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Tracking IFRS
First-time adoption: IFRS 1 vs. Indian IFRS 1
Convergence made easy

1. Introduction

In accordance with the roadmap announced by Ministry of Corporate Affairs ("MCA") for achieving convergence of Indian accounting standards with the International Financial Reporting Standards ("IFRSs"), there will be two separate sets of accounting standards to be followed by Indian companies:

- First set would comprise of the Indian accounting standards, which are converged with the IFRSs, which shall be applicable to the specified class of companies ("converged accounting standards")
- The second set would comprise of the existing Indian accounting standards and would be applicable to other companies, including Small and Medium Companies ("existing accounting standards")

The Institute of Chartered Accountants of India ("ICAI") has issued a number of exposure drafts of the converged accounting standards including Exposure Draft ("ED") of Indian Accounting Standard 41 *First-time adoption of Indian Accounting Standards* ("ED Ind-AS 41") based on IFRS 1 *First-time adoption of International Financial Reporting Standards* ("IFRS 1") as revised and issued in 2008. Amendments in IFRS 1 upto November 2009, excluding the amendments so far as they relate to changes resulting from introduction of IFRS 9 *Financial Instruments*, have been considered while preparing Ind-AS 41.

2. Why is it important for you?

Like IFRSs, the converged accounting standards will be required to be applied retrospectively. Retrospective application of the converged accounting standards results in difficulties in certain areas. The objective of ED Ind-AS 41, similar to IFRS 1, is to provide a suitable starting point for accounting in accordance with the converged accounting standards and to provide limited exceptions and exemptions from full retrospective application to enable cost-effective convergence. ED Ind-AS 41 requires disclosures that explain the effects of transition from the existing accounting standards to the converged accounting standards on the entity's reported financial position, financial performance and cash flows.

However, there are certain differences between IFRS 1 and ED Ind-AS 41. This edition of Tracking IFRS describes the differences, and the preliminary observations with respect to practical applications in applying certain provisions of ED Ind-AS 41.

For full text of the ED, visit ICAI's website www.icai.org or MCA's website www.cnkonline.com/client/mca/index.asp.

The key difference between IFRS 1 and the ED is the requirement with respect to presentation of comparative information. The ED does not require a first-time adopter to present comparative information of profit and loss for the reporting period, but provides an option to companies for voluntarily disclosure of such information

3. Significant differences

3.1. Option not to present comparatives

The key difference between IFRS 1 and the ED is the requirement with respect to presentation of comparative information. Unlike IFRS 1, the ED does not require a first-time adopter to present comparative information of profit and loss for the reporting period, but provides an option to companies for voluntarily disclosure of such information.

Accordingly, the definition of date of transition under ED Ind-AS 41 has been modified as below:
"date of transition" - "The beginning date of financial year on or after 1 April 2011 for which an entity presents financial information under Ind-ASs in its first Ind-AS financial statements. However, where an entity decides to provide one year comparative information under 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."

In ED Ind-AS 41, the definition of *"first Ind-AS financial statements"* will have different meanings for companies which elect not to present comparatives and companies voluntarily opting to present comparatives. This follows from the change in the definition of date of transition.

3.2. First Ind-AS financial statements

The requirements of an entity's first Ind-AS financial statements are as follows:

A. For Indian companies adopting the converged accounting standards which elect not to present comparatives, first Ind-AS financial statements shall comprise of the following:

1. Converged balance sheet as at, and statement of changes in equity for the year ending on the, reporting date
2. Opening converged balance sheet as at the date of transition to the converged accounting standards (also, refer observation below with respect to the requirement to present attached statement of changes in equity)
3. Statement of profit and loss (without comparatives) for the year ending on the reporting date
4. Statement of cash flows (without comparatives) for the year ending on the reporting date
5. Related notes to accounts (without comparative information) for the year ending on the reporting date

B. For Indian companies adopting the converged accounting standard voluntarily opting to present comparatives, first Ind-AS financial statements shall comprise of the following:

1. Converged balance sheet as at the reporting date (and at the end of the corresponding previous year) and statement of changes in equity for the year ending on the reporting date (and the corresponding previous year)
2. Opening converged balance sheet as at the date of transition to the converged accounting standards
3. Statement of profit and loss for the year ending on the reporting date (and the corresponding previous year)
4. Statement of cash flows for the year ending on the reporting date (and the corresponding previous year)
5. Related notes to accounts (with comparative information) for the year ending on the reporting date

Exhibit 1 illustrates the reporting requirements for Indian companies adopting the converged accounting standards which elect not to present comparatives, and voluntarily opting to present comparatives.

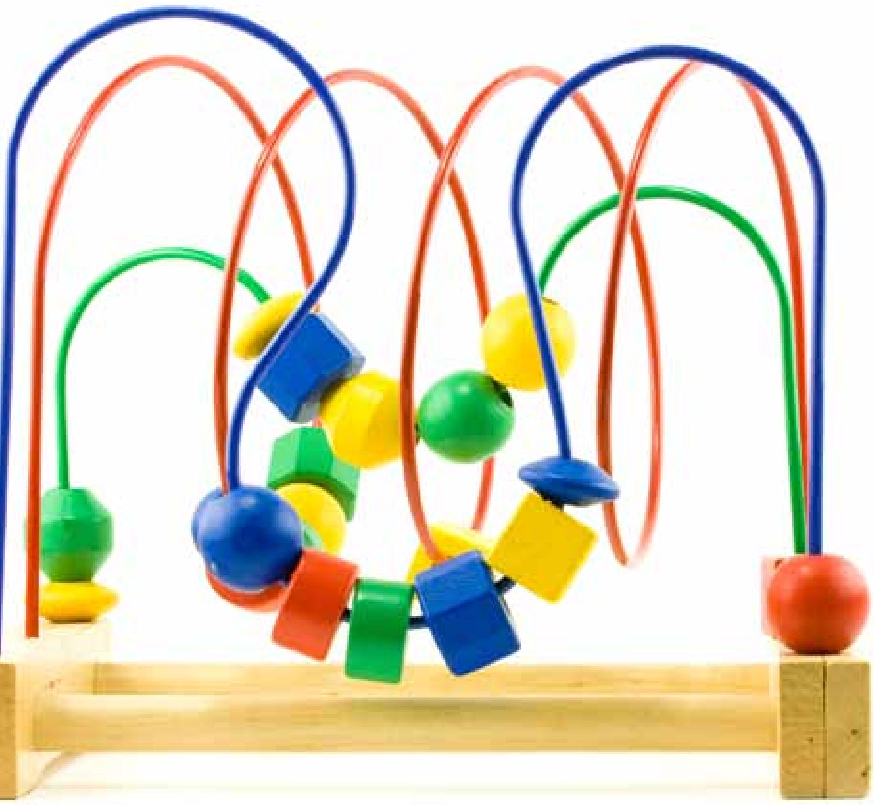
Observation

Paragraph 21(a) requires that *"[an] entity need not provide comparative financial statements for the corresponding previous period. For example, under this Ind-AS, the first time adopter for whom the first reporting period is financial statements for the year ending March 31, 2012 would only provide two Balance Sheets (including two statements of changes in equity annexed thereto) i.e. April 1, 2011 and March 31, 2012 and one statement of profit and loss, one statement of cash flows and related notes for the financial year ending March 31, 2012."*

The aforesaid requirement to present the statement of changes in equity annexed to the balance sheet as at 1 April 2011, for a company adopting the converged accouting standards which elects not to present comparatives, implies that such a statement will show changes in equity accounts under the existing accounting standards from 1 April 2010 to 31 March 2011, transition adjustments and resulting opening balances as at 1 April 2011 under the converged accounting standards.

An illustrative proforma of the statement of changes in equity to be annexed to the balance sheet as at 1 April 2011, for a company adopting the converged accouting standards choosing not to present comparatives, is given below:

Particulars	Equity capital	Reserves	Others
Opening equity balances as at 1 April 2010 under the existing accounting standards			
Add/less: movements in equity balances during the year 2010-11 under the existing accounting standards			
Closing equity balances as at 31 March 2011 under the existing accounting standards			
Add/less: transition adjustments			
Opening equity balances as at 1 April 2011 under the converged accounting standards			



3.3. Reconciliations to explain transition

Like IFRS 1, ED Ind-AS 41 requires a first-time adopter to present reconciliations to explain the transition to the converged accounting standards. Following reconciliations are required:

1. Reconciliation of equity on the date of transition, from as reported in accordance with the existing accounting standards to equity in accordance with the converged accounting standards
2. Reconciliation of equity as at the reporting date, and of total comprehensive income for the year ending on the reporting date, from as determined in accordance with the existing accounting standards (assuming existing accounting standards would have continued to be applied for that period) to balances as reported in accordance with the converged accounting standards
3. If an entity voluntarily opts to provide comparatives, reconciliation for the comparative period, of profit or loss, from as reported in accordance with the existing accounting standards to the total comprehensive income as reported in accordance with the converged accounting standards

ED Ind-AS 41 requires reconciliation of, equity as at the reporting date, and total comprehensive income for the year ending on the reporting date, from as determined in accordance with the existing accounting standards (assuming existing accounting standards would have continued to be applied for that period) to balances

An Indian company adopting the converged accounting standards from 1 April 2011 voluntarily opting to present comparatives will have to maintain two sets of books of accounts for 2010-11 and 2011-12

as reported in accordance with the converged accounting standards as listed in point 2 above. This requirement is in contrast with the requirements of IFRS 1 as IFRS 1 does not require any reconciliations for the reporting period. IFRS 1 requires only the following reconciliations:

1. Reconciliation of equity on the date of transition, from as reported in accordance with the existing accounting standards to equity as reported in accordance with IFRSs
2. Reconciliation of equity as at the end of the comparative period, and of total comprehensive income for the comparative period, from as reported in accordance with the existing accounting standards to balances as reported in accordance with the IFRSs

Thus, an Indian company adopting the converged accounting standards voluntarily opting to present comparatives will have to maintain two sets of books of accounts for two reporting periods, but an Indian company adopting IFRSs will have to maintain two sets of books of accounts for only one reporting period.

Exhibit 1 illustrates the reporting requirements for Indian companies adopting converged accounting standards which elect not to present comparatives, and voluntarily opting to present comparatives.

Example

For example, an Indian company adopting the converged accounting standards from 1 April 2011 voluntarily opting to present comparatives will have to maintain two sets of books of accounts for 2010-11 and 2011-12 as illustrated below:

Indian company adopting converged accounting standards voluntarily opting to present comparatives	2010-11	2011-12
Books of accounts under existing accoutning standards	✓ Required for statutory reporting purposes.	✓ Required to prepare reconciliations required under ED Ind-AS 41
Books of accounts under the converged accounting standards	✓ Required to generate comparative information	✓ Required for statutory reporting purposes

In contrast, an Indian company adopting IFRSs from 1 April 2011, will have to maintain two sets of books of accounts only for 2010-11 as illustrated below:

Indian company adopting IFRSs	2010-11	2011-12
Books of accounts under existing accounting standards	✓ Required for statutory reporting purposes.	× Not required.
Books of accounts under IFRSs	✓ Required to generate comparative information	✓ Required for statutory reporting purposes

Exhibit 1

List of reporting requirements for Indian companies for the year 2011-12 (assuming year ends 31 March)

Particulars	Indian companies adopting Ind-ASs without comparatives (i.e. transition date 1 April 2011)	Indian companies adopting Ind-ASs with comparatives (i.e. transition date 1 April 2010)	Indian companies adopting IFRSs* (transition date 1 April 2010)
Converged financial statements* for 2011-12 comprising of:			
1. Balance sheet as at and statement of changes in equity for the year ending 31 March 2012	✓	✓ (with comparatives)	✓ (with comparatives)
2. Statement of profit and loss (total comprehensive income) for the year ending 31 March 2012	✓	✓ (with comparatives)	✓ (with comparatives)
3. Statement of cash flows for the year ending 31 March 2012	✓	✓ (with comparatives)	✓ (with comparatives)
4. Related notes to accounts for the year ending 31 March 2012	✓	✓ (with comparatives)	✓ (with comparatives)
Opening converged balance sheet* on the date of transition	✓**	✓	✓
Reconciliation of equity on the date of transition, from as reported in accordance with the existing accounting standards to equity as reported in accordance with the converged accounting standards*	✓	✓	✓
Reconciliation of equity as at 31 March 2012, from as determined in accordance with the existing accounting standards (memorandum equity account for the year ending 31 March 2012 will have to be prepared assuming existing accounting standards are continued to be followed, the same is not required to be presented) to the equity as reported in accordance with the converged accounting standards*	✓	✓	×
Reconciliation for the year ending 31 March 2012, of profit or loss, from as determined in accordance with the existing accounting standards (memorandum statement of profit and loss for the year ending 31 March 2012 will have to be prepared assuming existing accounting standards are continued to be followed, the same is not required to be presented) to the total comprehensive income as reported in accordance with the converged accounting standards*	✓	✓	×
Balance sheet as at 31 March 2011 under the existing accounting standards	×**	✓**	×
Reconciliation of equity as at 31 March 2011, from as reported in accordance with the existing accounting standards to equity as reported in accordance with the converged accounting standards*	×	×	✓
Reconciliation for the year ending 31 March 2011, of profit or loss, from as reported in accordance with the existing accounting standards to the total comprehensive income as reported in accordance with the converged accounting standards*	×	✓	✓

* Only for the information included in the above table under 'Particulars', the terms 'converged accounting standards' and 'opening converged balance sheet' in relation to Indian companies adopting IFRSs shall mean 'IFRSs' and 'opening IFRS balance sheet', respectively.

** It is to be noted that the requirement to present balance sheet as at 31 March 2011 under the existing accounting standards for the Indian companies opting to present comparatives is distinct from the requirement to present opening converged balance balance sheet as at 1 April 2011 by Indian companies which elect not to present comparatives.

Observation

It is observed that for an Indian company adopting the converged accounting standards from 1 April 2011 (i.e. transition date 1 April 2010) voluntarily opting to present comparatives, there is no requirement under ED Ind-AS 41 to present a reconciliation of equity as at 31 March 2011 (in example 11 of the implementation guidance contained in Appendix F of ED Ind-AS 41, it is mentioned that the ED requires a reconciliation at the end of the period presented in accordance with previous GAAP but the same is not consistent with the principles of the main standard and may require suitable amendments). Instead, such Indian companies will be required to present balance sheet as at 31 March 2011 under the existing accounting standards. This is in contrast with the requirements of IFRS 1.

It is interesting to note that consequently, such Indian companies will present 4 balance sheets in its converged financial statements for the year ending 31 March 2012 as follows:

1. Converged closing balance sheet as at 31 March 2012
2. Converged comparative balance sheet as at 31 March 2011
3. Converged opening balance sheet as at 1 April 2010
4. Balance sheet as at 31 March 2011 under the existing accounting standards (the same will be presented along with the reconciliations as a disclosure in the notes to accounts)

3.4. Elimination of effective dates prior to the transition date

IFRS 1 provides for various dates from which a standard could have been implemented. However, for the purpose of ED Ind-AS 41, all such dates have been changed to coincide with the transition date elected by the entity adopting this converged standard. Instances of such changes have been listed below:

a. Derecognition of financial assets and financial liabilities – IFRS 1 requires that except as permitted under IFRS 1, a first-time adopter (of IFRSs) shall apply the derecognition requirements in IAS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after 1 January 2004.

   However, in ED Ind-AS 41, the date 1 January 2004 has been replaced with the date of transition. Thus, except as permited by Ind-AS 41, an entity shall apply the the derecognition requirements in the draft converged accounting standard 30 *Financial Instruments: Recognition and Measurement* (Revised 20XX) prospectively for transactions occurring on or after date of transition to the converged accounting standards. In other words, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before date of transition, it shall not recognise those assets and liabilities in accordance with the converged accounting standard (unless they qualify for recognition as a result of a later transaction or event).

b. Share-based payment transactions – IFRS 1 includes two exemptions for equity-settled transactions:
   - first-time adopters are not required to apply IFRS 2 *Share-based Payments* for equity-settled share-based payments granted on or before 7 November 2002; and
   - first-time adopters are not required to apply IFRS 2 to share-based payments granted after 7 November 2002 that vested before the later of the date of transition to IFRSs or 1 January 2005.

   The dates under IFRS 1 are redundant and have been removed under ED Ind-AS 41. Thus, under ED Ind-AS 41, a first-time adopter is encouraged, but not required, to apply the draft converged accounting standard 33 *Share-based Payment* (Revised 20XX) to equity instruments that vested before date of transition to the converged accounting standards.

   Effectively, there is no difference in the said exemption under IFRS 1 and ED Ind-AS 41.

It is interesting to note that an Indian company adopting the converged accounting standards from 1 April 2011, voluntarily opting to present comparatives, will present four balance sheets in its converged financial statements for the year ending 31 March 2012

c. Fair value measurement of financial assets or financial liabilities at initial recognition – IFRS 1 provides an exemption from full retrospective application of IAS 39 *Financial Instruments: Recognition and Measurement* with respect to the fair value measurement of certain financial assets or financial liabilities at initial recognition and permits prospective application to transactions entered into after 1 January 2004.

However, in ED Ind-AS 41, the date 1 January 2004 has been replaced with the date of transition. Thus, under ED Ind-AS 41, a first-time adopter may apply the exemption with respect to the fair value measurement of certain financial assets or financial liabilities at initial recognition of the draft converged accounting standard 30 *Financial Instruments: Recognition and Measurement* (Revised 20XX) prospectively to transactions entered into after financial years beginning on or after date of transition to Ind-ASs.

d. Insurance contracts - IFRS 1 provides an optional exemption whereby an entity issuing insurance contracts (an insurer) may elect upon first-time adoption to apply the transitional provisions of IFRS 4 *Insurance Contracts*. These transitional provisions require an insurer to apply IFRS 4 prospectively for reporting periods beginning on or after 1 January 2005, with earlier application permitted.

However, ED Ind-AS 41 permits the first-time adopters to apply the draft converged accounting standard 39 I*nsurance Contracts* (Revised 20XX) prospectively from the date of transition.

Observation

It is observed that the change of fixed effective dates to the transition date is in conformity with the recent changes proposed to IFRS 1.

The International Accounting Standards Board ("IASB") on 26 August 2010 has issued an exposure draft proposing amendments to IFRS 1.

The exposure draft proposes to change the fixed effective date with respect to 'Derecognition of financial assets and financial liabilities' to the 'transition date'. As a result, entities adopting IFRSs for the first time would not have to restate derecognition transactions that occurred before the date of transition to IFRSs.

In addition, the exposure draft also proposes to change the fixed effective date with respect to 'Fair value measurement of financial assets or financial liabilities at initial recognition' to the 'transition date'.

Observation

ED Ind-AS 41 refers to the draft converged accounting standard 5 *Accounting Policies, Changes in Accounting Estimates and Errors* for definition of 'impracticable' while applying the exemption stated in point 3.6. Under the draft converged accounting standard 5, applying a requirement is 'impracticable' when the entity cannot apply it after making every reasonable effort to do so.

Thus, although the additional exemption seeks to provide a significant relief to the first-time adopters, it is observed that the exemption may only be used under rare circumstances.

3.5. Deletion of certain exemptions not relevant for India

Employee benefits – corridor approach

IFRS 1 provides an entity that adopted the "corridor approach" under IAS 19 *Employee Benefits* for recording actuarial gains 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.

As the "corridor approach" has not been included under the draft converged accounting standard 15 *Employee Benefits* (Revised 20XX), a corresponding exemption under ED Ind-AS 41 has not been included.

Borrowing costs

IFRS 1 permits a first-time adopter to apply the transitional provisions of IAS 23 *Borrowing Costs* and to apply the provisions of IAS 23 prospectively.

However, since, the existing accounting standard 16 *Borrowing Costs* is already in conformity with IAS 23, a corresponding exemption has not been included under ED Ind-AS 41 as may not have been deemed necessary.

3.6. Addition of certain exemptions relevant for India

Exemption from retrospective application of effective interest method and impairment requirements

In ED Ind-AS 41, a new paragraph has been added that if it is impracticable for an entity to apply retrospectively the effective interest method or the impairment requirements of the draft converged accounting standard 30 *Financial Instruments: Recognition and Measurement* (Revised 20XX), the fair value of the financial asset at the date of transition shall be the new amortised cost of that financial asset at the date of transition. Similar exemption is not available under IFRS 1 and is a significant difference from IFRS 1.

3.7. Terminology of financial statements

As also mentioned in Appendix G of Ind-AS 41, different terminology has been used in ED Ind-AS 41 as compared to IFRS 1, for example, the term 'Balance Sheet' is used instead of 'Statement of Financial Position' and 'Statement of Profit and Loss' instead of 'Statement of Comprehensive Income'.

3.8. Basis for conclusions

The 'basis for conclusions' ("BCs") accompanying IFRS 1 have not been included in ED Ind-AS 41.

It is observed that the BCs provides valuable guidance and summarises the IASB's considerations in reaching the conclusions in developing an IFRS. As ED Ind-AS 41 is based on IFRS 1, BCs of IFRS 1 may be referred to by the readers of ED Ind-AS 41 if considered useful.

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