



Catch Mr. Ramasami, the protagonist,
who convey's about the changes | P9

A flip through IFRS for Comparison of it with AS..
& the impact of its implementation | P2

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Editors Note:



**DON'T BE
AFRAID OF CHANGE.**

Common yet repeated many times –
“Change is the only constant”.

Life has become so dynamic that the
only thing which is constant has been
the dynamic change. We have lost the
meaning of “Static”.

Life styles changes, laws changes,
attitudes changes, the change is the
generation gap. Where there is
change, and people who do not go on
the other side of the fence are the
older generation. Not that the guys
who crossed the fence have become
wiser, they have only reached a
placed looking for the next change.

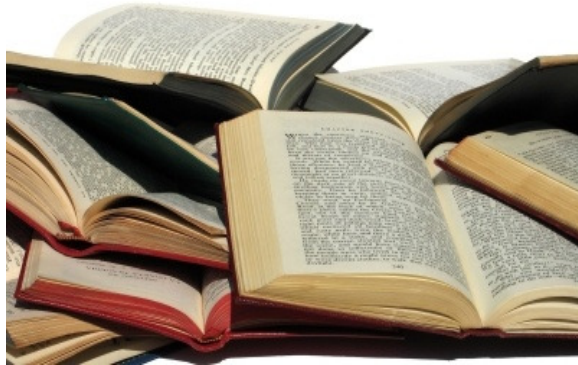
IFRS is round the corner, Companies
amendment Bill is looming large, the
finance bill is due, Direct Tax code
has almost reached our homes, GST
will be a part of life. Just now transfer
pricing, VAT regime, MCA website
process were introduced, and most of
it is already looking like old timers.
The new era would bring in more
change.

Over the years Accounting Standard
Board introduced GAAP, this was
followed by SOX with a zillion
amendments across the world, now
IFRS, wait the corner is not the end,
there is a bend. What next? - is the
Mantra

Change is the only constant...

“If nothing ever changed, there would be no butterflies..”

International Financial Reporting Standards:



International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB). These are becoming the global standard for the preparation of public company financial statements. IASB is an independent accounting standard-setting body, which consists of 14 members from nine countries and is based in London.

Current Indian Scenario:

In India, Companies would converge to IFRS. India has not opted to adopt IFRS.

- **Adoption** would mean full-fledged use of IFRS as issued by the IASB by the Indian public companies.
- **Convergence** means that the Indian Accounting Standards (AS) and the International Financial Reporting Standards (IFRS) would, over time, continue working together to develop high quality, compatible accounting standards.

In this regard, a separate set of *Converged Accounting Standards* is in the state of preparation for compliance of certain class of Companies which are mandatorily required to present their Financial Statements in accordance with Converged Accounting Standards.

The Accounting Standards followed in India are based predominantly from IFRS. On convergence to IFRS, new concepts that companies would have to adapt would include

- ✓ Fair value accounting as against Historical Value accounting
- ✓ Group Reporting as against Standalones
- ✓ Acquisition Method in lieu of Purchase Method in business combinations.
- ✓ Principle based accounting over rule based accounting.

In the event that the notified Converged Accounting Standards are not fully consistent with the IAS/IFRS, it is presumed that Indian companies will have to follow the only the Converged Accounting Standards and will not adopt IFRS in entirety.



Convergence to IFRS:

Convergence timelines for Companies other than Banking & Insurance Companies are:

Phase	Specified class of Companies	Effective Date
I	<ul style="list-style-type: none"> ✓ Companies in Nifty 50 ✓ Companies in Sensex 30 ✓ Companies having securities listed on stock exchanges outside India ✓ Companies (whether listed or not) having net worth in excess of Rs 1,000 crores 	April 1, 2011
II	Companies (whether listed or not) having net worth in excess of ₹500 crores but less than 1,000 crores	April 1, 2013
III	Listed companies with net worth less than 500 crores.	April 1, 2014

Convergence timelines for Banking and Insurance Companies are:

Specified class of companies	Effective Date
Insurance companies	April 1, 2012
All scheduled commercial banks & Urban Co-operative Banks having a net worth in excess of net worth of ` 300 crores	April 1, 2013
Urban co-operative banks which have a net worth in excess of `200 crores but not exceeding `300 Crores.	April 1, 2014
NBFC which are part of Nifty - 50, Sensex 30 and NBFCs (listed or unlisted) having net worth of more than `1,000 crores.	April 1, 2013
All other listed NBFC's and other NBFCs having a net worth in excess of Rs 500 crores.	April 1, 2014

All companies which do not fall under the above mentioned convergence timelines (including Banking and Insurance Companies) are not mandatorily required to comply with the Accounting Standards converged with IFRS, however they may choose to voluntarily convert to Converged Accounting Standards. In the event financials have been presented under converged Accounting Standards, the Company needs to present their financials only under Converged Accounting Standards.

The Computation of Net Worth for the determination of applicability is given below:

Share Capital	xxx
Add: Reserves	xxx
Less: Revaluation Reserve	xxx
Less: Miscellaneous Expenditure	xxx
Less: P&L Debit Balance	xxx
Networth	<u>xxx</u>

Note:

Net worth shall be determined on the Balance sheet proceeding the date on which the Converged Standards are mandated to be complied with for the preparation and presentation of Financial Statements.

Comparison between Converged Accounting Standards and IFRS:

Converged AS	Corresponding IFRS	Status
AS 1 – Presentation of Financial Statements	IAS 1 – Presentation of Financial Statements	C
AS 2 – Inventories	IAS 2 – Inventories	C
AS 3 – Statement of Cash flows	IAS 7 – Statement of Cash Flows	C
AS 4 – Events after the reporting period	IAS 10 – Events after the reporting period	C
AS 7 – Construction Contracts	IAS 11 – Construction Contracts	C
AS 9 – Revenue	IAS 18 – Revenue	ED
AS 10 – Property, Plant and Equipment	IAS 16 – Property, Plant and Equipment	ED
AS 11 – The Effects of Changes in Foreign Exchange Rates	IAS 21 – The Effects of Changes in Foreign Exchange Rates	ED
AS 12 – Accounting for Government Grants and Disclosure of Government and Disclosure of Government Assistance	IAS 20 – Accounting for Government Grants	C
AS 14 – Business Combinations	IFRS 3 – Business Combinations	ED
AS 15 – Employee Benefits	IAS 19 – Employee Benefits	ED
AS 16 – Borrowing costs	IAS 23 – Borrowing Costs	C
AS 17 – Operating Segments	IFRS 8 – Operating Segments	ED

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Converged AS	Corresponding IFRS	Status
AS 18 – Related Party Disclosures	IAS 24 – Related Party Disclosures	ED
AS 19 – Leases	IAS 17 – Leases	C
AS 20 – Earnings per Share	IAS 33 – Earnings per share	ED
AS 21 – Consolidated and Separate Financial Statement	IAS 27 – Consolidated and Separate Financial Statement	ED
AS 22 – Income Taxes	IAS 12 – Income Taxes	ED
AS 23 – Investment in Associates	IAS 28 – Investment in Associates	ED
AS 24 – Non-current assets held for sale and discontinued operations	IFRS 5 – Non-current assets held for sale and discontinued operations	ED
AS 25 – Interim Financial Reporting	IAS 34 – Interim Financial Reporting	C
AS 26 – Intangible Assets	IAS 38 – Intangible Assets	ED
AS 27 – Interests in Joint Ventures	IAS 31 – Interests in Joint ventures	ED
AS 28 – Impairment of Assets	IAS 36 – Impairment of Assets	ED
AS 29 – Provisions, Contingent Liabilities and Contingent Assets	IAS 37 – Provisions, Contingent Liabilities and Contingent Assets	ED
AS 30, 31 and 32 – Financial Instruments –	IAS 39, 32 and IFRS 7 - Financial Instruments	ED
AS 33 – Share Based Payments	IFRS 2 – Share Based Payments	ED
AS 34 – Financial Reporting in Hyperinflationary Economies	IAS 29 – Financial Reporting in Hyperinflationary Economies	C
AS 35 – Exploration for and evaluation of mineral resources	IFRS 6 – Exploration for and evaluation of mineral resources	C
AS 36 – Accounting and Reporting by Retirement Benefit Plans	IAS 26 – Accounting and Reporting by Retirement Benefit Plans	ED
AS 37 – Investment Property	IAS 40 – Investment Property	ED
AS 38 – Agriculture	IAS 41 – Agriculture	ED
AS 39 – Insurance Contracts	IFRS 4 – Insurance ContractsM	ED
AS 40 – Financial Instruments	IFRS 9 – Financial Instruments	ED
AS 41 – First time adoption of Converged AS	IFRS 1 – First time adoption of IFRS	ED

C – Cleared by Council

ED – Exposure Draft Issued

The Impact of Implementation of Converged Accounting Standards:



Convergence to IFRS, which is indeed a complex process will, brings about a change inter-alia in the following:

- ✓ Change in existing GAAP
- ✓ Changes in numbers reported
- ✓ Changes to the accounting policies
- ✓ Changes in procedures adopted by the company
- ✓ Changes in financial reporting systems and
- ✓ Improving the IFRS skills for company personnel

During the first year of implementation of the converged Accounting Standards, there is no requirement to report the corresponding previous period's figures. Further, on implementation of converged accounting standards, the synchronization of both internal and external reporting keeping in view that it can have a deep and wide impact on overall aspects of the organization as such mentioned below:

- ✓ Affecting investor relations
- ✓ HR rewards
- ✓ Debts covenants
- ✓ Performance measures and
- ✓ Investors and market expectations
- ✓ Profitability of the Company

Benefits on Implementation of Converged Accounting Standards:

- **The Investors** – The investor will be benefited in as the way accounting information made available to them will be more reliable, relevant, timely and most importantly the information

will be comparable across different legal framework. It will develop better understanding and confidence among the investors.

- **The Corporate world** – The Indian corporate reputation and relationship with international finance community will elevate because of achievement of higher level of consistency between reporting structure and requirements; better access to international markets; improving confidence among the international investors. The international comparability will also get improve strengthening the industrial and capital markets in the country.

- **The Professional** – The professionals, both in practice and in employment will get benefits as they will be able to provide their services in various part of the world, as few years after everybody will follow the same reporting standards.

The Challenges Faced during this Process:



Despite several benefits, there would be several challenges faced on the way of convergence. A few relevant ones are detailed below:

▪ **Differences between Indian GAAP and IFRS:**

The differences are wide and very deep rooted, to say a few -Plant Property and Equipment (PPE) accounting, Financial Instruments accounting, Investment accounting, Business combination, Share based payment, current and non-current

classification of asset and liabilities, presentation of financial statements, all are not dealt under Indian GAAP.

▪ **Restructuring of existing business practices:**

Practical challenges of significant business and regulatory matters like structuring of ESOP schemes, training of employees, tax planning, modification of IT system, compliance with debt covenants would be faced and may require appropriate restructuring.

▪ **Investor Awareness on the implications of Converged Standards:**

Challenges may be on account of differences in various conceptual, practical, legal and implementation methods. The Indian GAAP keeps abreast the local conditions, including the legal and economic environment. For example AS 29 does not specifically deal with constructive

obligation whereas IAS 37 deals specifically with this in the context of creation of a provision. The effect of this is that in some cases provisions will be required to be recognized at an early stage.

• **Challenges on account of inconsistency with Statutes:**

The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory. For example the present direct tax laws do not address any tax implications likely to arise from IFRS transitions.



The implications during this Process:



Following are the implications:

- ✓ Impact of Fair Value Accounting in International Financial Reporting Standards
- ✓ Present Value Concept in accounting
- ✓ IFRS does not provide for the compromise, merger and amalgamation through court schemes. Further, effect of all such schemes is recognized through

income statement

- ✓ Depreciation on Re valued Assets
- ✓ Group Reporting v/s Standalone Financial Statements
- ✓ Further, there are significant lacuna in the following areas:

1. Treatment of expenses like premium payable on redemption of debentures, discount allowed on issue of debentures, underwriting commission paid on issue of debentures etc would be different from existing standards. This would bring a change in income statement leading to enormous confusion and complexities
2. Financial statements more complex under IFRS and thereby would pose challenge making useful decision.
3. The law and regulations of a country is a land specific and so of

India too.

4. It would have significant impact on the following regulations and statutes:

- Companies Act;
- SEBI Regulations;
- Banking Laws & Regulations; and
- Insurance Laws & Regulations.





When too many changes are happening – stop, think and proceed

In the world of change, we would need to be cautious if we are embracing all the changes at a single Go. Taking on too much is also a no starter.

Several companies want to do many things at the same time. Expansion, acquisitions, IFRS integration, ERP implementation, new controls mechanism, and what not.

When too many changes are happening – stop, think and proceed – Ramasami will tell you how.

Ramasami – the Barber.

Let me introduce you to Ramasami, my barber. On his job, two things are always present, a popular bollywood dance number in his 10 year old television, and his infectious chatter. His salon “The Kings hub” is just down the road to my house, and it appears to end even before it starts. It is a small but very tidy place. In this tiny place he has two hair cutting chairs, with a television, a small fridge, and a bunch of equipment, resembling surgical equipment, and a

waiting area. I am really not sure if anybody would have used any other equipment sans the comb and the pair of scissors. Ramasami was always passionate about his work, and had a very patriotic feeling for his work place.

On my entry his smile and salutations are a welcome gift to start the day. He patted on the chair, and ushered me to sit down, he packed me off in a huge white cloth, I call it a “mummy feeling”. He seems to challenge the hair, “let not a single streak of hair enter my customer”.

He then started his chatter by enquiring about my family, job, travel, economy, politics, India’s cricket win, the weather, and of course bollywood too.

He snapped his fingers at the scissors, and the comb crawled on my hair. I always enjoy the relaxing shave he gives, and I just closed my eyes. It was a relaxed morning, cool Gillette lather,

the smooth shave of ramasami, and the blade on my neck. I was just about to slip into deep slumber, and Ramasami chattered, “saab, look at the dance on the screen”, he seemed to be enjoying the dance sequence, he also hummed the tune, and almost started moving to the music, all this was amusing, but not with a blade on my neck. As and when the beat of the song became quicker, his blade moved faster, and the strokes matched the song. The song was good, and so was the mood of Ramasami, but the disturbing fact was the blade on my neck. I took courage, and told him, why don’t you finish the work and then get immersed in the song. Ramasami now started speaking about his experience, and the dance number was his back ground, he was doing too many things at the same time.



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Ramasami was moving with the beat, humming, talking about his experience, and above all, had his blade on my neck. Too many things at the same time, and then I could feel the inevitable cut on my neck, Ramasami had achieved a deep cut with the shaving blade. An experienced expert, doing this job for decades, now was embarrassed with the streak of blood on my neck. I then just told him, "Ramasami you could have done one thing at a time" Finally he did some first aid, and was done with the job. In normal circumstances it was a forgettable experience but the words "Ramasami you could have done one thing at a time" was lingering in my mind.

I just visualized my desk on a Monday morning, i would be discussing with my Secretary, talking to a client on the phone, replying to emails, listening to the channel music and thinking of something else, all at the same time. It was quite much similar to what

Ramasami was doing in the salon that morning. I do agree that most of these jobs did not require my full span of attention, but at least multi tasking does not mean, I could do too many things at one moment.

Are we talking on the mobile while driving, or are we driving when we are on the mobile. Are we listening of music, or keeping in touch with a dear one. When we do too many of these things at once, some activity needs to be as natural as breathing, which is seldom true.

As you are reading this article, just recollect the break fast you have had today. In most cases, the break fast, the news paper, chat with spouse, and signing of the kid's marks card, almost happen simultaneously. In this process, neither you have had the joy of the break fast or the chat. All the tasks are in process and nothing is complete to ones satisfaction.

I have been to many movies with my spouse, had pop corn, and also held

her hand; it was three in one, time with my wife, food and movie.

I have followed the learning I had from Ramasami. Since then I have a time for everything and do everything in its time. When I am in meetings, I do not answer my calls nor check my mails. When I want to spend time with my wife, I do spend time with her, and when I play with my kid, I only do that. Yes, there would be times, where we need to do multi tasking, in today's fast paced life, multi tasking may not be indispensable, but let me not have a blade on my neck. I would always like to have a smooth shave, and enjoy the time.

Check this out, try to do a task at a time, and you will find a lot of time saved and hence available. Next time when I met Ramasami, he shut the t.v off, and he enjoyed only the shave, and I did the same too.