

Difference between Indian GAAP and IFRS

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Gaap means generally accepted accounting principles which are issued by ICAI and IFRS means International Financial Reporting Standards. Though both are almost similar but there exists the difference between the two. Following are the points of difference between Indian GAAP and IFRS:

Cash Flow Statements- Dividend/Interest

There is no guidance for classifying cash flows arising due to Dividend & Interest. They may be classified as Operating, Financial or Investing activities. Interest and Dividends paid are classified as cash flows from Financing Activities. Interest and Dividend received are classified as cash flows from Investing Activities. Only in case of a financial enterprise, interest paid, interest received and dividend received should be classified as operating activities.

Events after the Balance Sheet Date - Non adjusting events

IFRS requires disclosure of significant non adjusting event in the notes to the Financial Statements Indian GAAP requires disclosure of such events in the report of the approving authority.

Consolidated Financial Statements

IFRS considers Consolidated Financial Statements as the General Purpose Financial Statements. It is not mandatory to prepare Consolidated Financial Statements under AS 21. SEBI requires from listed companies to submit Consolidated Financial Statements. Banking Companies are also required to prepare Consolidated Financial Statements.

Statement of Financial Position (Balance Sheet) - Format

A current/non-current presentation of assets and liability is used, unless a liquidity presentation provides more relevant and reliable information. Certain minimum items are presented on the face of the balance sheet.

Accounting standards do not prescribe a particular format; certain items must be presented on the face of the balance sheet. Formats are prescribed by the Companies Act and other regulations like Banking Regulation Act, Insurance Regulatory

Statement of Changes in Equity (SoCIE)

Statement shows capital transactions with the owners, the movement in accumulated profit/loss and a reconciliation of all other components of equity.

No separate statement is required.

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Changes in Accounting Policy

Comparative years' information is restated and the amount of the adjustment relating to prior period is adjusted against opening balances of retained earnings of the earliest prior period presented, unless specifically exempted.

Restatement is not required.

The effect of changes is included in current year income statement. The impact of change is disclosed.

Depreciation on Revaluation of Property, Plant and Equipment

Depreciation on revalued portion cannot be recouped out of revaluation reserve

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Revaluation Reserve of Property, Plant and Equipment

Revaluation Reserve is directly transferred to Retained Earnings on derecognition.

Revaluation Reserve is transferred to Income Statement on derecognition.

Life of Intangible Assets

An entity shall assess whether the useful life of an intangible asset is finite or indefinite. If finite, the length of, or number of production or similar units would constitute useful life.

An intangible asset shall be regarded by the entity as having an indefinite useful life when,

based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for

the entity. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use.

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Non current assets held for sale and discontinued operations

Scope

IFRS-5 sets out requirements for classification, measurement and presentation of Non-current assets held for sale and the classification and presentation of discontinued operations. There is no specific standard which prescribes classification, measurement and presentation of all non-current assets held for sale. However as per AS 10 items of Fixed assets that have been retired from active use and are held for disposal are stated at lower or their net book value and net realizable value and shown in the financial statements.

As 24 deals with disclosures relating to discontinued operations.

Period of disposal for Non-current assets held for sale

Completed within a year, with limited exceptions. No time frame specified.

Presentation

A single amount is presented on the face of the income statement comprising the post tax profit or loss or discontinued operations and an analysis of this amount either on the face of the income statement or in the notes for both current and prior periods. Separate classification on the balance sheet for assets and liabilities for the current period only. The following is separately disclosed on the face of the profit and loss account separately from continuing operations:

_ pre-tax profit or loss and related taxes

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_ pre-tax gain or loss on disposal

Income/expense line items from continuing and discontinuing operations are segregated and disclosed in the notes to account; but is presented on a combined basis in the income statement.

No separate presentation is required for Balance Sheet items.

Financial Assets- Derecognition

Financial assets are derecognised based on risks and rewards first; control is secondary test. There is limited guidance for derecognition.

Usually, financial assets are derecognised based on transfer of risks and rewards.

The ICAI has issued a Guidance Note on securitization which requires derecognition based on control.

Compound Financial Instruments

IAS 32 requires compound financial instruments, such as convertible bonds, to be split into liability component and equity component and each component is recorded separately. No split accounting required and financial statements are classified either as equity or liability depending on their primary nature. For example a convertible debenture is generally treated as liability.

Inventory Measurement

GAAP explains that inventory value is measured on the basis of FIFO, LIFO and weighted average method but IFRS does not allow to use LIFO method. We can not use last in first out for calculation the value of closing stock under IFRS.

Recognition of Revenue from Services

GAAP accepts the money as revenue when total services are provided and contract of services is completed. But if there is work is pending under service contract, we can not recognise the revenue from service. But IFRS allows to show the revenue even some part of services are pending. IFRS also use zero profit model in case if we can not be reasonably calculate the revenue.

Difference in Construction Contract's Revenue Recognition

In GAAP: We can show the % of completed work and recognise its revenue for showing in our financial statement.

b) In IFRS: IFRS uses only revenue approach of % of completion method but it does not use the gross profit approach of % completion method.