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## Comparison of Exposure Drafts issued by the ICAI and IFRS issued by the IASB

Convergence Series | June 2010

# Introduction

Recently, the Institute of Chartered Accountants of India ('ICAI') has issued Exposure Drafts of *IFRS-converged Indian Accounting Standards*. This publication is a humble effort to compile and summarise the significant differences between the Exposure Drafts issued by the ICAI and IFRS issued by the International Accounting Standards Board ('IASB').

In early 2010, the Ministry of Corporate Affairs ('MCA') issued various press releases on IFRS roadmap and convergence plan for India, reaffirming the convergence date to be April 1, 2011 through 2014 for select Indian companies.

In the IFRS convergence process, the ICAI has recently completed the process of issuing Exposure Drafts ('ED') of *IFRS- converged Indian Accounting Standards.* A list of these EDs alongwith corresponding IFRS issued by the IASB is provided on the next page.

While some of these EDs are still under the comment period, the final *IFRS-converged Indian Accounting Standards* are exptected to be released soon. Thereafter, these would require approval of the National Advisory Committee on Accounting Standard and notification in the Companies Act.

The purpose of this publication is to provide you a comparison of EDs issued by the ICAI and IFRS issued by the IASB as of November 2009. Recently, the IASB has issued Annual Improvements 2010 to IFRS, which have not been incorporated in the EDs, except at few instances. This publication does not provide comparison with existing Indian GAAP standards which can be found in our publication titled *"Similarities and Differences: A Comparison of IFRS, US GAAP and Indian GAAP"*, on our website.

If you are already using IFRS or started the conversion process using IFRS as issued by the IASB, then this publication become useful to you, as you would know the key areas where differences exist and you need to focus on.

**Key areas where difference between Exposure Drafts and IFRS exists**

- Presentation of Financial Statements
- Statement of Cash Flows
- Business Combinations
- Employees Benefits
- Borrowing Costs
- Related party disclosure
- Leases
- Income taxes
- Investments in Associates
- Intangible Assets
- Financial Instruments: Presentation
- Financial Instruments: Disclosures
- Accounting and Reporting by Retirement Benefit Plans
- First time adoption of Indian Accounting Standards

PricewaterhouseCoopers is commited to take every possible step to assist you in IFRS conversion process. We will keep you updated about the latest developments happening in IFRS space.

To learn about current developments and how we can help you in IFRS conversion, visit our website at www.pwc.com/in or reach out to your local PwC contact.

Note that 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)

In Exposure Drafts of *IFRS-converged Indian Accounting Standards*, IFRICs and SICs have been included in the appendix and are integral part of the relevant standards.

# List of Exposure Drafts issued by the ICAI

| ED No. | Name of Exposure Draft | Corresponding to standards issued by IASB | | | Differences |
|---|---|---|---|---|---|
| | | IAS / IFRS | IFRIC | SIC | |
| AS 01 | Presentation of Financial Statements | IAS 1 | | | **Note 1** |
| AS 02 | Inventories | IAS 2 | | | There is no major difference |
| AS 03 | Statement of Cash Flows | IAS 7 | | | **Note 2** |
| AS 04 | Events after the Reporting Period | IAS 10 | IFRIC 17 | | There is no major difference |
| AS 05 | Accounting Policies, Changes in Accounting Estimates and Errors | IAS 8 | | | There is no major difference |
| AS 07 | Construction Contracts | IAS 11 | IFRIC 12 | SIC 29 | There is no major difference |
| AS 09 | Revenue | IAS 18 | IFRIC 13,15,18 | SIC 31 | There is no major difference |
| AS 10 | Property, Plant and Equipment | IAS 16 | IFRIC 1 | | There is no major difference |
| AS 11 | The Effects of Changes in Foreign Exchange Rates | IAS 21 | | | There is no major difference |
| AS 12 | Accounting for Government Grants & Disclosure of Government Assistance | IAS 20 | | SIC 10 | **Note 3** |
| AS 14 | Business Combinations | IFRS 3 | | | There is no major difference |
| AS 15 | Employees Benefits | IAS 19 | IFRIC 14 | | **Note 4** |
| AS 16 | Borrowing Costs | IAS 23 | | | **Note 5** |
| AS 17 | Operating Segments | IFRS 8 | | | There is no major difference |
| AS 18 | Related party disclosure | IAS 24 | | | **Note 6** |
| AS 19 | Leases | IAS 17 | IFRIC 4 | SIC 15, 27 | There is no major difference |
| AS 20 | Earnings per share | IAS 33 | | | **Note 7** |
| AS 21 | Consolidated and Separate Financial Statements | IAS 27 | | SIC 12 | There is no major difference |
| AS 22 | Income taxes | IAS 12 | | SIC 21, 25 | **Note 8** |
| AS 23 | Investments in Associates | IAS 28 | | | **Note 9** |
| AS 24 | Non-current Assets Held for Sale and Discontinued Operations | IFRS 5 | | | **Note 10** |
| AS 25 | Interim Financial Reporting | IAS 34 | IFRIC 10 | | There is no major difference |
| AS 26 | Intangible Assets | IAS 38 | | SIC 32 | **Note 11** |
| AS 27 | Interest in Joint Ventures | IAS 31 | | SIC 13 | There is no major difference |
| AS 28 | Impairment of assets | IAS 36 | | | There is no major difference |
| AS 29 | Provisions, Contingent Liabilities and Contingent Assets | IAS 37 | IFRIC 5,6 | | There is no major difference |
| AS 30 | Financial Instruments: Recognition and Measurement | IAS 39 | IFRIC 9,16,19 | | There is no major difference |
| AS 31 | Financial Instruments: Presentation | IAS 32 | IFRIC 2 | | **Note 12** |
| AS 32 | Financial Instruments: Disclosures | IFRS 7 | | | **Note 13** |
| AS 33 | Share-based payment | IFRS 2 | | | There is no major difference |
| AS 34 | Financial Reporting in Hyperinflationary Economies | IAS 29 | IFRIC 7 | | There is no major difference |
| AS 35 | Exploration for and Evaluation of Mineral Resources | IFRS 6 | | | There is no major difference |
| AS 36 | Accounting and Reporting by Retirement Benefit Plans | IAS 26 | | | **Note 14** |
| AS 37 | Investment Property | IAS 40 | | | There is no major difference |
| AS 38 | Agriculture | IAS 41 | | | There is no major difference |
| AS 39 | Insurance Contracts | IFRS 4 | | | There is no major difference |
| AS 40 | Financial Instruments | IFRS 9 | | | There is no major difference |
| AS 41 | First time adoption of Indian Accounting Standards | IFRS 1 | | | **Note 15** |

# Comparison of Exposure Drafts issued by the ICAI and IFRS issued by the IASB

## General Differences

- 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.
- IFRS 1, First-time Adoption of International Financial Reporting Standard, provides that transitional provisions in other IFRSs do not apply to a first-time adopter transitioning to IFRS, unless otherwise permitted in IFRS 1. Accordingly, the transitional provisions given in the relevant IFRS and portions related thereto have been deleted in the Exposure Drafts of the relevant *IFRS-converged Indian Accounting Standards* and the same have been considered in ED AS 41 (corresponding to IFRS 1).
- IFRS includes Basis of Conclusion ('BC') as appendix which summarises the IASB's consideration in reaching the conclusion of each standard; however, these do not form part of Exposure Drafts of *IFRS-converged Indian Accounting Standards.*
- Changes to other IFRS due to introduction of 'IFRS 9 - Financial Instruments', have not been considered in the Exposure Drafts of *IFRS-converged Indian Accounting Standards.*

## **Note 1:** ED AS 1(R) - Comparison with IAS 1, Presentation of Financial Statements

- There is no major difference between Exposure Draft of AS 01 (Revised 20XX) Presentation of Financial Statements and IAS 1, Presentation of Financial Statements.

  However, appendices in ED AS 22(R), ED AS 24(R), ED AS 31(R) and ED AS 32(R) regarding comparison of Exposure Draft with the IFRS, prescribe removal of option to present two separate statements in AS 1 (Revised 20XX). It seems that AS 1 (Revised 20XX) would require that the components of profit or loss and components of other comprehensive income shall be presented in a single statement of profit and loss.

  In India, formats of financial statement are prescribed under Schedule VI to the Companies Act, 1956. There has been continuous endeavor by the ICAI to suggest the revised Schedule VI which is expected to be in line with ED AS 1(R).

## **Note 2:** ED AS 3(R) - Comparison with IAS 7, Statement of Cash Flows

- In case of other than financial entities, IAS 7 gives an option to classify the interest paid and interest and dividends received as an item of operating cash flows. However, the Exposure Draft of AS 3 (revised), as in the existing AS 3, does not provide such option and requires these items to be classified as items of financing activity and investing activity, respectively (refer paragraph 33 of AS 3(revised)).
- IAS 7 gives an option to classify the dividend paid as an item of operating activity. However, the Exposure Draft of AS 3 (revised), as in the existing AS 3, requires it to be classified as a part of financing activity only.

## **Note 3:** ED AS 12(R) - Comparison with IAS 20, Accounting for Government Grants & Disclosure of Government Assistance

- Annual Improvements to IAS 20 from the year 2008 onwards have not been considered in the Exposure Draft, as it was issued in 2007.

## **Note 4:** ED AS 15(R) - Comparison with IAS 19, Employees Benefit

- IAS 19 permits three options for treatment of actuarial gains and losses whereas draft of AS 15 (Revised 20XX) requires immediate recognition of the same in profit or loss.
- The AS 15 (Revised 20XX) unlike IAS 19 gives guidance that detailed actuarial valuation of defined benefit obligations may be made at intervals not exceeding three years.

- According to AS 15 (Revised 20XX) the rate to be used to discount postemployment benefit obligation shall be determined by reference to the market yields on government bonds, whereas under IAS 19, the government bonds can be used only where there is no deep market of high quality corporate bonds.

**Note 5:** ED AS 16(R) - Comparison with IAS 23, Borrowing Costs

- As per paragraph 4 of IAS 23, "An entity is not required to apply the Standard to borrowing costs that are directly attributable to the acquisition, construction or production of inventories that are manufactured or otherwise produced in large quantities on a repetitive basis". Accordingly, IAS 23 does not specifically prohibit an entity to apply the Standard to such inventories. The exposure draft of revised AS 16, on the other hand, specifically states that an entity shall not apply this Standard to such inventories in view of the apparent intention of the IASB in this regard as contained in paragraph BC 6 of the Basis for Conclusions accompanying IAS 23.

**Note 6:** ED AS 18(R) - Comparison with IAS 24, Related Party Disclosures

- In the Exposure Draft of revised AS 18, disclosures which conflict with confidentiality requirements of statute/regulations are not required to be made since Accounting Standards cannot override legal/ regulatory requirements. (Paragraphs 4A and 4B of revised AS 18).
- In the Exposure Draft of the revised AS 18, father, mother, brother and sister are included in the definition of the close members of the family of a person which are excluded in IAS 24.
- Paragraph 17A has been included in Exposure Draft of revised AS 18. It provides for additional disclosure requirements with respect to related parties, if required by any statute.
- Paragraph 24A has been included in the Exposure Draft of revised AS 18 on the lines of existing AS 18. It provides additional clarificatory guidance regarding aggregation of transactions for disclosure.

**Note 7:** ED AS 20(R) - Comparison with IAS 33, Earnings per Share

- There is no major difference between the Exposure Draft of AS 20 (Revised 20XX), Earnings per Share, and IAS 33, Earnings per Share, (amended up to January 2010) except that 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 Exposure Draft of AS 20 (Revised 20XX) requires EPS related information to be disclosed both in consolidated financial statements and separate financial statements.

**Note 8:** ED AS 22(R) - Comparison with IAS 12, Income Taxes

- Requirements regarding presentation of tax expense (income) in the separate income statement, where separate income statement is presented, have been deleted. This change is consequential to the removal of option regarding two statement approach in AS 1 (Revised 20XX). AS 1 (Revised 20XX) requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.
- The above differences do not result in non-convergence with IAS 12 and the above stated SICs.

**Note 9:** ED AS 23(R) - Comparison with IAS 28, Investments in Associates

- There is no major difference between the Exposure Draft of AS 23 (Revised 20XX) and IAS 28 except that where the financial statements of an associate used in applying equity method are prepared as of a different date from that of the investor, IAS 28 requires that this difference should not be more than three months.

  However, the Exposure Draft of AS 23 (Revised 20XX) provides that this difference should not be more than three months, unless impracticable. This change has been made because there can be a situation, e.g. where an entity is an associate of two investors and difference between the reporting dates of the associate and one of the investors is more than three months. In that case, a problem will arise in applying the requirements of IAS 28 that the associate will have to prepare additional financial statements for use by the concerned investor. Since the investor does not have 'control' over the associate, the investor may not be able to influence the associate to prepare additional financial statements. Therefore, to cover such situations, the words 'unless it is impracticable to do so' have been added.

**Note 10:** ED AS 24(R) - Comparison with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations

- Requirements regarding presentation of discontinued operations in the separate income statement, where separate income statement is presented, have been deleted. This change is consequential to the removal of option regarding two statement approaches in AS 1 (Revised 20XX). AS 1 (Revised 20XX) requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

- ED states that above difference does not result in non-convergence with IFRS 5.

**Note 11:** ED AS 26(R) - Comparison with IAS 38, Intangible Assets and SIC Interpretation 32 Intangible Assets—Web Site Costs

- 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 recognise 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. The draft of the revised AS 26 allows only fair value for recognising the assets and grant in accordance with the draft of AS12 (Revised 20XX).

- The above difference does not result in non-convergence with IAS 38.

**Note 12:** ED AS 31(R) - Comparison with IAS 32, Financial Instruments: Presentation

- Requirements regarding presentation of dividends classified as an expense in the separate income statement, where separate income statement is presented, have been deleted. This change is consequential to the removal of option regarding two statement approach in AS 1 (Revised 20XX). AS 1 (Revised 20XX) requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

- The above difference does not result in non-convergence with IAS 32.

**Note 13:** ED AS 32(R) - Comparison with IFRS 7, Financial Instruments: Disclosures

- Requirements regarding disclosure of description of gains and losses presented in the separate income statement, where separate income statement is presented, have been deleted. This change is consequential to the removal of option regarding two statement approach in AS 1 (Revised 20XX). AS 1 (Revised 20XX) requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

- The above difference does not result in non-convergence with IFRS 7.

**Note 14:** ED AS 36(R) - Comparison with IAS 26, Accounting and Reporting by Retirement Benefit Plans

- The Exposure Draft of AS 36 (Issued 20XX), Accounting and Reporting by Retirement Benefit Plans and International Accounting Standard (IAS)26, Accounting and Reporting by Retirement Benefit Plans removes the alternatives permitted in contents of financial statements of a defined benefit plan under paragraph 17; use of salary level for calculating present value of expected payments by a retirement benefit plan (paragraph 23); and formats of presenting actuarial information in a defined benefit plan (paragraph 28). The aforesaid have consequential effects on other paragraphs which have been changed accordingly. However, removal of alternatives does not result in non-convergence with IAS 26.

**Note 15:** ED Ind-AS 41(R) - Major differences between Indian Accounting Standard (Ind-AS) 41 First-time Adoption of Indian Accounting Standards and IFRS 1

- IFRS 1 First-time Adoption of International Financial Reporting Standards was first issued by the International Accounting Standards Board in June 2003 and thereafter has been amended many times to accommodate the changes to other relevant IASs and IFRSs and the first time accommodation required arising from those changes. For the purposes of Ind-AS 41, the IFRS 1, as restructured and issued in 2008 has been used as the basis and updated to reflect subsequent amendments up to November 2009 excluding the amendments so far as they relate to changes arising from introduction of IFRS 9 – Financial Instruments. To that extent, Ind-AS 41 reflects only the current set of provisions and exemptions and does not present all the evolution.

- Generally, there is only one transition date for a country transitioning to IFRS. In India, as the converged IFRS standards become applicable in a phased manner it is expected that Ind-AS 41 would be available to each company considering its relevant transition date.

- IFRS 1 defines transition date as beginning of the earliest period for which an entity presents full comparative information under IFRS. It is this date which is the starting point for IFRS and it is on this date the cumulative impact of transition is recorded based on assessment of conditions at that date.

  Ind-AS 41, however, provides an entity with a choice to either consider the beginning of the current period or the comparative period as the transition date. Thus, the transition date has been defined as the beginning date of financial year on or after 1 April, 2011 for which an entity presents financial information under Ind-AS in its first Ind-AS financial statements but where an entity voluntarily decides to provide a prior period comparatives in accordance with Ind-AS then the date of transition would be the beginning of the earliest period for which an entity presents full comparative information under Ind-AS in its first Ind-AS financial statements i.e. beginning of financial year on or after 1 April, 2010.

- Arising from this fundamental change, there are other consequential changes to Ind-AS 41. For example, comparative information required under paragraph 21 and reconciliations under paragraphs 24 to 26 Ind-AS 41 have been modified to accommodate this option available under Ind-AS 41. The relevant Implementation Guidance and illustrative examples have been appropriately modified to reflect the option provided to transitioning entities.

- IFRS 1 provides for various optional exemptions that an entity can seek while an entity transitions to IFRS from its previous GAAP. Similar provisions have been retained under Ind-AS 41. However, there are few fundamental changes that have been made, which can be broadly categorized as follows:

  - Elimination of effective dates prior to transition date. IFRS 1 provides for various dates from which a standard could have been implemented. For example, under paragraph B2 of IFRS 1, an entity would have had to adopt the de-recgonition requirements for transactions entered after 1 January, 2004. However, for Ind-AS 41 purposes, all these dates have been changed to coincide with the transition date elected by the entity adopting these converged standards;

  - Deletion of certain exemptions not relevant for India. For example, paragraph D10 of IFRS 1 provided an entity that adopted the corridor approach for recording actuarial gain and losses arising from accounting for employee obligations with an option to recognize the entire such gain or loss to retained earnings, at the date of transition, rather than requiring them to split such gains and losses as recognized and unrecognized gains and losses. In India, since corridor approach is not elected, the resultant first time transition provision has been deleted. On similar lines, paragraph D 23 of IFRS 1 provided for exemption regarding capitalisation of borrowing cost. However, existing AS 16 already prescribes capitalisation of borrowing costs, the resultant first time transition provision has been deleted.

  - Inclusion/modification of existing exemptions to make it relevant for India. For example, paragraph D 26 has been added to Ind-AS 41 to provide for transitional relief while applying AS 24 (Revised 20XX) - Non-current Assets Held for Sale and Discontinued Operations. Paragraph D26 allows an entity to use the transitional date circumstances to measure such assets or operations at the lower of carrying value and fair value less cost to sell.

*Source: Exposure Drafts issued by the ICAI. Full texts of Exposure Drafts are available at www.icai.org.*

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# we can team up*

To have a deeper discussion about how *future* Indian GAAP (IFRS) can affect your business, please contact:


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