

# *Decoding the differences*

## Comparison of near final Ind AS with IFRS

*A summary of the significant differences between near final Indian Accounting Standards and IFRS - impact and implications of changes for your business.*

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# Introduction

## **India's Convergence with IFRS – Recent developments**

### **Near final Indian Accounting Standards (Ind AS)**

On January 14, 2011, the Institute of Chartered Accountants of India ('ICAI') published the near final Indian Accounting Standards ('Ind AS') that were approved by the Council of the ICAI and sent to the National Advisory Committee on Accounting Standards ('NACAS'). This brings financial reporting in India a step closer to the goal of converging with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). The NACAS and the Ministry of Corporate Affairs ('MCA') are considering this version of the new standards, which therefore may be subject to further changes. Once the MCA notifies these standards as final, they shall be applied in a phased manner according to the IFRS roadmap issued by the MCA, with the first phase commencing from April 1, 2011.

Corresponding changes to corporate law are also anticipated soon. These near final standards are listed in Appendix A and available at

[http://www.icai.org/new\\_post.html?post\\_id=6856&c\\_id=219](http://www.icai.org/new_post.html?post_id=6856&c_id=219)

### **Exposure Draft on the revised Framework for the Preparation and Presentation of Financial Statements**

On January 18, 2011, the Accounting Standards Board ('ASB') of the ICAI issued the Exposure Draft on the Framework for the Preparation and Presentation of Financial Statements under Ind AS (similar to IFRS Framework), which was open for comments till January 28, 2011. The exposure draft is available at <http://220.227.161.86/21510ed180111a.pdf>.

## **Why this publication?**

If you are already using IFRS, or started the conversion process using IFRS as issued by the IASB, then this publication will be useful in helping to identify the key areas where differences exist between near final Ind AS and IFRS. It is important to understand that compliance with Ind AS is unlikely to result in compliance with IFRS thereby companies may not necessarily achieve dual compliance given the number and nature of differences. Accordingly, Indian entities that file their Ind AS financial statements with regulatory authorities may need to make suitable adjustments to comply with IFRS so as to make an unreserved statement of compliance with IFRS as issued by the IASB. Nevertheless, if a company's goal is to minimise differences from IFRS, and is therefore willing to forego some of the relaxations conferred by Ind AS relative to IFRS, the careful selection of policies and options may enable companies outside the real estate sector to eliminate many differences.

This publication summarises the significant differences between the near final Ind AS and IFRS as at the date of publication, and provides an indication of which GAAP differences are avoidable if the preparer so wishes. However, IFRS is a moving target with a number of ongoing projects (listed in Appendix B), which once finalised could bring further changes in Ind AS or, alternatively, widen the gap between the two sets of standards. Companies are encouraged to keep track of changes in IFRS and assess their implications on their financial statements.

PricewaterhouseCoopers is committed to take every possible step to assist you with your conversion to Ind AS or IFRS, including keeping you updated regarding the latest developments in Ind AS or IFRS. To learn about current developments and how we can help you in Ind AS or IFRS conversion, visit our website at

<http://www.pwc.com/in/en/services/IFRS/IFRS-intro.jhtml>  
or speak to your local PwC contact.

# Near final Ind AS vis-a-vis IFRS

## – An overview

There are differences between IFRS and near final Ind AS. Currently, IFRS consists of 38 standards and 26 interpretations. The ICAI has issued only 35 near final Ind AS (along with 24 interpretations) as listed in Appendix A. A high level categorisation of differences is as follows:

### A. Unavoidable differences between Ind AS and IFRS

Ind AS Reference	Ind AS Title	Difference	Difference Reference
Ind AS 103	Business Combinations	Additional guidance on common control transactions	<b>103.1</b>
		Accounting for the gain on a bargain purchase	<b>103.2</b>
Ind AS 11	Construction Contracts	IFRIC 15 'Agreement for the construction of real estate' scoped out of IAS 18 Revenue	<b>11.1</b>
Ind AS 18	Revenue		
Ind AS 19	Employee Benefits	Elimination of the requirement to use a high quality corporate bond rate to discount employee benefit obligations	<b>19.2</b>
		Recognition of actuarial gains and losses – other long term employee benefits	<b>19.1.2</b>
Ind AS 32	Financial Instruments: Presentation	Exception to the definition of a financial liability	<b>32.1</b>

### B. Avoidable differences between Ind AS and IFRS

Ind AS Reference	Ind AS Title	Difference	Difference Reference
Ind AS 101	First-time Adoption of Indian Accounting Standards	Transition date and comparative requirements	<b>101.2</b>
		Reconciliation requirements to explain transition from previous GAAP	<b>101.3</b>
		Transitional relief from retrospective application of Ind AS 16 PP&E, Ind AS 40 Investment properties and Ind AS 38 intangible assets	<b>101.4</b>
		Transitional relief from retrospective application of effective interest method or impairment requirements for financial instruments carried at amortised cost	
Ind AS 21	The Effects of Changes in Foreign Exchange Rates	Exemption regarding translation of long-term monetary assets and liabilities denominated in a foreign currency	<b>21.1</b>
		Option to recognise exchange differences arising on translation of long term monetary items in equity	
Ind AS 24	Related Party Disclosures	Overriding nature of statute for related party disclosures	<b>24.1</b>
Ind AS 28	Investments in Associates	Different accounting periods and policies of associates	<b>28.1</b>
Ind AS 39	Financial Instruments: Recognition and Measurement	Change in the fair value of a financial liability due to the entity's own credit risk	<b>39.1</b>



### C. Textual differences that will not prevent convergence

Ind AS Reference	Ind AS Title	Difference	Difference Reference
Ind AS 101	First-time Adoption of Indian Accounting Standards	Relief to existing filers of IFRS financial statements	<b>101.1</b>
		Definition of previous GAAP	<b>101.5</b>
Ind AS 1	Presentation of Financial Statements	Single statement of Profit and loss	<b>1.1</b>
		Classification of expense recognised in profit or loss	<b>1.3</b>
Ind AS 7	Statement of Cash Flows	Classification of interest and dividend in Cash flow statement	<b>7.1</b>
Ind AS 19	Employee Benefits	Recognition of actuarial gains and losses – post employment defined benefit plan	<b>19.1.1</b>
Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance	Elimination of option to measure non-monetary government grants at nominal value	<b>20.1</b>
		Elimination of option to present grants as deduction in arriving at the carrying amount of asset	<b>20.2</b>
Ind AS 24	Related Party Disclosures	Change in definition of close family members	<b>24.2</b>
		Additional guidance for aggregation of transactions	<b>24.3</b>
Ind AS 33	Earnings per Share	Compulsory disclosure of EPS in standalone financial statements	<b>33.1</b>
		Adjustments to the EPS calculation	<b>33.2</b>
Ind AS 40	Investment Property	Elimination of option to recognise investment properties at fair value	<b>40.1</b>

### IFRS pronouncements not issued or early adopted under near final Ind AS

IFRS Reference	IFRS Title	Possible considerations
IFRS 9	Financial Instruments	IFRS 9 is, itself, evolving and certain components (such as hedge accounting and impairment) are still being developed
IAS 26	Accounting and Reporting by Retirement Benefit Plans	Not relevant for companies
IAS 41	Agriculture	Major concern over the use of fair value in agriculture sector in India.
IFRIC 2	Member's share in Cooperative Entities and similar instruments	Not relevant for companies
IFRIC 15	Agreement for construction of real estate	Concern over relevance of results reported by real estate companies if sales are recognized on a 'completion' basis



# Near final Ind AS and IFRS – A comparison

## Ind AS 101 First-time Adoption of Indian Accounting Standards

Difference 101.1	GAAP difference?	Avoidable?
<i>Relief to existing filers of IFRS financial statements</i>	No*	--

For the purpose of Ind AS 101, entities that have already filed financial statements prepared in accordance with IFRS (as issued by the IASB) with regulatory authorities can adopt the balance sheet so filed as at the date of transition as the opening Ind AS balance sheet after aligning it to the requirements of Ind AS and certain disclosures.

### *PwC observation*

This exemption provides relief for Indian companies who are already preparing and filing with regulatory authorities their financial statements in accordance with IFRS as adopted by the IASB. However, these companies typically would have been preparing and filing their consolidated financial statements using IFRS.

It is therefore unclear whether this exemption will be applicable to those companies' standalone financial statements, where these have not previously been filed with regulators. Ind AS 101 does not define the term 'regulatory authorities', and hence it remains unclear whether the filing of IFRS financial statements with a stock exchange meets the criteria.

*\*While this amendment does not create a GAAP difference, it will not prevent other changes being necessary to the IFRS financial statements where options elected are not possible under Ind AS. This may lead to a divergence in circumstances where IFRS would not allow a voluntary change in accounting policy.*



Difference 101.2	GAAP difference?	Avoidable?
<i>Transition date and comparative requirements</i>	Yes	Yes*

IFRS 1 defines the transition date as the beginning of the earliest period for which an entity presents full comparative information under IFRS. Ind AS 101 provides that the date of transition is the beginning of the current period (1st April 2011 for all Phase 1 companies with a March year end). In addition, it provides an option to present comparative financial statements in accordance with Ind AS only on a memorandum basis, in which case the beginning of comparative period would be considered to be the deemed date of transition only for memorandum period. Under both scenarios, companies are required to present their prior year (i.e. FY 2010-2011) financial information that was prepared using the existing Indian GAAP. This comparative information must be reclassified to follow the disclosure form and content of Ind AS.

#### *PwC observation*

If the company decides to present comparative information in accordance with Ind AS, it would have two transition dates (one for the comparative period and another for the reporting period) and an additional obligation to present reclassified Indian GAAP numbers. The fact that the transitional date is a year later under Ind AS – even for those companies that provide Ind AS comparatives – may create unavoidable differences in the year of transition compared with a first-time adopter of IFRS as issued by IASB. However, if an entity chooses to comply with IFRS from the subsequent year (i.e. 31st March 2013), it would also have a transition date of 1st April 2011 and differences may be avoided prospectively. Such presentation challenges may discourage companies from providing comparative information under Ind AS. For example, there could be three different balance sheets under Ind AS, i.e. as at 31st March 2011 (existing Indian GAAP), 31st March 2011 (Ind AS comparative period), and 1st April 2011 (opening balance sheet for first Ind AS statutory financials). The required reconciliations between the two different transition dates may also pose a challenge to those companies that elect to present Ind AS comparatives.

*\*But only from the second year of compliance with Ind AS*

Difference 101.3	GAAP difference?	Avoidable?
<i>Reconciliation requirements to explain transition from previous GAAP (Refer 101.5 for definition of previous GAAP )</i>	Yes	Yes

IFRS 1 requires reconciliations for opening equity, total comprehensive income, the cash flow statement (if any) and closing equity for the comparative period to explain transition from previous GAAP. Ind AS 101 provides an option to provide comparative period financial statements on a memorandum basis and consequently reconciliation that are similar to IFRS. Entities that do not provide comparatives need not provide a reconciliation for total comprehensive income, the cash flow statement or closing equity in the first year of transition, but are expected to disclose significant differences pertaining to total comprehensive income (if did not report such a total, Profit or loss).

#### *PwC observation*

Ind AS has significantly fewer disclosure requirements than IFRS, for companies that do not provide comparatives. This is expected to further discourage companies from providing Ind AS comparative information.

Difference 101.4	GAAP difference?	Avoidable?
<i>Inclusion/modification of existing exemptions to make them relevant for India</i>	Yes	Yes

- *Transitional relief from retrospective application of Ind AS 16 Property, Plant and Equipment, Ind AS 40 Investment properties and Ind AS 38 intangible assets*  
Ind AS 101 provides an option to use previous GAAP carrying values at the date of transition to Ind AS for all its property, plant and equipment as recognised in the financial statements as at 31 March 2007 (or the relevant immediately preceding year end for companies having a different financial year). The carrying amount for these assets on transition become their deemed cost after adjusting for decommissioning liabilities as per Para D21 and D21A of Ind AS 101. A similar option can also be applied for investment properties and intangible assets.
- *Transitional relief from retrospective application of effective interest method or impairment requirements for financial instruments carried at amortised cost*  
If it is impracticable to apply retrospectively the effective interest method or the impairment requirements of Ind AS 39 for financial instruments carried at amortised cost, Ind AS 101 requires that the fair value of the financial asset at the date of transition to Ind AS be used as the new amortised cost of that financial asset at the date of transition to Ind AS.
- *Exemption regarding retranslation of long-term monetary assets and liabilities denominated in a foreign currency*  
Ind AS 101 allows an entity to exercise the option in paragraph 29A of Ind AS 21 (to recognise unrealised gains and losses on any long-term monetary assets or liabilities in equity) either retrospectively or prospectively.

#### *PwC observation*

- *Deemed cost exemption*  
The deemed cost exemption based on the previous GAAP carrying amount only applies to property, plant and equipment, intangible assets or investment property that was held by the company at 31 March 2007 (or the relevant immediately preceding year end). The implication is therefore that assets acquired after this date will need to be measured in accordance with Ind AS, unless another deemed cost exemption applies, thereby leading to assets being measured under differing methodologies.
- *Transitional relief from retrospective application of effective interest method or impairment requirements for financial instruments carried at amortised cost.*  
These provisions do not include 'financial liability' which may not be the intention of the standard. Hopefully it will be clarified in the final standard.

If an entity elects to make use of any of the above exemptions, the resultant financial statements will not comply with IFRS.

Difference 101.5	GAAP difference?	Avoidable?
<i>Definition of previous GAAP</i>	No	--

IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS. Ind AS 101 requires companies to consider existing notified Indian accounting standards as previous GAAP when they transition to Ind AS with the exception available to existing filers of IFRS financial statements discussed earlier.

*(Also refer consequential amendment 1 and minor difference 1 & 2 in 'Other differences' section)*



# Ind AS 103 Business Combinations

Difference 103.1	GAAP difference?	Avoidable?
<i>Additional guidance on common control transactions</i>	Yes	No

IFRS 3 excludes from its scope business combinations of entities under common control. Ind AS 103 gives detailed guidance for common control transactions, and requires that business combinations involving entities or businesses under common control should be accounted for using the pooling of interests method. It also requires that financial information in respect of prior period should be restated as if the business combination has occurred at the beginning of the earliest period presented in the financial statements, irrespective of the actual date of combination.

## *PwC observation*

Since IFRS 3 excludes common control transactions, entities typically elect as their accounting policy either the application of the pooling of interests method (i.e. predecessor accounting), or the fair value method required for all other business combinations within the scope of IFRS 3. While using the predecessor accounting, no new goodwill arises beyond that recorded by the controlling party. The difference between the consideration given and aggregate book value of the assets and liabilities of the acquired entity are included in equity in retained earnings or in a separate reserve. However, Ind AS requires any excess of consideration paid over the book value of net assets to be recorded as goodwill, thereby creating divergence from IFRS.

Difference 103.2	GAAP difference?	Avoidable?
<i>Accounting for the gain on a bargain purchase</i>	Yes	No

IFRS 3 requires any gain arising from a bargain purchase (i.e. where the cost of acquiring a business is less than the fair value of the identifiable assets and liabilities acquired) to be recognised in profit or loss. Ind AS 103 requires this gain to be recognised in other comprehensive income and accumulated in equity as a capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case it should be recognised directly in equity as a capital reserve.

A similar requirement also applies to associates accounting for in accordance with Ind AS 28.





## Ind AS 1 Presentation of Financial Statements

Difference 1.1	GAAP difference?	Avoidable?
<i>Single statement of Profit and loss</i>	No	--

IAS 1, Presentation of Financial Statements, provides an option either to follow the single statement approach or to follow the two statement approach to the preparation of the Statement of Comprehensive Income. The single statement approach requires all items of income and expense to be recognised in the statement of comprehensive income, while the two statements approach requires two statements to be prepared, 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. Ind AS 1 allows only the single statement approach, and requires this to be titled the 'Statement of Profit and Loss'. Corresponding amendments have been made to other Ind AS.

### *PwC observation*

This change is in line with an IASB exposure draft on financial statement presentation issued in May 2010, which required the single statement approach. However, the IASB has since signalled its intention to move away from this position – at least in the short term. Since the single statement approach is an acceptable option under IFRS, it will not preclude convergence with IFRS. Revised Schedule VI to the Companies Act, based on Ind AS, is yet to be issued.

Difference 1.2	GAAP difference?	Avoidable?
<i>Statement of changes in equity to be shown as a part of the balance sheet</i>	Not known*	--

IAS 1 requires the preparation of a Statement of Changes in Equity as a separate statement. Ind AS 1 requires the statement of changes in equity to be shown as a part of the balance sheet.

*\*Revised Schedule VI to the Companies Act, which prescribes the format of financial statements, is yet to be issued.*

Difference 1.3	GAAP difference?	Avoidable?
<i>Classification of expense recognised in profit or loss</i>	No	--

IAS 1 requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity. Ind AS 1 requires expenses to be classified by nature.

*(Also refer consequential amendment 2 and minor differences 3 in 'Other differences' section)*



## Ind AS 7 Statement of Cash Flows

Difference 7.1	GAAP difference?	Avoidable?
<i>Classification of interest and dividend in cash flow statement</i>	No	--

IAS 7 gives an option to classify dividends paid as an item of operating activity. Further, in case of other than financial entities, IAS 7 gives an option to classify interest paid and interest and dividends received as operating or financing cash flows. However, Ind AS 7 does not provide such options and requires as follows:

### For Financial entities

Items	Classification in cash flow statement
Interest and dividends received	Operating Activities
Interest paid	Operating Activities
Dividends paid	Financing Activities

### For other entities

Items	Classification in cash flow statement
Interest and dividends received	Investing Activities
Interest paid	Financing Activities
Dividends paid	Financing Activities

## Ind AS 11 Construction contracts and Ind AS 18 Revenue

Difference 11.1	GAAP difference?	Avoidable?
<i>IFRIC 15 'Agreement for the construction of real estate' scoped out of IAS 18 Revenue</i>	Yes	No

IAS 18 Revenue applies to agreements for the construction of real estate, unless the buyer is able to specify the major structural elements of the design of real estate before construction begins, and /or specify major structural changes once construction is in progress. For many real estate developers, application of IAS 18 requires revenue (and profit) from sale to be recognised on completion of the construction and hand-over of control of the property to the buyer.

Ind AS, however, brings revenue transactions of real estate developers into the scope of Ind AS 11. Accordingly, revenue (and profit) is recognised, using a percentage of completion method, over the construction period.

### *PwC Observation*

Under existing Indian GAAP, companies recognise revenue from agreements for the construction of real estate based on a percentage of completion method. The amendments to IAS 11 and IAS 18 in arriving at the Ind AS equivalent standards allow real estate developers to continue to use their existing accounting policy. This is a significant departure from IFRS and will prevent financial statements issued by real estate developers under Ind AS from being comparable with their international counterparts.

In addition, the change to the scope of Ind AS11 could be construed as bringing all revenue transactions of real estate developers into the scope of Ind AS11, not merely those relating to development activities. If the final standard continues to use the present wording, and in the absence of a definition of a 'real estate developer', this could result in unintended consequences.

### *PwC alert*

The IASB has recently issued an exposure draft, Revenue, which proposes to replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Barter Transactions Involving Advertising Services. It proposes a new revenue recognition model that could fundamentally alter the way entities recognise revenue.

Refer to our 'Practical guide to IFRS - Revenue recognition full speed ahead' (available on our website [www.pwc.com/in/en/services/IFRS/Publication-IFRS](http://www.pwc.com/in/en/services/IFRS/Publication-IFRS)) for more details.

# Ind AS 19 Employee Benefits

Difference 19.1	GAAP difference?	Avoidable?
19.1.1 Recognition of actuarial gains and losses – post employment defined benefit plan	No	--

IAS 19 gives three options to recognise actuarial gains and losses for post-employment defined benefit plans namely:

1. recognise in other comprehensive income;
2. recognise immediately in the income statement; or
3. amortise to profit or loss using a 'corridor approach'.

Ind AS 19 does not incorporate the second and third options, thereby requiring actuarial gains and losses to be recognised in other comprehensive income (OCI). These actuarial gains and losses should be recognised immediately in retained earnings; there should be no subsequent recycling to profit or loss.

19.1.2 Recognition of actuarial gains and losses – other long term employee benefits	Yes	No
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As per IAS 19, actuarial gains and losses for other long term defined benefits are recognised in profit or loss, while as per Ind AS 19 these are to be recognised in OCI. These actuarial gains and losses should be recognised immediately in retained earnings; there should be no subsequent recycling to profit or loss.

Difference 19.2	GAAP difference?	Avoidable?
Elimination of the requirement to use a high quality corporate bond rate to discount employee benefit obligations	Yes	No

Ind AS 19 requires post employment benefit obligations to be discounted using the market yield on government bonds. This requirement is contrary to IAS 19, which requires government bond yields to be used only where there is no deep market for high quality corporate bonds.

## PwC observation

Ind AS has removed the use of a discount rate based on high quality corporate bonds on the basis that there is no deep market for such bonds in India. While this will not impact solely domestic companies, where IAS 19 would also require the yield on government bonds to be used, it will give rise to a difference for companies that have defined benefit schemes where payment will be made in a foreign currency (e.g. overseas subsidiaries of Indian companies), for which there is a deep market of high quality corporate bonds, such as in the UK or US.

Difference 19.3 (Not part of the Standard)	GAAP difference?	Avoidable?
Frequency of Actuarial valuation	No	--

The appendix to Ind-AS 19 (unlike IAS 19) states that detailed actuarial valuation of defined benefit obligations may be made at intervals not exceeding three years.

## PwC observation

The appendix to Ind AS 19 indicates that there may have originally been an intention to require the detailed actuarial valuation of defined benefit obligations at least every three years. However, no such amendment is in the standard. Hopefully this discrepancy will be eliminated in the final standard.



## Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance

Difference 20.1	GAAP difference?	Avoidable?
<i>Elimination of option to measure non-monetary government grants at nominal value</i>	No	--

IAS 20 gives an option to measure non-monetary government grants either at their fair value or at nominal value. Ind AS 20 requires measurement of such grants only at their fair value. Consequential amendments have been made to Ind AS 38 Intangible Assets.

Difference 20.2	GAAP difference?	Avoidable?
<i>Elimination of option to present grants as deduction in arriving at the carrying amount of asset</i>	No	--

IAS 20 gives an option to present the grants related to assets either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Ind AS 20 requires presentation of such grants in the balance sheet as deferred income.

## Ind AS 21 The Effects of Changes in Foreign Exchange Rates

Difference 21.1	GAAP difference?	Avoidable?
<i>Option to recognise exchange differences arising on translation of long term monetary items in equity</i>	Yes	Yes

Ind AS 21 provides companies with an option to recognise unrealised exchange differences arising on translation of long-term monetary assets denominated in a foreign currency directly in equity. If the option is applied, the accumulated exchange differences must be transferred to profit or loss 'in an appropriate manner'. Monetary assets and liabilities are considered to be long-term if it has a maturity period of twelve months or more from the date of the initial recognition. Once this option is exercised, it's irrevocable.

IAS 21 requires all gains and losses arising on retranslation of monetary assets and liabilities denominated in a foreign currency to be recognised in profit or loss (unless it is designated as a hedging instrument in a cash flow or net investment hedge).

## Ind AS 32 Financial Instruments: Presentation

Difference 32.1	GAAP difference?	Avoidable?
<i>Exception to the definition of financial liability</i>	Yes	No

Ind AS32 introduces an exception to the IFRS definition of a 'financial liability'. Ind AS classifies a conversion option embedded in a convertible bond denominated in a foreign currency as an equity instrument if it entitles the holder to acquire a fixed number of entity's own equity instruments for a fixed amount of cash, and the exercise price is fixed in any currency. IAS 32 requires the exercise price to be fixed in the entity's functional currency.

### *PwC observation on Ind AS 21 & Ind AS 32*

These provisions may help to prevent income statement volatility for Indian entities resulting from IFRS accounting for (a) translations of long term monetary items from foreign currency to functional currency (i.e. IAS 21) and (b) equity conversion options embedded in a foreign currency convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments for a fixed amount in a foreign currency (i.e. IAS 32).

A suitable example that contains both the above mentioned features i.e. Foreign Currency Convertible Bond (FCCB) is explained over here. Indian companies often issue long term FCCBs, denominated in a currency different from the functional currency of the issuing entity to raise foreign funds at competitive rates. These FCCBs contain a plain vanilla equity conversion option, for which the number of shares to be issued on conversion as well as the underlying consideration (redemption amount of the bond) are fixed in a foreign currency.

IFRS prescribes split accounting for these FCCBs (i.e. liability and conversion feature), where the debt host is liability component initially recorded at fair value and subsequently measured at amortised cost with foreign exchange translation difference being recognised in profit and loss account; while the conversion feature is treated as derivative liability (as 'fixed-for-fixed' condition not satisfied due to the exchange rate variation) and subsequently re-measured through profit and loss account.

However, Ind AS 21 provides an irrevocable option to recognise exchange differences on the translation of such long term monetary items from foreign currency to functional currency in equity and for these to be transferred to the profit or loss over the maturity of such instruments in an appropriate manner (subject to certain conditions.) Under Ind AS 32, an exception to the definition of financial liability permits that such the conversion option will be recognised in equity as an equity instrument rather than as a derivative liability as specified under IFRS. These are significant GAAP differences relative to IFRS.

# Ind AS 24 Related Party Disclosures

Difference 24.1	GAAP difference?	Avoidable?
<i>Overriding nature of statute for related party disclosures</i>	Yes	Yes

In Ind AS 24 eliminates the need to provide related party disclosures that are considered to conflict with the confidentiality requirements of statute, a regulator or similar competent authority, on the basis that accounting standards cannot override legal/regulatory requirements (Para 4A and 4B of Ind AS 24). IAS 24 has no equivalent requirement.

## *PwC observation*

Para 4A and 4B are open for interpretation and could lead to non-disclosure of information, which may not be the intention of the standard. Further, it is unclear what constitutes a 'similar competent authority'.

Difference 24.2	GAAP difference?	Avoidable?
<i>Change in definition of close family members</i>	No	--

Ind AS 24 provides additional guidance regarding what constitutes 'close members of the family of a person'. This guidance is based on the meaning of a relative under the Companies Act, 1956 (i.e. father, mother, brother and sister). IAS 24 does not provide a definition for a 'relative'.

Difference 24.3	GAAP difference?	Avoidable?
<i>Additional guidance for aggregation of transactions</i>	No	--

Ind AS 24 provides additional clarificatory guidance regarding the aggregation of transactions for disclosure. This guidance states that aggregation 'should not be done so as to obscure the importance of significant transactions', for example:

- Purchases or sales of goods should not be aggregated with purchases or sales of fixed assets;
- A material related party transaction with an individual party should not be clubbed in an aggregated disclosure.

## Ind AS 28 Investments in Associates

Difference 28.1	GAAP difference?	Avoidable?
<i>Different accounting periods and policies of associates</i>	Yes	Yes

Where the financial statements of an associate used in applying equity method are prepared as of a date different from that of the investor, IAS 28 requires that this difference should not be more than three months. IAS 28 also requires that the accounting policies of an associate should be aligned with those of the reporting entity. Ind AS 28 provides exceptions to these requirements if they are 'impracticable'.

### *PwC observation*

Ind AS 28 explains that these changes have been made because the investor does not control the associate, and hence it may not be able to obtain the information necessary to comply with the requirements of IAS 28. Nevertheless, if the company is unable to influence its associate sufficiently in order to obtain the relevant financial statements or information, this could bring into question whether it has significant influence over its investment, and hence whether its classification as an associate is appropriate. However, 'impracticable' is a high threshold, and hence it is unlikely that a GAAP difference will arise.

## Ind AS 33 Earnings per Share

Difference 33.1	GAAP difference?	Avoidable?
<i>Compulsory disclosure of EPS</i>	No	--

IAS 33 provides that when an entity presents both consolidated financial statements and separate financial statements, it may give EPS related information in consolidated financial statements only, whereas the Ind AS 33 requires EPS related information to be disclosed both in consolidated financial statements and separate financial statements.

Difference 33.2	GAAP difference?	Avoidable?
<i>Adjustments to the EPS calculation</i>	No	--

Ind AS 33 provides that where any item of income and expense which is otherwise required to be recognised in profit or loss in accordance with Ind AS, is debited or credited to securities premium account / other reserves in accordance with legal requirements, the amount in respect of thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating earnings per share.

### *PwC observation*

This amendment eliminates a GAAP difference in reported EPS in circumstances where a GAAP difference already exists in reported profit or loss due to the requirements of Indian law.



## Ind AS 39 Financial Instruments: Recognition and Measurement

Difference 39.1	GAAP difference?	Avoidable?
<i>Change in the fair value of a financial liability due to the entity's own credit risk</i>	Yes	Yes

Ind AS 39 has amended the subsequent measurement of financial liabilities designated at fair value through profit or loss so as to ignore changes in the entity's own credit risk. Accordingly, such liabilities are not recognised at fair value, but using a 'frozen credit spread' methodology. IAS 39 requires all changes in fair values in such liabilities to be recognised in profit or loss.

### *PwC observation*

This provision is introduced to prevent the recognition of unrealised gains or losses resulting from the changes in fair value of financial liabilities due to changes in the entity's own credit risk. The IASB has also introduced measures in IFRS 9 Financial Instruments to prevent volatility in profit or loss from changes in the entities own credit risk. However, these measures differ significantly from those in Ind AS 39, as IFRS 9 continues to require such financial liabilities to be recognised at fair value, but with changes due to own credit being recognised in other comprehensive income (i.e. outside profit or loss).

The Fair Value Through Profit or Loss designation is itself optional, and hence the GAAP difference technically could be avoided by not using this measurement category.

## Ind AS 40 Investment Property

Difference 40.1	GAAP difference?	Avoidable?
<i>Elimination of option to recognise investment properties at fair value</i>	No	--

IAS 40 permits investment property to be measured using either the cost model or the fair value model after initial recognition. Ind AS 40 requires the use of the cost model. Consequential amendments have been made to other Ind AS.



# Other differences

## Applicability of Ind AS

Applicability or exemptions to Ind AS are governed by the Companies Act, 1956 and the rules made there under. Accordingly, the following changes have been made:

1. Applicability or exemption of Ind AS 33 Earnings per Share and Ind AS 108 Operating segments has been changed to base on 'Companies (Accounting Standards) Rules \_\_\_' rather than based on listing criteria given in IFRS.
2. The scope of Ind AS 28 Investments in Associates and Ind AS 31 Interests in Joint Ventures have been modified so as to exclude mutual funds, unit trusts and similar entities (including insurance linked investment funds) as the Companies Act, 1956 is not applicable to them.
3. The exemption from preparing consolidated financial statements under Para 10 of IAS 27 has been removed in Ind AS 27. Similar amendments have been made to Ind AS 28 Investments in Associates and Ind AS 31 Interests in Joint Ventures.

'Companies (Accounting Standards) Rules \_\_\_' to make Ind AS effective are yet to be notified.

## Consequential amendments

1. IFRS 1 requires specific disclosures if the entity provides non-IFRS comparative information and historical summaries. Since comparatives are optional under Ind AS, these disclosure requirements have been removed from Ind AS 101.
2. IAS 1 contains Implementation Guidance. Ind AS 1 does not include the same because various enactments have prescribed formats, e.g., Schedule VI to the Companies Act, 1956.
3. Ind AS 12 Income Taxes has been modified consequent to the change in accounting treatment of gains on bargain purchases, the adoption of a single statement approach in Ind AS 1, and government grant presentation.
4. Additional guidance is included in Ind AS 23 Borrowing Costs on exchange differences arising from foreign currency borrowings that are to be treated as an adjustment to interest costs.
5. With regard to the acquisition of an intangible asset by way of a government grant, IAS 38, Intangible Assets, provides the option to an entity to recognize both asset and grant initially at fair value or at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use. Ind AS 38 allows only fair value for recognising the intangible asset and grant in accordance with Ind AS 20.





## Other differences (Continued)

### Minor differences

1. Deletion of IFRS 1 exemptions not relevant for India
  - Since Ind AS 19 does not allow the corridor approach to be used to defer actuarial gains and losses, the corresponding IFRS 1 exemption for setting actuarial gain or loss to zero under corridor approach has been removed from Ind AS.
  - The option in IFRS 1 to capitalise borrowing costs on a prospective basis has been removed from Ind AS, on the basis that existing Indian GAAP already require an entity to capitalise borrowing costs.
2. Transitional provisions for the accounting for insurance contracts and service concession arrangements have been incorporated in Ind AS 101 so as to require prospective application on or after date of transition to Ind AS (i.e. April 1, 2011 and thereafter). Earlier application is encouraged.
3. Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for 52-week period. IAS 1 allows this practice but Ind AS 1 does not.
4. Additional disclosures regarding the duration of hyperinflationary existing in the economy has been added to Ind AS 29 Financial Reporting in Hyperinflationary Economies.

### General differences

1. Different terminologies are used, as used in existing laws e.g. term 'Balance Sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'. Words 'approved for issue' have been used instead of 'authorised for issue' in the context of financial statements considered for the purpose of events after the reporting period.
2. Provisions relating to Transition included in individual IAS have been deleted from Ind AS since all transitional provisions related to Ind AS where ever considered appropriate have been included in Ind AS 101.
3. IFRICs (except IFRIC 2 & 15) and SICs are included as appendices in the Ind AS. Thus the references to IFRICs and SICs have been replaced with references to Appendices.
4. IFRS includes a Basis for Conclusions ('BC') as an appendix, which summarises the IASB's considerations in reaching the conclusion of each standard; these do not form part of Ind AS.

# Challenges Ahead

India is moving ahead on the path of IFRS convergence, and with the near final Ind AS being made available from the ICAI, it brings forth a few questions about the next steps in the process of convergence.

## ***Key Questions to be answered***

The convergence to IFRS by India is a very significant step in the right direction and the path taken has been challenging given the need to consider the numerous aspects in play. With the welcome move by the ICAI of issuing these near final Ind AS there are other vital steps that are anticipated with some anxiety given the time at hand, and include:

- When would these standards be notified by the Government?
- How and by when will consequential amendments to existing legislation (e.g. the Companies Act, Income tax Act, SEBI guidelines, etc), be made?
- When will SEBI require the use of Ind AS for quarterly reporting?
- How would Ind AS synchronize with, and what would the impact be of, new changes on the horizon, such as DTC, GST, etc?
- Will Ind AS continue to evolve alongside changes to IFRS?

## ***Is convergence achieved?***

India has adopted a step towards convergence with IFRS, but with certain ‘carve-outs’ (and ‘carve-ins’) to ease adoption and temper IFRS to be more acceptable in the local marketplace. The fundamental question remains: how will India participate (if not influence) in the future development of IFRS? Will the inclusion of significant differences between Ind AS and IFRS mute India’s voice relative to fully converged territories? Further, with IFRS itself changing in the near to medium term (see Appendix B for IASB’s ongoing projects), when and how would all these be incorporated into the path India is taking? Finally, and perhaps most importantly, will the benefits of ‘almost converging’ outweigh the pain being endured by those adopting Ind AS?

## ***Are Companies prepared for this change?***

- In the recent months there has been media coverage of various stakeholders questioning the timing of the adoption plans in India, given the numerous moving parts in the Indian context and IFRS being a moving platform.

# Appendix A - List of Ind AS

These are the near final Ind AS finalised by the Council of the ICAI and sent to the National Advisory Committee on Accounting Standards (NACAS). These are subject to any changes, which may be made by the Government before their notification.

Ind AS Reference	Ind AS Name	Corresponding IFRS			Existing AS Reference
		IAS / IFRS	IFRIC	SIC	
Ind AS 101	First-time Adoption of Indian Accounting Standards	IFRS 1	-	-	-
Ind AS 102	Share based Payment	IFRS 2	-	-	-
Ind AS 103	Business Combinations	IFRS 3	-	-	AS 14
Ind AS 104	Insurance Contracts	IFRS 4	-	-	-
Ind AS 105	Non-Current Assets Held for Sale and Discontinued Operations	IFRS 5	-	-	AS 24
Ind AS 106	Exploration for and Evaluation of Mineral Resources	IFRS 6	-	-	-
Ind AS 107	Financial Instruments: Disclosures	IFRS 7	-	-	AS 32
Ind AS 108	Operating Segments	IFRS 8	-	-	AS 17
Ind AS 1	Presentation of Financial Statements	IAS 1	-	-	AS 1
Ind AS 2	Inventories	IAS 2	-	-	AS 2
Ind AS 7	Statement of Cash Flows	IAS 7	-	-	AS 3
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8	-	-	AS 5
Ind AS 10	Events after the Reporting Period	IAS 10	IFRIC 17	-	AS 4
Ind AS 11	Construction Contracts	IAS 11	IFRIC 12	SIC 29	AS 7
Ind AS 12	Income Taxes	IAS 12	-	SIC 21, 25	AS 22
Ind AS 16	Property, Plant and Equipment	IAS 16	IFRIC 1	-	AS 6, 10
Ind AS 17	Leases	IAS 17	IFRIC 4	SIC 15, 27	AS 19
Ind AS 18	Revenue	IAS 18	IFRIC 13, 15*, 18	SIC 31	AS 9

\*IFRIC 15 has not been issued under Ind AS.

Ind AS Reference	Ind AS Name	Corresponding IFRS			Existing AS Reference
		IAS / IFRS	IFRIC	SIC	
Ind AS 19	Employee Benefits	IAS 19	IFRIC 14	-	AS 15
Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20	-	SIC 10	AS 12
Ind AS 21	The Effects of Changes in Foreign Exchange Rates	IAS 21	-	-	AS 11
Ind AS 23	Borrowing Costs	IAS 23	-	-	AS 16
Ind AS 24	Related Party Disclosures	IAS 24	-	-	AS 18
Ind AS 27	Consolidated and Separate Financial Statements	IAS 27	-	SIC 12	AS 21
Ind AS 28	Investments in Associates	IAS 28	-	-	AS 23
Ind AS 29	Financial Reporting in Hyperinflationary Economies	IAS 29	IFRIC 7	-	-
Ind AS 31	Interests in Joint Ventures	IAS 31	-	SIC 13	AS 27
Ind AS 32	Financial Instruments: Presentation	IAS 32	IFRIC 2*	-	AS 31
Ind AS 33	Earnings per Share	IAS 33	-	-	AS 20
Ind AS 34	Interim Financial Reporting	IAS 34	IFRIC 10	-	AS 25
Ind AS 36	Impairment of Assets	IAS 36	-	-	AS 28
Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	IFRIC 5,6	-	AS 29
Ind AS 38	Intangible Assets	IAS 38	-	SIC 32	AS 26
Ind AS 39	Financial Instruments: Recognition and Measurement	IAS 39	IFRIC 9, 16, 19	-	AS 13, 30
Ind AS 40	Investment Property	IAS 40	-	-	-

\*IFRIC 2 has not been issued under Ind AS.

## Notes:

- The term 'International Financial Reporting Standards' ('IFRS') comprises of:
  - International Financial Reporting Standards (IFRS)
  - International Accounting Standards (IAS)
  - Interpretations from the International Financial Reporting Interpretations Committee (IFRIC)
  - Interpretations from Standing Interpretations Committee (SIC)
- Existing AS refers to existing Accounting Standards notified under Companies (Accounting Standards) Rules, 2006.



# Appendix B - IASB's ongoing projects

	Estimated publication date	
Financial Crisis related projects	2011 Q1	2011 Q2
Financial instruments (IAS 39 replacement)		
Impairment	RV	IFRS
Hedge accounting		
Asset and liability offsetting	ED	
Consolidation		
Replacement of IAS 27	IFRS	
Disclosures unconsolidated entities	IFRS	
Investment companies		ED
Fair value measurement	IFRS	
Memorandum of Understanding (MOU) projects		
Financial statement presentation (Presentation of OCI)	IFRS	
Leases	RT	IFRS
Revenue recognition		IFRS
Joint ventures	IFRS	
Post-employment benefits (incl. pensions)	IFRS	
Other Projects		
Insurance contracts		IFRS
Annual improvements 2009-2011		ED

**Note** - This timetable is taken from IASB website (ifrs.org) as on January 26, 2011. It shows the current best estimate of publication dates and is subject to change. Refer <http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm> for more details.

## Other projects

In November 2010 the IASB and FASB (Financial Accounting Standards Board) decided to amend the timetable for projects that are important but less urgent and expect to resume discussing these topics after June 2011:

- Financial Statement Presentation (the replacement of IAS 1 and IAS 7),
- Financial instruments with characteristics of equity,
- Emissions Trading Schemes, Liabilities (IAS 37 amendments), and
- Income Taxes.

Additionally, the IASB is deferring publication of exposure drafts for Investment Companies and Annual improvements (see the timetable above) and the IASB and FASB do not expect to complete the phase A of the conceptual framework reporting entity until the Q2 2011.

Further, IASB will consider research and other projects like rate-regulated activities, intangible assets etc. in its future agenda in 2011.

## Recently completed projects

- Deferred tax: recovery of underlying assets
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- additions to IFRS 9 Financial Instruments in relation to financial liabilities
- Management Commentary
- Derecognition – Disclosures
- Conceptual Framework Phase A
- Improvements to IFRSs

Refer <http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm> for effective dates.

\*IFRIC 15 has not been issued under Ind AS.

# *We can team up*

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