statements).
- While Ind AS 34 requires statement of changes in equity to be shown as a part of the balance sheet,
- IAS 34 requires preparation of a statement of changes in equity as a separate statement.

Impairment of Assets

Comparison of Ind AS with existing Indian GAAP

- Existing AS 28 does not require goodwill to be tested for impairment annually unless there is an indication of impairment. Ind AS 36 requires goodwill and other intangible assets to be tested for impairment at last annually.
- Existing AS 28 allows for reversal of impairment losses on account of goodwill in a subsequent period if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and subsequent external events that would occur and reverse the effect of that event. Ind AS 36 prohibits reversal of impairment losses in a subsequent period.
- Existing AS 28 specifies bottom up or top-down approach for allocation of goodwill under which goodwill is tested for impairment by allocating its carrying amount to each CGU (cash generating unit) or the smallest CGU on a reasonable and consistent basis. Under Ind AS 36 there is no bottom-up or top- down approach for allocation of good will. Rather goodwill is allocated to CGUs that are expected to benefit from the synergies of the business combination from which it arose.

Comparison of Ind AS with IFRS

No Significant Differences

Provisions, Contingent Liabilities and Contingent Assets

Comparison of Ind AS with existing Indian GAAP

- Under existing AS 29 provisions are not recognized on constructive obligations. However, provisions may be created on account of obligations arising out of normal business practices, custom and a desire to maintain good business relations or to act in an equitable manner. Ind AS 37 two requires creation of provisions in respect of constructive obligations.
- Ind AS 37 requires discounting of the amount of provisions in cash effect of the time value of money is material. The same is prohibited under AS 29.
- AS 29 does not require disclosure of contingent assets in the financial statements. Ind AS 37 requires disclosure of same, when the inflow of economic benefits is probable.

Comparison of Ind AS with IFRS

No Significant Differences

Intangible Assets

Comparison of Ind AS with existing Indian GAAP

- Existing standard AS 26 allows for only the cost model as a part of accounting policy. Ind AS 38 permits revaluation model in addition to cost model.
- Under existing standard AS 26, useful life of an intangible asset is not always indefinite. It includes a rebuttable presumption that the useful life will not exceed ten years from the date the asset is available for use. Ind AS 38 recognizes that useful life may be finite or indefinite subject towards fulfillment of certain conditions.
- Under the existing standard AS 26, if an intangible asset is acquired in exchange of a non-monetary asset, its cost should be recognized with reference to the fair market value of the consideration given. Ind AS 38 requires such intangible asset to be recognized at the fair value of the asset given up unless (a) the exchange transaction lacks commercial substance, or (b) the fair value of neither the asset received nor the asset given is reliably measurable.
- Ind AS 38 requires that in case of deferment of payment beyond normal credit terms in case of an intangible asset. The difference between this amount and the total payments is to be recognized as interest expense over the period of credit unless it is capitalized as per Ind AS 23. Existing AS 26 is silent on this aspect.

Comparison of Ind AS with IFRS

With regards to the acquisition of an intangible asset by way of a government grant, Ind AS 38 allows only the fair value for recognizing the intangible asset and grant in accordance with Ind AS 20. IAS 38 provides the option to an entity to recognize both asset and grant initially at a fair value, or at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use.

Business Combinations

Comparison of Ind AS with existing Indian GAAP

- Ind AS 103 is much wider in scope as it deals with business combinations compared to the existing AS 14 which defines only amalgamations.
- Existing AS 14 allows pooling of interest method as well as purchase method for amalgamation
- whereas Ind AS 103 allows for only acquisition method for each business combination.
- Existing AS 14 requires that acquired assets and liabilities are recognized at their existing book value or at the fair value under the purchase method. On the other hand Ind AS 103 requires the acquired identifi assets liabilities and non-controlling interest to be recognized at a fair value under acquisition method.
- Existing as 14 defines that the minority interest is the amount of equity attributable to minorities at the date on which investment in a subsidiary is made, and it is shown outside as shareholders equity. Ind AS 103 requires that for each business combination, the acquirer shall measure any non-controlling interest in the acquired at either a) a fair value, or b) the present ownership instruments' proportionate share in the recognized amount of the acquiree's identifiable net assets.
- Existing AS 14 requires amortization of goodwill arising on amalgamation in the nature of purchase. Whereas Ind AS 103 requires goodwill to be tested impairment on an annual basis in accordance with Ind AS 36.
- Ind AS 103 specifically provides guidance on accounting for reverse acquisitions. Existing AS 14 is silent on the same.
- Ind AS 103 requires bargain purchase gain arising on business combination to be recognized as other comprehensive income on the acquisition date and accumulation of the same in equity as capital reserve. Existing AS 14 treats the excess amount as capital reserve.

Comparison of Ind AS with IFRS

- Ind AS 103 deals with business combinations of entities under common control. IFRS 103 excludes the same from its scope.

- IFRS 3 requires bargain purchase gain arising on business combination to be recognized as profit or loss. Ind AS 103 requires the same to be recognized as part of the other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which, it shall be recognized directly in equity as capital reserve.

Non-Current Assets Held for Sale and Discontinued Operations

Comparison of Ind AS with existing Indian GAAP

- Ind AS 105 specifically deals with accounting for non-current assets held for sale. Under existing AS 24, same is not dealt with. Rather it falls under the ambit of existing AS 10 (Accounting for Fixed Assets)
- Under Ind AS 105 non-current assets held for sale are measured lower than the carrying amount, and fair value minus costs to sell. Existing AS 24 follows the principles set out in existing AS 10 which requires fixed assets retired from active uses and held for sale to be stated at the lower of their net book value and net realizable value.
- If under AS 24, classification of discontinuing operation happens at the occurrence of one of the following (a) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation ; or (b) the enterprise's Board of Directors or similar governing body has both (i) approved a detailed, formal plan for the discontinuance, and (ii) made an announcement of the plan. Under Ind AS 105, an operation is classified as discontinued when either it has been disposed of, or is classified as held for sale.

Comparison of Ind AS with IFRS

No Significant Differences

Financial Instruments: Disclosures

Comparison of Ind AS with existing Indian GAAP

- Existing AS 32 does not deal with contracts for contingent consideration in a business combination in case of acquirers Ind AS 107 deals with the same.
- Ind AS 107 requires specific disclosures in case of reclassification of a financial asset out of fair value through profit or loss category or out of available-for-sale category in accordance with Ind AS 39 AS 32 does not require the same.

Comparison of Ind AS with IFRS

No Significant Differences

Operating Segments

Comparison of Ind AS with existing Indian GAAP

- Existing AS 17 requires an enterprise to identify segments based on business products and geographical areas with internal financial reporting system serving only as the starting point for identifying those items that can be directly attributed, or reasonably allocated, to segments. Ind AS 108, on the contrary identifies segments based on internal reports regularly reviewed by the entity's chief operating decision maker so as to make decisions about resources to be allocated to the segment and assess its performance.
- Under existing AS 17 segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements. Ind AS 108 requires measurement basis for cash segment reported to be that used by the chief operating decision-maker for the purposes of making decisions about allocating resources to the segment and assessing its performance.
- Ind AS 108 specifically requires aggregation criteria for aggregation of two or more segments. AS 17 does not deal with the same.
- Existing AS 17 requires disclosures based on the classification of the segments as primary or secondary segments. Ind AS 108 requires disclosures of revenues from external customers

for each product and service, or each group of similar products and services. With respect to geographical areas, disclosure is required for revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenue.

Comparison of Ind AS with IFRS

No Significant Differences

LESSON ROUND-UP

- The objective of general purpose financial reporting is to provide financial information that is useful for existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.
- Two important characteristics of financial information relates to relevance and reliability
- Convergence of varied accounting standards with international financial reporting standards (IFRS) has gained worldwide momentum in recent years to ensure uniformity and transparency in reporting standards.
- India has committed to convergence of its Indian Accounting Standards (Ind AS) with IFRS in a phased manner beginning April 1, 2016.
- Ind As are basically Standards that have been harmonized with IFRS to make reporting by Indian companies more globally accessible.

TEST YOURSELF

1. Put a cross (X) on only one of the four alternative choices given :

 1. Under Ind AS 1, presentation of any items of income or expense as extraordinary is –
    a) Separately disclosed
    b) Shown as a part of statement of profit and loss
    c) Prohibited
    d) None of the above
 2. Ind AS 115 requires revenue to be measured at–
    a) Net realizable value
    b) Fair value of consideration received/receivable
    c) Consideration received/receivable
    d) None of the above
 3. Ind AS 20 requires government grants of the nature of promoters contribution to be –
    a) Credited directly to capital reserve and treated as a part of shareholders funds
    b) Recognize as income over the periods
    c) Do not recognize any such grants
    d) None of the above
 4. Ind AS 34 requires the following in the contents of an interim financial report in addition to what was required under previous standard AS 25 condensed balance sheet, a condensed statement of profit and loss, a condensed cash flow statement –

a) A condensed balance sheet

b) A condensed statement of profit and loss

c) A condensed cash flow statement

d) A condensed statement of changes in equity

Answers : MCQ1 (C) : MCQ2 (B) : MCQ3 (C) : MCQ4 (D)

2. Discuss the importance of relevance and reliability characteristics of financial information and the need for uniformity and transparency in reporting standards.

3. Discuss the roadmap for implementation of Indian Accounting Standards (Ind AS) to achieve convergence with IFRS (International Financial Reporting Standards).