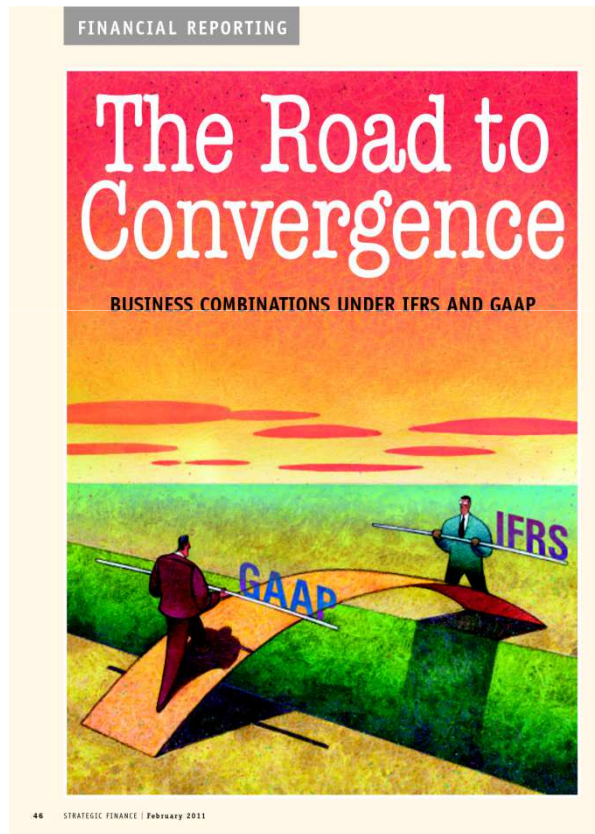


Third Eye View - Indian GAAP and IFRS key differences



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Senior General Manager

WELSPUN



Dare to Commit



Coverage

- Prior period items/Change in Accounting policy
- Taxes on Income
- Employee benefits (Corridor approach)
- PPE
- Hidden Lease
- Revenue
- CFS- Control and SIC 12
- Provisions and contingent liabilities
- Intangible Assets
- Investments/Financial Instrument
- Business combination
- Service concession arrangement(applicable to BOT industry)

Prior period items/changes in accounting policy

Area	Indian GAAP	IFRS
Change in accounting policy	No specific guidance, except for change in method of depreciation else prospective change	Changes arising out of new/ revised standards – treated as per transitional provisions of the standard. For other changes, retrospective application and restatement of comparatives are required. Retained earnings are adjusted for amounts pertaining to earlier years.
Change in method of depreciation	Change in accounting policy applied retrospectively.	Change in accounting estimate applied prospectively.
Accounting for prior period errors	Reported as prior period item in the current period results. No restatement of comparatives.	Errors are corrected retrospectively in the first financial statements authorized for issue after their discovery by restating the comparative amounts/retained earnings.

Taxes

Area	Indian GAAP	IFRS
Deferred income tax	Based on timing difference	Based on temporary difference
Un realized intra-group profits	Deferred tax not recognized deferred tax expense is an aggregation from standalone financial statements of each group entity and no adjustment is made on consolidation	Deferred tax on unrealized inter group profit is recognized at buyer's tax rate.
Deferred tax on Undistributed profits of subsidiaries, associates and joint ventures.	Not required	Deferred tax liability for all taxable temporary differences are recognized except to the extent (a) the parent, the investor or the venturer is able to control timing of the reversal of the temporary difference, and (b) it is probable that the temporary difference will not reverse in the foreseeable future.

Employee Benefits

Area	Indian GAAP	IFRS
Actuarial gains/ losses	All actuarial gains and losses are recognized immediately in P&L	<ul style="list-style-type: none">➤ Corridor approach or➤ Recognize immediately in P&L or➤ Recognize in SOCIE/ SORIE
Discount rate	Government bond rate	High Quality Corporate bond rate or Government bond rate
Termination benefit	Provision based on legal obligation	Provision made based on constructive obligation

Property, Plant & Equipment (‘PP&E’)



Property, plant and equipment (PP&E)

Area	Indian GAAP	IFRS
Depreciation	Useful life or Sch II rates whichever is higher	Useful life
Review of useful life and residual value	No need for annual review. Can be reviewed periodically	To be reviewed at least annually
Recognition criteria for subsequent expenditure	Increase in future benefits beyond its original standard of performance	Replacement are capitalized and replaced part de-capitalized
Revaluation of assets	If revaluation does not cover all assets, selection of asset to be revalued to be made on a systematic basis	Option of either cost or revaluation method and to be applied to an entire class of PP&E
Recoupment of depreciation from revaluation reserve	To the extent of revalued portion, can be recouped	Cannot be recouped, has to be charged to P&L account.

Property, plant and equipment (PP&E)

Area	Indian GAAP	IFRS
Revaluation frequency	No need to update regularly	Need to update regularly
Repairs, maintenance and overhauling	Expense off	Regular repairs are expensed off. Major repairs and overhaul expenditure is capitalized
Provision for site restoration	No guidance (However Guidance Note on Oil & Gas requires capitalization of site restoration cost)	Mandatory
Deferral of payment beyond normal credit terms	No specific guidance	Difference between cash price equivalent and total payment to be recognized as interest over period of credit

Leases

Area	Indian GAAP	IFRS
Lease of land and buildings	AS 19 scopes out lease of land (and therefore composite leases) from its scope. As per the recent EAC opinion, lease of land for longer period (say, 99 years) is treated as finance lease.	IAS 17 deals with lease of land. Since land normally has an indefinite economic life, lease of land is normally operating lease unless the title passes on to the lessee by the end of the lease term.
Incentive on operating leases received by lessee	No specific guidance, except for straight-lining of lease rental over the lease period.	Recognized over the term of the lease.
IFRIC 4 – Hidden lease	No guidance	As explained in next slides

Whether an arrangement is a lease

IFRS

- IFRIC 4 requires an entity to determine whether transactions, e.g., power purchase agreements, structured as normal sale/ purchase transactions, are or contain any lease.
- Determination to be based on
 - ❖ Substance of the arrangement;
 - ❖ Whether fulfilment is dependent on the use of specific asset or assets; and
 - ❖ Whether it conveys a right to use the asset

Whether an arrangement is a lease

Fulfilment of the arrangement is dependent on use of specific asset (s)

- Check if fulfilment of arrangement is not dependent on specifically identified asset
- Check if only one asset or practically not it is not feasible to deliver through alternative asset

An arrangement conveys right to use the asset

- purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines;
- purchaser has the ability or right to control physical access to the underlying asset;
- facts and circumstances indicate that it is remote that any other party other than the purchaser will take more than an insignificant amount of the output during the term of the arrangement, and the price is
 - ❖ neither contractually fixed per unit of output;
 - ❖ nor is equal to the current market price per unit

Revenue

Area	Indian GAAP	IFRS
Measurement	Measured at charges made to customers for goods supplied and services rendered. Discounting of deferred revenue is normally not required, except in case of installment sales.	Measurement at the fair value of the consideration received or receivable. Where inflow of cash or cash equivalents is deferred, discounting to a present value is required.
Interest income	Requires interest income to be recognized on a time proportion basis.	Requires effective interest method to be followed for interest income recognition.

Consolidated Financial Statements

Area	Indian GAAP	IFRS
Definition of “Control”	<ul style="list-style-type: none"> ➤ Control exists only when parent owns directly or indirectly one-half or more of the voting rights <u>or</u> parent controls composition of an entity’s Board of directors so as to obtain economic benefits. ➤ Potential voting rights are also considered for determining control 	<ul style="list-style-type: none"> ➤ Control is power to govern financial and operating policies of an entity so as to obtain benefits. ➤ Beside conditions given in Indian GAAP, majority voting in board can also give control. ➤ Further, potential voting rights are also considered for determining control
SIC 12- indicators of control over SPE	No such guidance is available	<p>It could be demonstrated by :</p> <ul style="list-style-type: none"> ➤ Activities of SPE for the benefit of Entity, ➤ Decision making is by entity for SPE, ➤ Residual risk is with entity instead of capital providers and ➤ Return are in form of residual return majority benefits flowing to entity

Provisions, Contingent Liabilities and Contingent Assets

Area	Indian GAAP	IFRS
Discounting	Prohibited	Required
Contingent asset	Disclosure not permitted in the financial statements. However, the same can be disclosed in the director's report.	Disclosure required

Intangible assets

Area	Indian GAAP	IFRS
Subsequent measurement policy	Subsequent revaluation is prohibited	An entity can either choose cost model or revaluation model
Amortisation	Useful life not exceeding 10 years (unless persuasive evidence for a longer useful life)	Useful life (no specific time limit)
Research and development	No specific guidance on separately acquired in-process R&D. In-process R&D of an acquired subsidiary is not accounted in CFS	R&D project acquired separately or in a business combination is recognized as an intangible asset

Financial Instruments / Investments

Area	Indian GAAP	IFRS
Measurement - Investments, loans and receivables	<p>➤ As per AS 13 investments are classified as long term or current</p> <ol style="list-style-type: none"> 1. Long term investments - valued at cost less impairment which is other than temporary 2. Short term investments – Valued at lower of cost and fair value. Any change in value is recognized in the statement of profit and loss <p>Loans and receivables are measured at cost less valuation allowance.</p>	<p>➤ Under IAS 32 financial instruments are classified as financial asset and financial liabilities. Further, financial asset is classified as:</p> <ol style="list-style-type: none"> 1. Held to maturity, loans and receivables - carried at amortized cost. 2. Available for sale investments – carried at fair value. Any change in recognized in other comprehensive income. <p>Loans and receivable are carried at amortized cost</p>
Hedge/ derivative	Guidance through announcement, AS 11 and GN	Detailed guidance is given in IAS 32, IAS 39, IFRS 9

Business Combinations



**“BUSINESS
COMBINATIONS
CAN BE AN
EXCELLENT
GROWTH SOURCE
WITH PROPER
TAX PREPARATION.”**

- Raymond Naughtin, Partner

Business Combinations

Area	Indian GAAP	IFRS
Pronouncements	No comprehensive standard. AS 14 deals with amalgamations where acquiree ceases to exist. AS 10 deals with acquisition of division. AS 21 with consolidation of subsidiary.	IFRS 3
Pooling Method	Permitted under AS 14 if certain conditions are fulfilled	Prohibited
Acquisition date	The date of amalgamation as defined in the amalgamation/ acquisition scheme.	The date on which the acquirer effectively obtains control of the acquiree.
Valuation of Acquiree	Generally book value, though fair value is allowed under AS 14 as an alternative in the case of purchase method and AS 10	Only fair value
Valuation of Acquiree – Intangible Assets	Generally not valued if not in the books of the acquiree	Valued even if not in the books of the acquiree provided fair value can be measured reliably

Business Combinations

Area	Indian GAAP	IFRS
Valuation of Acquiree – Contingent liabilities	Not valued	Valued and recognized as actual liabilities
Provisional allocations	Not permitted except for contingent consideration under AS 14	Permitted over 12 months
Goodwill	Different treatment under different AS. AS 14 requires amortization. AS 10 suggests but does not mandate amortization. AS 21 is silent.	Amortisation prohibited. Annual impairment test mandatory
Negative goodwill	Capital reserve	P&L account
Reverse acquisition	Not dealt with	Accounted considering the legal acquiree is in substance the acquirer

Service Concession Agreement

Area	Indian GAAP	IFRS
Guidance/pronouncement	No specific guidance except AS 10, AS 26 and AS 9. Draft guidance note is available but not finalized.	IFRIC 12 deals with the issue in detail.
Classification of toll rights/right to annuity	Various practice being followed i.e. disclose the same as Intangible assets or financial asset or Intangible under development or fixed asset etc.	In case of toll project, it needs to be shown as Intangible asset and in case of annuity it needs to be shown as Financial asset
Major maintenance expenditure	No uniformity/guidance. Practices are to provide in PL each year, provide in PL in the year of incurrence and capitalize when incurred etc	In case of toll asset, provide based on estimate every year. In case of annuity, consider the same in the value of financial asset recognized in the books
Revenue during construction	Not recognized	Recognized based on IAS 11

Thank You



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