

# Rising to the challenge of IFRS\*

Questions management should consider today



The changes resulting from adoption of IFRS are wide ranging and affects the entire fabric of the company. The change will transform the way companies and the markets judge performance and value, and may require a decisive shift in areas ranging from product design, earnings management to information systems, market communications and performance-based pay. IFRS transition cannot simply be delegated to the finance department or dismissed as a purely technical issue.

The management and board need to understand the risks associated with IFRS adoption and ensure that appropriate action is being taken. PricewaterhouseCoopers has developed a series of questions to assist the management and board in assessing the status of IFRS transition.

# Changing Indian GAAP

All significant change goes through a process of acceptance amongst the stakeholders. The Institute of Chartered Accountants of India's (ICAI) decision to adopt International Financial Reporting Standards (IFRS) from April 1, 2011 is no different. Needless to say, IFRS is an advanced accounting framework which requires deep understanding of issues and consequent explanation to all stakeholders.

## Are you aware that Indian GAAP is converging with IFRS?

- IFRS would be Indian GAAP from financial year 2011-12
- ICAI is yet to clarify the transition requirement
- IFRS itself is a moving target
- Comparative financial year may be required
- GAAP qualifications may no longer be allowed

## Are you aware of the magnitude of the change anticipated?

- ICAI's convergence paper indicates that only 2 of 29 applicable Indian accounting standards are fully compliant with IFRS
- There are 12 standards where there are conceptual differences and 10 standards which would require regulatory changes
- Emphasis under IFRS is on consolidated financial statements and not stand-alone

## High-level business impact

### What are the high-level effects on performance and financial ratios?

- Board's awareness of strategic implications – volatility of reported performance measures
- Impact on specific covenants or ratios that are important to your business
- Implications for your remuneration packages, including bonuses and profit sharing arrangements
- Impact on distributable reserves, EPS, tax liability etc.

# Issues affecting your results

IFRS differs from Indian GAAP in certain critical accounting treatments, which may significantly affect the results of operations of companies.

## Accounting/Technical issues

**Do you know where the key differences will be and their implications?**

- Major accounting policy changes in the business
- IFRS 1 – application and your choice of optional exemptions
- Indian GAAP – current inconsistencies in its application

## Consolidation

**Are you aware that IFRS has the potential of affecting the consolidated group?**

- Definition of control is beyond equity ownership and Board control - potential voting rights to be considered
- Jointly controlled entities will have to be equity accounted
- Entities currently not consolidated may also come on-balance sheet e.g. special purpose vehicles

## Business Combinations

**Have you envisaged the impact of purchase method of accounting for mergers and acquisitions?**

- Fair valuation of assets and liabilities – time it takes
- Identification of intangibles – subsequent period amortisation
- Contingent considerations – estimating the fair value

## Property, Plant and Equipments (PPE)

**Have you assessed the impact on PPE and subsequent accounting?**

- Depreciate over economic useful life – periodic assessment of useful life and residual value
- Component approach mandatory – assessment to be carried out
- Revaluation model – depreciation through income statement



## Taxation

### Do you understand the impact of convergence with IFRS could have on your tax liability?

- Watch out for changes in tax legislations due to change in accounting language – tax planning strategies
- Tax requirement – acceptability of requirement for IFRS
- Subsidiary-level implications – related to the GAAP chosen for financial reporting

## Employee Benefits

### How will the different accounting rules for employee benefits (including ESOP's) affect your reward and remuneration schemes?

- Impact of subsidiary's defined benefit pension plan forming part of group plan
- Implications of the new share-based payments rules
- Need to reconsider remuneration plans throughout your business

## Investor relations and market expectations

### When, what and how will you report to the external market?

- External reporting – publishing information for analysts and your shareholders
- Market information – quantity, type and auditing
- Dealing with uncertainty over future developments in IFRS
- Market perception of your industry and company

## Financial Instruments and Treasury Operations

### Have you fully assessed the implications of financial instruments accounting all aspects of your business and organisation?

- Classifying and treating your financial instruments – once decided rarely changed
- Financial instruments on your balance sheet – deriving appropriate values
- Have you identified all embedded derivatives

## Valuation, Strategy and Impairment

### Have you considered potential valuation issues concerning your assets and liabilities?

- 50% to 75% of your balance sheet can be on fair value
- Availability of fair valuation experts within the organisation who understands business, accounting and valuation
- Assess the impact on financial instruments, business combination, share based payments, employee benefits, barter transactions, etc.
- Assess the impact of impairment of assets
- Identifying cash generating units (CGU), cash flow projections, appropriate discount rates

## Industry Issues

### Have you identified all the industry-specific issues that may affect your company?

- IFRS impact varies from sector to sector
- Identification of key sectoral issues relevant to your business
- Accounting volatility or mismatches, plus strategic responses

# Internal and external reporting and communication

Managing stakeholders' expectations may be challenging. The key would be to assess impact early and start communicating with both internal and external stakeholders.

## IFRS financial statements, consolidation pack, data dictionary and subsidiary accounts

### Do you understand how your financial statements will look like under IFRS?

- High-level differences – impact on the income statement and balance sheet
- Disclosure requirements – to what extent
- Indian GAAP – current inconsistencies in its application
- IFRS 1 – application and choice of optional exemptions
- Impact of new standards to be applied retrospectively

## Management information (MI) and internal Communications

### How will you update your internal communications and MI?

- Need for MI to follow IFRS – impact on your business
- Implications for management – additional segmental disclosures and information requirements
- International consistency – need for IFRS accounting manual and reporting pack

## Investor relations and market expectations

### When, what and how will you report to the external market?

- External reporting – publishing information for analysts and your shareholders
- Market information – quantity, type and auditing
- Dealing with uncertainty over future developments in IFRS
- Market perception of your industry and company



## Data modeling and requirements

**How will you collect the required data and ensure that there are adequate controls?**

- Data and information – knowledge of additional requirements under IFRS
- Your first IFRS financial accounts – tactical or embedded methods of data collection
- Continuing data capture – methods and processes
- New data – controls are accurate

## System enhancements and developments

**Will you need to enhance your current systems or develop new ones to meet your IFRS obligations?**

- Identification of financial information systems and processes – at group and business unit level
- Your chart of accounts – need for change/overhaul
- Your systems, people and processes – adequacy for new reporting regime
- Managing multiple GAAPs within the group, e.g., IFRS, Indian and US

## Internal control environment, process development and other initiatives including Clause 49

**How is your IFRS conversion project integrated with other initiatives, and have you identified all interdependencies?**

- Integration with other changes in the business, e.g. Clause 49, Basel
- Process changes and controls – documentation compliant with corporate governance requirements
- Expert knowledge of IFRS would be required by Audit Committee members to discharge their duties

# Managing the project

## Project set-up and management

**How will you manage and govern your project to ensure its success?**

- Steering group – oversight and operation
- Project manager – IFRS expertise plus broader commercial understanding
- Cross-business involvement from all affected functions to ensure you meet deadlines

## Project governance

**Are your Board and Audit Committee fully committed, involved and knowledgeable about the implications of IFRS conversion?**

- Senior management – awareness of options, strategic decision-making
- Audit Committee – reporting structures and timings
- Internal Audit – role in risk-management, involvement from the outset

## Resource levels and training

**Do you have the right people with the right skills to complete the transition and embed the changes within your company?**

- Your people – number required, skill levels, other commitments
- Training – strategy, functional areas, delivery, support tools
- Recruitment and retention – implications for remuneration structures and career plans

## Project progress – business unit

**When and how will you involve your business units to ensure local ownership of the IFRS numbers?**

- Business unit commitment – essential to success of transition, how to secure it
- Communications – on required data and project plan
- Changing business unit processes and procedures – most IFRS information is generated at a business unit

If you have any questions or need further information on any issues, please contact your local PricewaterhouseCoopers office below or write to [ifrs.india@in.pwc.com](mailto:ifrs.india@in.pwc.com)

**Bangalore:**

Ph: +91-80-4079-5004

**Chennai:**

Ph: +91-44-4228-5017

**Gurgaon:**

Ph: +91 124- 4620-511  
+91 124- 4620-515  
+91 124- 4620-116

**Hyderabad:**

Ph: +91-40-6624-6644

**Kolkata:**

Ph: +91-33- 2357-7495

**Mumbai:**

Ph: +91-22-6669-1313  
+91-22-6669-1206  
+91-22-6669-1312

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. This publication (and any extract from it) may not be copied, paraphrased, reproduced, or distributed in any manner or form, whether by photocopying, electronically, by internet, within another document or otherwise, without the prior written permission of PricewaterhouseCoopers. Further, any quotation, citation, or attribution of this publication, or any extract from it, is strictly prohibited without PricewaterhouseCoopers' prior written permission.

© 2008 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers", a registered trademark, refers to PricewaterhouseCoopers Private Limited (a limited company in India) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

**Design:** [info@mindcube.com](mailto:info@mindcube.com) **Printed by:** Paramount Printographics