

# Indian Outlook of IFRS for SMEs

- ⊕ On 1<sup>st</sup> July 09, IASB issued IFRS for SMEs, a separate code of GAAP applicable only to SMEs around the globe.
- ⊕ A Study group is working on the applicability and adaptability of IFRS for SMEs to Indian SMEs.
- ⊕ This is a paper on Indian Outlook of IFRS for SMEs.



# Preface

India, in 2011, joins the global accounting revolution: International Financial Reporting Standards. Convergence with IFRS is not just about switching over from one set of accounting & reporting standards to another. On 1<sup>st</sup> July 2009, IASB issued a single set of global reporting standards called 'International Financial Reporting Standard for SMEs' more popularly known as '**IFRS for SMEs**', **due to this now even SMEs in India also ride on the same road towards IFRS convergence.** It takes the description of a revolution because conceptual differences are expected, as evidenced in this publication.

Indian Accounting Standards (fully converged with IFRS) have been published and awaits formal approval of MCA. However, the position of SMEs is not clear. Convergence with IFRS for SME / IND AS is more about a complete business and financial strategy to adopt Indian version of international standards which may be a long process involving investment of time and resources for SMEs in India and at the same time will be a highly value adding exercise for SMEs to have their footprints in the global financial market.

We believe that now is the right time to gear up for IFRS for SMEs.

This GJC publication is an endeavor to provide a concise summary of the differences that exist between IFRS for SMEs and Indian GAAP for SMEs in India. We advise readers to consult all the relevant accounting standards and applicable regulations.

We at GJC are committed to help you understand IFRS for SMEs / IND AS.

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# Where does IFRS stands, Globally and in India?

## IFRS Globally

- The Globe (almost 110+ countries) is active towards IFRS convergence.
- UK, EU members, France, Germany, South Africa, Turkey, New Zealand, Australia, China, & Russia currently require / permit IFRS.
- Japan, Sri Lanka, Canada & Korea committed adopted IFRS from 2011.
- USA is adopting IFRS from 2014 and SEC also permits foreign private players to file IFRS complied Financial Statement, without demanding US GAAP reconciliations.

IFRS in Indian context :

- Indian regulators have adopted **3 PHASE ROAD MAP FOR IFRS i.e.**

Op. Balance Sheet as at	Entities covered
Phase - I 1 <sup>st</sup> Apr. 2011	- Nifty 50 companies - BSE 30 companies - Companies listed outside India - Companies having Net work > 1,000 Cr.
Phase - II 1 <sup>st</sup> Apr. 2013	Companies not covered in Phase I and having Net worth > 500 Cr.
Phase - III 1 <sup>st</sup> Apr. 2014	Listed companies not covered in Phase I & II

- Draft modifications has been sent to RBI for Banks.

## Indian GAAP

Indian GAAP :

- Various regulatory bodies of industries in Indian Economy like RBI, SEBI, IRDA, MCA, ICAI and NACAS regulate the Indian Financial Reporting Framework (Indian GAAP). It is summarized as under;

Industry (Regulator)	Indian GAAP Comprises of
Banks (RBI)	RBI Guidelines
Insurers (IRDA)	IRDA regulations for preparation of financial statements of Insurers
Financial Institutions like Mutual Funds, NBFC etc.	- SEBI Mutual Fund regulations - NBFC regulations by RBI
Listed entities	SEBI Regulations
All Corporate entities bodies (MCA-ROC)	Companies (Accounting Standard) Rules 2006 (CASR)  IND AS (Indian version of IFRS) issued recently
All entities	Accounting Standards issued by ICAI  IND AS recently issued, Awaits MCA approval

# What are Small and Medium Sized Entities (SMEs) in India?

## Regulatory Framework

- Ministry of Micro, Small and Medium Enterprises regulates Indian SMEs.
- The Micro, Small and Medium Enterprises Development Act' 2003 (The MSME Act) governs all Micro, Small and Medium Enterprises (SME) in India.
- The Act provides to facilitate promotion and development and enhancing the competitiveness of SME and for matters connected therewith or incidental thereto.
- FDI in SMEs as equity / convertible debenture is under Automatic Route (except issue to Pakistan or Bangladesh).

## SMEs in India

- There were about **26.1 Million SMEs** in India, as per 2006-07 Census, which grows @ 4 -5% per annum, say **32.52 Mn NOW**.
- SMEs includes all forms of business i.e. proprietorship, HUF, AOP, co-operative society, partnership firm, company or undertaking, by whatever name called.
- The MSME Act has classified **Indian SMEs** into micro, small and medium enterprises based on investments in plant, machinery and equipment, popularly known as **3 Tier classification of Indian SMEs**, which is summarized hereunder.

## 3 Tier Classification of Indian SMEs (as per MSME Act)

Enterprises engaged in	Investments callings in	Classification of Enterprises		
		Micro	Small	Medium
Industries specified in 1 <sup>st</sup> Sch. Of IDR Act, 1951 - <b>Manufacturing sector</b>	Plant and Machinery**	≤ 25 Lacs	> 25 Lacs but ≤ 5 Crore	> 5 Crore but ≤ 10 Crore
Providing or rendering services - <b>Service sector</b>	Equipments	≤ 10 Lacs	> 10 Lacs but ≤ 2 Crore	> 2 Crore but ≤ 5 Crore

\*\*Cost of Investment in Plant and Machinery shall not include cost of pollution control, R & D, industrial safety devises & other notified costs.

# What are GAAP for SMEs?

Criteria	IFRS for SMEs	Indian GAAP for SMEs
<b>Regulators &amp; Status</b>	<p>IASB issued IFRS for SMEs.</p> <p>Live from <b>1<sup>st</sup> July 2009</b></p> <p>A Study group is working on applicability of IFRS for SMEs in India.</p>	<p>MCA issued CASR and Sch. VI.</p> <p>a. CASR - issued in 2006 &amp; revised in 2008, 2009 &amp; 2011</p> <p>b. Sch. VI - New w.ef. 01.04.2011</p> <p>ICAI issued AS and Ind AS;</p> <p>a. AS - issued in phased manner</p> <p>b. IND AS - recent, awaits MCA approval</p>
<b>Individuality</b>	A single set of globally accepted GAAP for SMEs.	No separate set of GAAP. AS / IND AS are separate standards.
<b>Classification of Entities</b>	<p><b>2 Tier classification;</b></p> <ul style="list-style-type: none"> <li>- Publicly accountable entities (Non-SMEs)</li> <li>- Entities that do not have public accountability (SMEs).</li> </ul>	<p><b>2 Tier classification for Companies as per CASR, 2006;</b></p> <ul style="list-style-type: none"> <li>- Small and medium size companies (SMCs)</li> <li>- Non-SMCs;</li> </ul> <p><b>3 Tier classification for non-companies as per ICAI</b></p> <ul style="list-style-type: none"> <li>- Level I entities</li> <li>- Level II and III entities</li> </ul>
<b>Target Entities or SMEs</b>	<p>Entities across globe referred to by various names like SMEs, private entities and non-publicly accountable entities . However, Legislative and regulatory authorities and standard-setters from individual jurisdictions will decide which entities are required or permitted to use IFRS for SMEs.</p>	<p>Indian SMEs comprises of</p> <ul style="list-style-type: none"> <li>- Companies that are SMCs as per CASR, 2006 and</li> <li>- Non-companies that are Level II or III entities as per AS issued by ICAI</li> </ul> <p>Indian SMEs are also MSMEs as per MSME Act.</p>
<b>Non SMEs</b>	These are publicly accountable entities.	<p>Non-SMEs comprise of</p> <ul style="list-style-type: none"> <li>- Companies that are not SMCs as per CASR, 2006 and</li> <li>- Non-companies that are Level I entities as per AS issued by ICAI</li> </ul> <p><b><u>Ind AS does not differentiate SMEs / SMCs.</u></b></p>

# What are GAAP for SMEs?

Criteria	IFRS for SMEs	Indian GAAP for SMEs
<b>Organisation</b>	IFRS for SMEs are organized in 35 topics, having separate sections for each such topic.	AS are 31 individual accounting standards with a FRAMEWORK and are supported by ASI.  IND AS are 35 individual accounting standards with a FRAMEWORK and as supported by Appendix (like IFRIC).
<b>Mandatory for</b>	General Purpose Financial Statements and other Financial Reporting by SMEs	General Purpose Financial Statements of Indian SMEs.
<b>Implementation Guide</b>	IASB has also issued an 'Illustrative Financial statements presentation and disclosure checklist' which serves as an implementation guide for SMEs.	No such implementation guides are issued by regulator for implementation of Indian GAAP. However, private publications of reputed accounting firms are available in market.
<b>Use by Non-SMEs</b>	If a publicly accountable entity uses IFRS for SMEs, its financial statements shall not be described as conforming to IFRS for SMEs – even if law or regulation in its jurisdiction permits or requires such use.	Current FRAMEWORK of Indian GAAP is common for SMEs and publicly accountable entities (i.e. Level I Entities and Non-SMCs). SMEs are given certain exemptions from compliance with Indian GAAP requirements.
<b>Use by group entities</b>	A subsidiary whose parent uses full IFRSs, or that is part of a consolidated group that uses full IFRSs, is not prohibited from using IFRS for SMEs in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the IFRS for SMEs, it must comply with all of the provisions of IFRS for SMEs.	FRAMEWORK of Indian GAAP for SMEs & Non-SMEs (publicly accountable entities - i.e. Level I Entities and Non-SMCs) is same.  SMEs are given certain exemptions from compliance with Indian GAAP requirements.  The position is not clear in IND AS.

# What are SMEs as per IFRS for SMEs and as per Indian GAAP?

IFRS for SMEs	Indian GAAP for SMEs
<b>SMEs</b>	
<p><b>Section 1 of IFRS for SME;</b>  <b>Small and Medium Size Entities (SMEs)</b> are entities that:</p> <ul style="list-style-type: none"> <li>• do not have <b>public accountability</b>; and</li> <li>• publish general purpose financial statements for <b>external users</b>.</li> </ul> <p><b>External users</b> include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.</p> <p>An entity has <b>Public Accountability</b> if;</p> <ul style="list-style-type: none"> <li>• its debt or equity instruments are traded in a public market OR it is in the process of issuing such instruments for trading in a public market; Or</li> <li>• it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Typically banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks</li> </ul> <p>Public market means a domestic/foreign stock exchange or an over-the-counter market and includes local &amp; regional markets.</p>	<p>As per CASR 2(f), <b>SMC</b> means a company ;</p> <ul style="list-style-type: none"> <li>• whose equity/debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;</li> <li>• which is not a bank, financial institution or an insurance co.;</li> <li>• whose turnover (excluding other income) <math>\leq</math> Rs. 50 Cr. in the immediately preceding accounting year;</li> <li>• which does not have borrowings (including public deposits) in <math>&gt;</math> Rs. 10 Cr. at any time during the immediately preceding accounting year;</li> <li>• which is not a holding or subsidiary co. of a co. which is not an SMC.</li> </ul> <p>A Co. is an SME if the conditions referred above are classified <b>at the end of the financial year</b>.</p> <p>SMCs enjoy certain specified exemption from compliance with INDIAN GAAP compared to Non-SMCs.</p>
<b>Non - SMEs</b>	
<p>Entities that do not meet above criteria are not SMEs.</p>	<p>A co. which is not an SMC i.e. a <b>Non-SMC is a Non-SME</b>.</p>



# What are SMEs as per IFRS for SMEs and as per Indian GAAP?

IFRS for SMEs	Indian GAAP for SMEs
<b>SMEs</b>	
<p><b>Section 1 of IFRS for SME;</b>  <b>Small and Medium Size Entities (SMEs)</b> are entities:</p> <ul style="list-style-type: none"> <li>• do not have <b>public accountability</b>; and</li> <li>• publish general purpose financial statements for <b>external users</b>.</li> </ul> <p><b>External users</b> include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.</p> <p>An entity has <b>Public Accountability</b> if;</p> <ul style="list-style-type: none"> <li>• its debt or equity instruments are traded in a public market OR it is in the process of issuing such instruments for trading in a public market; Or</li> <li>• it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Typically banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.</li> </ul> <p>Public market means a domestic/foreign stock exchange or an over-the-counter market and includes local &amp; regional markets.</p>	<p>ICAI AS defines, SMEs as</p> <p>Level II entities are</p> <ul style="list-style-type: none"> <li>• All commercial, industrial and business reporting enterprises, <ul style="list-style-type: none"> <li>• whose turnover (excluding other income) for the immediately preceding accounting period based on audited financial statements &gt; Rs. 40 Lacs but does not &gt; Rs. 50 Crore, or</li> <li>• Having borrowings (including public deposits) &gt; Rs. 1 Crore but does not &gt; Rs. 10 Crores at any time during the accounting period, or</li> </ul> </li> <li>• Holding and subsidiary enterprises of any 1 of the above at any time during the period.</li> </ul> <p>Level III entities are entities that do not fall in Level I or II.</p> <p>In short, Level II and III entities are SMEs which enjoy certain specified exemption from compliance with Indian GAAP.</p> <p><b><u>However, IND AS does not clarify exemption status of SMEs.</u></b></p>
<b>Use of Quantified criteria</b>	
<p>No such quantification criteria is used to define SMEs.</p>	<p>Certain quantification criteria linked with turnover and borrowings are used.</p>

# Comparison of Framework of IFRS for SMEs & of Indian GAAP

Criteria	IFRS for SMEs	Indian GAAP for SMEs
Objectives and Qualitative characteristic of Financial Statements of SMEs	<p><b>Section 2 Concepts and Pervasive Principles</b> provides a framework for financial statements (FS) of SMEs and It lists down;</p> <ul style="list-style-type: none"> <li>- The objective</li> <li>- <b>Qualitative characteristics</b> of information therein i.e. understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness and balance between benefit and cost.</li> <li>- <b>Financial Position, Performance and its elements</b></li> <li>- <b>Recognition of assets, liabilities, income and expenses</b></li> <li>- <b>Accrual basis</b></li> <li>- <b>Recognition in FS</b></li> <li>- <b>Measurement at initial recognition and subsequent measurement</b></li> <li>- <b>Off setting</b></li> </ul> <p>Section 3 provides guidance on going concern and consistency in presentation of financial statements.</p>	<p>The Framework for preparation and presentation of financial statements issued by ICAI ('The Framework') is conceptually very similar to that of Section 2 and 3 of IFRS for SMES, however, it documents all the topics in more detail as it is also intended to apply to publicly accountable entities.</p> <p>The Framework describes Accrual, Going Concern and Consistency as fundamental accounting assumptions.</p> <p>The Framework of IND AS is also in line with that of Framework of IFRS for SMEs, however, it covers all topics at length. Consistency is covered as a part of comparability and there are only two fundamental accounting assumptions i.e. Accrual and Going Concern.</p>
True and Fair View	<p><b>Section 3 Financial Statement Presentations</b> presumes that application of IFRS for SMEs with additional disclosure result in fair presentation of financial statements.</p>	<p>The Framework speaks about True and Fair presentation, unlike IFRS for SME which presumes only fair presentation. The IND AS Framework indirectly &amp; IND AS 1 directly support true and fair presentation.</p>

# Comparison of Framework of IFRS for SMEs & of Indian GAAP

Criteria	IFRS for SMEs	Indian GAAP for SMEs
<b>Capital maintenance</b>	IFRS for SMEs is <b>silent</b> about the concepts of capital maintenance and its impact on financial statements of SMEs.	Under certain concepts of capital maintenance, revaluation or restatement of assets and liabilities giving rise to increases/decreases in equity, though meet the definition of income and expenses, aren't included in P & L statement and instead are included in equity as capital maintenance adjustments or revaluation reserves. Framework provides in detail the concepts of financial and physical capital maintenance.
<b>Measurement basis (for assets, liabilities, income and expenses)</b>	Two common basis of measurements are <b>historical cost basis and fair value basis</b> . Further, under IFRS measurement for all initial recognition is at historical cost unless specified otherwise.	<b>Historical cost basis</b> is the Most commonly adopted measurement basis in preparing their financial statements. It is usually combined with other measurement basis like <b>current cost, replacement value and present value</b> .
<b>Disclosure of exclusive compliance</b>	An entity whose financial statements comply with the IFRS for SMEs shall make an <b>explicit and unreserved statement of such compliance in the notes</b> .  Only in extremely rare circumstances, when management concludes that compliance with IFRS for SME would be so misleading that it conflicts with the objective of the financial statements, the departure from full compliance is allowed and which shall be disclosed in notes.	<i>Neither the framework nor Indian GAAP requires a statement in financial statement mentioning that they are in compliance with Indian GAAP, however, as a matter of custom entities disclose such fact.</i>  Departure from compliances with Indian GAAP is not expressly prohibited and requires disclosure thereon in notes or attracts a qualification from auditors.  IND AS 1 requires an explicit statement of compliance like IFRS for SMEs.

# What Financial Statements as per IFRS for SMEs and as per Indian GAAP?

IFRS for SMEs	Indian GAAP for SMEs
<p>IFRS for SMEs prescribe 3 types financial statements.</p> <ol style="list-style-type: none"> <li>Consolidated Financial Statements (CFS)</li> <li>Separate Financial Statements (SFS)</li> <li>Combined Financial Statements (COFS)</li> </ol>	<p>Indian GAAP prescribes 2 types of financial statements, i.e.</p> <ol style="list-style-type: none"> <li>CFS</li> <li>Stand alone (separate) Financial Statements (SFS)</li> </ol>
<h3>Consolidated Financial Statements (CFS)</h3>	
<p>CFS are general purpose financial statements (GPPS).</p>	<p>Separate Financial Statements are general purpose financial statements.</p>
<p><b>CFS are mandatory for all SMEs except</b></p> <ol style="list-style-type: none"> <li>An SME is a subsidiary and its ultimate or an intermediary parent prepares CFS as per full IFRS or IFRS for SMEs</li> <li>An SME has no subsidiary; except those acquired with an intention to sale/dispose of in a year, which shall be accounted for at Fair Value (FV) with changes therein recognized in P &amp; L, if FV can be measured reliably, <b>OR</b> at cost less impairment.</li> </ol>	<p>SMEs are exempt from compliance with the requirements of CFS as per AS - 21 'Consolidated Financial Statements'.</p> <p>IND AS does not clarify the case.</p>
<p>Special Purpose Entity (SPE) formed by an SME with narrow objectives like R &amp; D activities requires mandatory consolidation.</p>	<p>SMEs are exempt from compliance with the requirements of CFS.</p>
<p>The financial statements of the parent and its subsidiaries used for CFS shall be of the <b>same reporting date</b> unless it is impracticable to do so.</p>	<p>In cases of practically difficult, AS - 21 permits maximum 6 month gap between reporting date of subsidiaries and parent for consolidation.</p>
<p>Debit balance of Non-controlling interest due to attribution of total comprehensive income requires disclosure.</p>	<p>AS - 21 requires losses (negative balance) of minority interest to be adjusted in consolidated group interest unless minority has a binding obligation to make good such losses. IND AS 27 is similar to IFRS for SMEs.</p>
<p>Investments in Associates and in Jointly Controlled Entities (JCE) are accounted for using Cost or Equity or Fair Value model.</p>	<p>Investments in Associates are accounted for using equity method and JCEs are proportionately consolidated.</p>

# What comprises of Financial Statements as per IFRS for SMEs and as per Indian GAAP?

IFRS for SMEs	Indian GAAP for SMEs
<b>Consolidated Financial Statements (CFS)</b>	<b>Continue</b>
The existence and effect of <b>potential voting rights</b> that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing control.	ASI - 18 specifically excludes potential voting rights for determining significant influence in case of an associate. IND AS is similar to IFRS for SMEs.
<b>Separate Financial Statements (SFS)</b>	
No requirement to prepare SFS. IF a parent prepares an SFS and describes them as conforming to IFRS for SMEs, it shall disclose that fact and describe the methods used to account for subsidiaries, JV and associates.	As per Indian GAAP, SFS are mandatory for all the SMEs irrespective of whether they are parent or subsidiaries. SFS are also known as standalone financial statements.
In SFS - All Investments in subsidiaries, JV and associates are accounted for either at Cost less impairment OR FV through PL.	In SFS - All Investments are accounted for at Cost.
<b>Combined Financial Statements (COFS)</b>	
No requirement to COFS. COFS are single set of Financial Statements of 2/more entities with common objectives and economic interest, and controlled by a single investor. If an investor prepares COFS and describes them as complying with IFRS for SMEs, it shall disclose that they are COFS and shall also comply with all the requirements of IFRS w.r.t. consolidation.	As per Indian GAAP, SFS are mandatory for all the SMEs irrespective of whether they are parent entities or subsidiaries.  IND AS does not comment on combined FS.
<b>Components of Financial Statements - Detailed explanation follows...</b>	
Financial Statements comprises of 1. Statements of Financial Position 2. Statement of Financial Performance 3. Statement of changes in equity (SOCE) 4. Statement of Cash Flows 5. Notes - summary of significant accounting policies & other explanatory information.	Financial Statement comprises of Balance Sheet, Profit and Loss Account (Income and Expenditure Account) and Cash Flow Statement. Notes are separately appended to FS. IND AS requires SOCE to be disclosed as part of the Consolidated BS.

# What comprises of Financial Statements as per IFRS for SMEs and as per Indian GAAP?

Criteria	IFRS for SMEs	Indian GAAP for SMEs
<b>Financial Position</b>	1. Statement of financial position - <b>SFP and</b> 2. Statement of changes in equity - <b>SOCIE OR</b> Statement of income and retained earnings - <b>SOIRE</b>	Prepare and present Balance Sheet and no requirement to prepare and present SOCIE or SOIRE. IND AS requires SOCIE as a part of Balance Sheet
<b>Current and Non-current items - separate disclosures</b>	An entity shall present current and non current assets, current and non-current liabilities, as a separate classifications in its SFP. Except when a presentation based on liquidity provides information that is reliable and more relevant, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).	Revised Schedule VI of Companies Act is similar to IFRS for SMEs w.r.t. current & non-current classification and clearly provides a format for disclosure of assets and liabilities.
<b>Financial Performance</b>	Prepare and present <b>either;</b> <b>Single statement</b> - Statement of comprehensive income <b>SOCI</b> [i.e. single statement for all items of income and expense recognized during the period] <b>OR</b> <b>Two statements</b> - a. Income statement - <b>IS</b> b. Statement of comprehensive income - <b>SOCI</b> [The SOCI should being with profit an loss and then displays items of comprehensive income]	Prepare and present Profit and Loss Account Statement or Income and Expenditure Statement.  IND AS has mandated a single statement approach.
<b>Disclosure for expenses</b>	Present expenses either as per function of expenses or nature of expenses. Further, requires certain minimum items to be presented on the face of the income statement.	Revised Sch. VI of Co's Act provides guidance on minimum line items to be disclosed in profit and loss account. IND AS permits only nature wise expense classification.

# What comprises of Financial Statements as per IFRS for SMEs and as per Indian GAAP?

Criteria	IFRS for SMEs	Indian GAAP for SMEs
Minimum information in Financial Statements	Section 4 and 5 list downs minimum line items to be included financial statements. For model financial statements as per IFRS for SMEs refer Annexure - I.	Revised Sch. VI of Co's Act gives minimum line items of financial statement. Certain IND AS (1 & 27) also provides guidance / illustrative format of financial statements.
Other Disclosures - Schedules	An option to disclose following either in notes or in SFP. a. PPE b. Trade & other receivables c. Trade and other payables d. Provisions for employee benefits and others e. Classes of equity i.e. paid in capital, share premium, retained earnings, items of income and expenditure recognized in other comprehensive income and presented separately as equity.	As a matter of custom, the items referred herein are disclosed in separate scheduled that for part of the financial statement of SME in India. Generally, such information are disclosed in schedules and notes are separate from schedules.
Cash Flows	Prepare and present Cash Flow Statements	Cash Flow Statements are not mandatory for SMEs.
Cash Flow Statements - Bank Overdraft	Bank Overdraft, if repayable on demand are considered as cash and cash equivalents.	Bank ODs are considered as a part of financing activities. AS - 3 does not provide any guidance thereon. IND AS is similar to IFRS for SMEs.
Notes to Financial Statements (Notes)	Notes are additional information presented along with Financial Statements. Section 8 requires an entity to disclose of following in notes to financial statements. a. accounting policies, b. information about judgments c. information about key sources of estimation uncertainty etc.	Read along with Framework, AS - 1 'Disclosure of Accounting Policies' defines notes as a summary of significant accounting policies and other explanatory information. Though, AS are silent about disclosure of information about judgments and estimates. IND AS is similar to IFRS for SMEs.

# What comprises of Financial Statements as per IFRS for SMEs and as per Indian GAAP?

Criteria	IFRS for SMEs	Indian GAAP for SMEs
Structure of Notes	<p>Para 8.4 gives an example of the order of presentation of notes, which is as follows;</p> <ol style="list-style-type: none"> <li>a statement that the financial statements have been prepared in compliance with IFRS for SMEs</li> <li>a summary of significant accounting policies applied</li> <li>supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and</li> <li>any other disclosures.</li> </ol>	<p>The Framework read with AS - 1 'Disclosure of Accounting Policies' provides guidance about the structure of notes to financial statements, i.e. it comprises of a summary of significant accounting policies and other explanatory information. However, it does not provide any examples of the order in which notes are to be structured.</p> <p>IND AS is in line with IFRS for SMEs.</p>
Identification Disclosures	<p>Section 2 requires an entity to clearly identify each of financial statements and notes and distinguish them from other information. Further, it demands other disclosures i.e.</p> <ol style="list-style-type: none"> <li>Entity details - Name of reporting entity, changes their, domicile and legal form, country of incorporation, address of registered office or principal place of business, description of business or principal activity</li> <li>Whether financial statement covers individual entity or group thereof</li> <li>End date of reporting period and the period covered by the financial statements</li> <li>Presentation currency and functional currency and Level of rounding off.</li> </ol>	<p>Schedule VI of Companies Act which provides some guidance on other disclosures that form part of the financial statement of SMC, no standard guidelines or regulations speaks of other disclosure requirements for financial statements.</p> <p>IND AS is in line with IFRS for SMEs.</p>



# What are the differences between Indian GAAP and IFRS for SMEs?

Criteria	IFRS for SMEs	Indian GAAP for SMEs
<b>Changes in Accounting Policies</b>	The entity shall apply the new accounting policy to comparative information for prior periods to the earliest date for which it is practicable, as if the new accounting policy had always been applied, i.e. <b>to ensure retrospective application.</b>	Include effect in the income statement of the period in which the change is made i.e. prospective application. The impact of the change is to be disclosed. IND AS matches IFRS for SME.
<b>Correction of Prior period errors</b>	To the extent practicable, entity shall make retrospective correction of material prior period errors in the first financial statements authorized for issue after it is discovery, by: (a) Restating comparative amounts for the prior period(s) presented in which the error occurred, or (b) If error occurred before the earliest prior period presented, restating opening balances of assets, liabilities & equity for the earliest prior period presented.	The effect of Corrections for material prior period errors are included in current year's income statement with separate disclosures without restatement.  IND AS requires disclosure of correction in each item for comparative amounts of prior period presented.
<b>Dividend - events after the end of reporting period</b>	Dividends to equity holders declared after the end of reporting period shall not be recognised as a liability at the end of reporting period. However, it may be presented as a segregated component of retained earnings.	Dividend to shareholders are to be recognized as a liability even if disclosed after the end of reporting period. Revised Sch. VI & IND AS is in line with IFRS for SMEs.
<b>Earning Per Share (EPS)</b>	Not mandatory for SMEs	Mandatory for SMCs, except disclosure of diluted EPS.
<b>Interim Financial Reports</b>	Not mandatory for SMEs	Not mandatory for SMEs being SMCs and Not applicable to Non-SMCs.
<b>Segment reporting</b>	Not mandatory for SMEs	Not mandatory for SMEs

# What are the differences between Indian GAAP and IFRS for SMEs?

Criteria	IFRS for SMEs	Indian GAAP for SMEs
<b>Financial Instruments</b>	<p>Sections 11 &amp; 12 - respectively deals with Basic Financial Instruments and Other Financial Instrument.</p> <p><b>Choice:</b> An entity may either</p> <ol style="list-style-type: none"> <li>Apply provisions of both section 11 &amp; 12, OR</li> <li>Apply provisions of IAS 39 and adopt disclosure requirements of section 11 &amp; 12.</li> </ol>	Accounting Standards on Financial Instruments (AS - 30,31 and 32) are not applicable to SMEs.
<b>Basic Financial Instruments - BFI</b>	Section 11 requires an Amortised cost model for all BFI with some exceptions for investments in specified shares whose fair value can be measured reliably.	AS on Financial Instruments are not applicable to SMEs.
<b>Valuation and measurement</b>	Section 11 provides detailed guidance on concepts like Fair Value, Valuation Technique, Amortised cost, and Effective Interest Rate Method, impairment of financial assets, which are mostly in line with IAS 39.	Similar rather a detailed classification is adopted by Indian GAAP on financial instruments which is in line with IAS 39, however, such provisions are not applicable to SMEs.
<b>Complex Financial Instruments</b>	<p>Section 12 deals with complex financial instruments, which is not applicable to the entity which enters only into basic financial instruments.</p> <p><b>Applicability:</b> all contracts that impose risks on the buyer or seller that are not typical of contracts to buy or sell tangible assets.</p> <p><b>Measurement:</b></p> <ol style="list-style-type: none"> <li>Initially at transaction price.</li> <li>At each reporting date (subsequent), at FVTPL.</li> </ol> <p>Further, standard provides detailed guidance on impairment and derecognition of CFI.</p>	Similar rather a detailed classification is adopted by Indian GAAP on financial instruments which is in line with IAS 39, however, such provisions are not applicable to SMEs.

# What are the differences between Indian GAAP and IFRS for SMEs?

## IFRS for SMEs

## Indian GAAP for SMEs

### Financial Assets

**Classification:** 3 categories;

- a. Carried at Fair Value through P & LA/c - FVTPL
- b. Debts - Measured at Amortised cost
- c. Equity - measured at cost less amortization

**Initial Measurement:** at transaction price; unless an arrangement constitute in effect a financing transaction wherein it shall be measured at present value of the future payments discounted using market rate of interest for a similar debt instrument.

**Subsequent Measurement:**

- a. Specified debt instruments - at amortised cost using effective interest method.
- b. Specified commitments to receive loans - at cost less amortisation.
- c. Non-convertible and non-puttable preference shares and non-puttable ordinary shares; if publicly traded or fair value can otherwise be measured reliably - at fair value with changes in fair value recognized in P & L **Otherwise** at cost less impairment.

**Derecognition:** When

- a. Rights to cash flows from the assets have expired or are settled;
- b. The entity has transferred substantially all the risks and rewards relating to the financial asset;
- c. It has retained some significant risks and rewards but has transferred control of the asset to another party. The asset is therefore derecognised, and any rights and obligation created or retained are recognised.

Similar rather a detailed classification is adopted by Indian GAAP on financial instruments i.e. AS - 30, 31 and 32 which are in line with IAS 39, however, they are recommendatory in nature and are not applicable to SMEs.

# What are the differences between Indian GAAP and IFRS for SMEs?

Criteria	IFRS for SMEs	Indian GAAP for SMEs
<b>Financial Liabilities</b>	<p><b>Classification:</b> 3 categories:</p> <ol style="list-style-type: none"> <li>Carried at Fair Value through P &amp; L A/c - <b>FVTPL</b></li> <li>Measured at Amortised cost</li> <li>Loans commitments measured at cost less impairment</li> </ol> <p><b>Initial and Subsequent Measurement:</b> same as that of financial assets.</p> <p><b>Derecognition:</b> When the obligation is discharged, cancelled or expires.</p>	<p>Similar rather a detailed classification is adopted by Indian GAAP on financial instruments which is in line with IAS 39, however, such provisions are not applicable to SMEs.</p>
<b>Hedge Accounting</b>	<p>If specified criteria are met, an entity may designate a hedging relationship between a <b>hedging instrument and a hedged item</b> so as to qualify for hedge accounting.</p> <p>Hedge accounting permits gain or loss on the hedging instrument and on hedged item to be recognised in P &amp; L at the same time. IFRS permits hedge accounting only for specified risks i.e.</p> <ol style="list-style-type: none"> <li>Interest rate risk of a debt instrument measured at amortised cost.</li> <li>Forex or interest rate risk in a firm commitment or a <b>highly probable forecast transaction</b>.</li> <li>Price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity.</li> <li>foreign exchange risk in a net investment in a foreign operation.</li> </ol>	<p>Similar rather a detailed classification is adopted by Indian GAAP on financial instruments which is in line with IAS 39, however, such provisions are not applicable to SMEs.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

## IFRS for SMEs

## Indian GAAP for SMEs

### Classification of Financial instruments as Liabilities and Equity

**Initial Classification based on substance:** On initial recognition financial instruments or its parts are classified as equity or liability based on the substance of the contractual arrangement and as per the definitions of a financial liability, a financial asset and an equity instrument.

**Instruments being liability classified as equity:** Some financial instruments that meet the definition of a liability are classified as equity because they represent the residual interest in the net assets of the entity; like

- a. Puttable instruments subject to the prescribed conditions,
- b. Instruments, or components thereof, that are subordinate to all other classes of instruments, if they impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

**Instruments classified as liability rather than equity:** When an instrument

- a. Being liability for which the distribution of net assets on liquidation is subject to a maximum amount (a ceiling).
- b. Obliges an entity to make payments to its holder before liquidation.
- c. Puttable instruments classified as equity in financial statements of subsidiary
- d. is preference share requires or gives the holder a right to require mandatory redemption by the issuer for a fixed / determined amount at a fixed / determined future date.

Members' shares in co-operative entities & similar instruments are equity if the entity has an unconditional right to refuse redemption of the members' shares, or redemption is unconditionally prohibited by local law, regulation or entity governing charter.

AS - 31, 'Financial Instruments - Presentation' is in line with the provisions of IFRS for SMEs with regard to classification of financial instruments in equity and liability, however, it is under recommendatory phase in India and is specifically not applicable to SMEs.

Current classification is based on form rather than substance. For example preference shares classified as capital, however, in substance it is a liability.

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Classification of Financial instruments as Liabilities and Equity</b>	
<p>IFRS for SME provides a guidance on recognition and measurement of original issue of shares and other equity instruments.</p> <p>An entity shall measure the equity instruments at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments (transaction costs) and any related tax benefits.</p>	<p>Indian GAAP does not specifically deal with recognition and measurement of equity instruments.</p> <p>Exception is, Para 71 of AS - 31 which prescribes that transaction costs of an equity transaction should be accounted for as a deduction from equity net of any related income tax benefit.</p>
<p>If the entity receives the cash or other resources before the equity instruments are issued, and it cannot be required to repay the cash or other resources received, the entity shall recognize the corresponding increase in equity to the extent of consideration received. In other words, when entity can be asked to repay the cash, such considerations shall not be recognized as an increase in equity and shall be recognized as liabilities.</p>	<p>Share application money pending allotment or any advance share application money as at the balance sheet, which is not statutorily required to be kept separately and is being utilized in the business of the enterprise, are treated as dilutive potential equity shares.</p>
<b>Revenue Recognition</b>	
<p><b>Sale of goods:</b> One of the condition of revenue recognition from sale of goods is reliable measurement of costs incurred or to be incurred in respect of the transaction.</p>	<p>AS - 9, 'Revenue Recognition' does not require the condition of reliable measurement of costs.</p> <p>IND AS is similar to IFRS for SMEs.</p>
<p><b>Deferred payments:</b> When the inflow of cash or cash equivalents is deferred, and the arrangement constitutes in effect a financing transaction, the fair value of the consideration is the present value of all future receipts determined using an imputed rate of interest.</p>	<p>AS - 9 does not permit discounting of the revenues. There is no concept in line with the concept of deferred payment which is in effect a financing transaction.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Revenue Recognition</b>	
<p><b>Exchange of goods / services:</b> Only exchange of goods or services that are dissimilar in nature and if the transaction has commercial substance, an entity shall recognize the revenue and measure the transaction as;</p> <ol style="list-style-type: none"> <li>At fair value of the goods or services received (if measured reliably) OR</li> <li>At fair value of the goods or services given up (if measured reliably) OR</li> <li>At the <b>carrying amount of the asset given up.</b></li> </ol> <p>Adjust all the cases by the amount of any cash or cash equivalents transferred.</p>	<p>No guidance under Indian GAAP on revenue recognition in case of exchange of goods / services.</p>
<p><b>Revenue from services:</b> Only percentage completion method is permitted for recognizing service revenues.</p>	<p>Both completed contract and percentage completion methods are permitted for recognizing service revenues.</p>
<p><b>Interest revenue</b> is recognized using effective interest rate method.</p>	<p>Interest is recognized on time proportionate basis taking into account outstanding amount and rate of interest.</p>
<p><b>Composite transactions:</b> An entity shall apply revenue recognition criteria to the separately identified components of a single transaction when necessary to reflect the substance. For example; sales price of a product includes an identifiable amount for subsequent servicing.</p>	<p>No guidance on the composite service contracts.</p> <p>IND AS is in line with IFRS for SMEs.</p>
<p>Standard recognizes that the laws in different countries may decide the time of transfer of risk and rewards for revenue recognition. Using examples detailed guidance is provided for revenue recognition in case of agreement to construct real assets, customer loyalty awards, franchise fees etc.</p>	<p>AS - 9 also lists down various examples on revenue recognition, however, no separate examples are provided for agreement to construct real assets, customer loyalty awards and for franchise fees.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Inventories</b>	
<b>Cost of inventories of a service provider:</b> is production cost i.e. labour & personnel directly engaged in providing service except sales and general administration personnel.	AS - 2, 'Valuation of Inventories' does not specifically deal with inventories of service provider.
<b>Cost of agricultural produce harvested from biological assets:</b> at fair value less cost to sell at the point of harvest.	No Indian GAAP w.r.t. agricultural produce harvest from biological assets.
<b>Inventory acquired on deferred settlement terms:</b> difference between the purchase price for normal credit terms and the amount paid is to be accounted as interest expense over the period of financing.	No specific guidance in Indian GAAP w.r.t. inventory acquired on deferred settlement terms.
<b>Impairment:</b> Carrying amounts of inventories are subject to impairment test, shortfall of carrying amount over recoverable price is an impairment loss.	AS - 28, 'Impairment of Assets' does not cover inventories and therefore, no impairment of inventories for SMEs under Indian GAAP.
<b>Investment Property (IP)</b>	
Investment property is <b>land or a building</b> , or part of a building, or both held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both excluding those which are PPE or inventories.	AS - 13, 'Accounting for Investments' defines <b>investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.</b>
<b>Measurement after recognition:</b> a. At Fair Value through P & L A/c if the fair value can be measured reliability without undue cost and benefit <b>OR</b> b. All other IP at cost as PPE	Expert Advisory Committee of ICAI has opined that investment properties are depreciable assets and therefore should be recognised using depreciation - impairment model.
Disclosure of the extent to which the FV are derived by an independent valuer.	No such guidance. IND AS requires disclosure.



# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Property, Plant and Equipments (PPE)</b>	
<p><b>Cost:</b> PPE to follow <b>only cost model</b> i.e. cost less depreciation and amortization and revaluation is not permitted at all.</p>	<p>AS - 10, 'Accounting for Fixed Assets' permits revaluation of fixed assets subject to disclosure requirement.</p>
<p><b>Depreciation &amp; Component Accounting:</b></p> <p>a. When major components of an item of PPE have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its respective useful life.</p> <p>b. All other items of PPE to be depreciated over its useful life as a separate assets.</p>	<p>Para No. 8.3 of AS - 10; recognizes that accounting for fixed assets may be improved if the total expenditure thereon is allocated to its component parts, provided they are in practice separable, and estimates of are made of their useful lives, neither AS - 10 nor AS - 6 requires adoption of component accounting.</p> <p>Depreciate all Assets over their useful life.</p>
<p><b>Borrowing costs:</b> All borrowing costs are to be recognized as an expense in profit and loss in the period in which they are incurred, i.e. <b>no capitalization of borrowing costs.</b></p>	<p>AS - 16, 'Borrowing Cost's requires that Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset.</p>
<p>Cost of regular major inspections of PPE is recognised in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.</p>	<p>All such costs are to be charged to profit and loss account as and expense.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Intangible Assets (Intangibles)</b>	
<p><b>Internally generated intangibles:</b> All expenditure incurred internally on an intangible item including for both <b>research and development activities is recognized as an expense</b> when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria as per IFRS for SMEs.</p>	<p>AS - 28, 'Intangible Assets' recognizes expenditure on development activity of the internally generated intangibles as an asset if the entity demonstrates that it meet the special recognition criteria apart from general criteria. Expense of research phase is to be charged to profit and loss account as and when incurred.</p>
<p><b>Intangibles acquired in a business Combination:</b> the cost of such intangibles is its fair value at the acquisition date. Acquirer shall record the intangibles irrespective of whether they were recognised by the acquiree before the business combination or not.</p>	<p><b>Intangibles acquired in an amalgamation in the nature of :</b></p> <ol style="list-style-type: none"> <li>Purchase - accounted at cost or fair value if the cost/fair value can be reliably measured to be included as a part of goodwill. Intangible is recorded even if it was not recognised by the transferor.</li> <li>Merger or acquisition of subsidiary - at its book values from the books of the acquiree.</li> </ol>
<b>Business Combinations</b>	
<p>A business combination is the bringing together of separate entities or businesses into one reporting entity. It excludes common control transactions, JV formations, acquisition of group of assets that do not constitute a business.</p>	<p>AS - 14, 'Accounting for Amalgamation' deals with amalgamations. Further, AS - 21, 23, and 27 deals with accounting for investments in subsidiaries, associates and JCEs, however, they aren't mandatory for SMEs. AS - 10 deals with acquisition of assets and disposal of assets in case of demerger.</p>
<p><b>Accounting method:</b> Purchase method of accounting for all business combination from the date of acquisition.</p>	<p>Purchase method for acquisitions and pooling of interest method of mergers as per the conditions prescribed in AS - 14.</p>
<p><b>Acquisition date:</b> the date on which the acquirer effectively obtains control of the acquiree.</p>	<p>The date of amalgamation as defined in Amalgamation / acquisition scheme of High Court / RBI.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<p><b>Business Combinations</b></p> <p><b>Cost of a Business Combination:</b>  <b>Purchase Method:</b> The acquirer shall measure the Purchase consideration or cost of a business combination as the aggregate of:</p> <ul style="list-style-type: none"> <li>(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree, plus</li> <li>(b) any costs directly attributable to the business combination. i.e. other expenditures incurred on business combination shall be charged to profit and loss statement for the period.</li> </ul>	<p><b>Cost of Amalgamation:</b>  <b>Pooling of Interest Method:</b> The assets, liabilities and reserves of acquiree company shall be recorded at their existing carrying amounts and in the same form as the date of amalgamation in the financial statements of the acquirer except to adjust them for differences in accounting policies. The balance of P &amp; L shall be added to the corresponding balance of acquirer or transferred to GR. The difference between the purchase consideration and the equity of the acquiree shall be adjusted in reserves.</p> <p><b>Purchase Method:</b> The assets and liabilities of the acquiree company should be incorporated in the acquirer company's financial statements either;</p> <ul style="list-style-type: none"> <li>(i) at their existing carrying amounts; or</li> <li>(ii) the purchase consideration shall be allocated to individual identifiable assets and liabilities based on their fair values at the date of amalgamation. Reserves other than statutory reserves shall be excluded.</li> </ul>
<p><b>Contingent consideration:</b> The acquirer shall include the estimated amount of the adjustment in the cost of the combination (contingent on future events) at the acquisition date, if the adjustment is probable and can be measured reliably.</p>	<p>No guidance on the treatment of contingent consideration while working out the purchase consideration.</p>
<p><b>Contingent liability:</b> The acquirer shall recognize separately a provision for a contingent liability (at the date of acquisition) of the acquiree only if its fair value can be measured reliably.</p>	<p>Contingent liabilities do not form part of the purchase consideration and are not recognized by the acquirer as liability.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<p><b>Business Combinations</b></p> <p><b>Goodwill:</b> The acquirer shall, at the acquisition date recognize goodwill acquired in a business combination as an asset, and initially measure it at cost, i.e. excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Subsequently goodwill shall be measured at cost less accumulated amortization and impairment losses.</p> <p>In case of Negative goodwill being excess of net fair value of acquired assets, the acquirer shall reassess identification and measurement of acquired assets, liabilities and contingent liabilities and remaining negative goodwill shall be immediately recognized in profit and loss statement for the period.</p>	<p>Good will does not arise when pooling of interest method is used in case of merger.</p> <p>Goodwill is an excess of purchase consideration over the value of the net assets acquired under purchase method in case of amalgamations which are not merger. Such goodwill are to be amortized over 5 years.</p> <p>Shortfall of value of net assets over purchase consideration is accounted for and disclosed as capital reserve.</p> <p>All goodwill are tested for impairment.</p>
<p><b>Retrospective adjustments to Complete accounting within 12 month :</b> When initial accounting for a business combination is incomplete by the end of the reporting period wherein the combination occurs, the acquirer shall recognize in its financial statements provisional amounts for the items for which accounting is incomplete. Within 12 months after the acquisition date, the acquirer shall retrospectively adjust such amounts recognised as assets &amp; liabilities at the acquisition date (i.e. account for them as if they were made at the acquisition date) to reflect new information obtained. Beyond 12 months, all such adjustments shall be recognised only as a correct of errors.</p>	<p>AS - 10 does not permit any such retrospective adjustments for accounting for amalgamations.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Leases</b>	
<p>For all lease, general description of the significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements are to be disclosed by lessor and lessee.</p>	<p>AS - 19, 'Lease' grants exemption to SMEs from making similar disclosures except disclosure for contingent rent.</p>
<p>A lessee shall recognize lease payments under operating leases (excluding service costs like insurance and maintenance) as an expense on a straight-line basis unless either</p> <ol style="list-style-type: none"> <li>Another systematic basis represents the time pattern of the user's benefit, even if the payments are not on that basis;</li> <li>Payments are structured to increase in line with general inflation rates based on published indices to compensate lessor's expected inflationary cost increase.</li> </ol> <p>(Similar conditions are also prescribed for recognition of income from operating lease by a lessor.)</p>	<p>Lease payments for an operating lease should be recognised as an expense in the statement of P &amp; L on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. No guidance when lease payments compensates lessor for increase in general inflation rates.</p> <p>(Similar conditions are also prescribed for recognition of income from operating lease by a lessor except the increase in lease payment to compensate for increase in general inflation rates.</p>
<b>Provisions, Contingent liabilities and Contingent assets</b>	
<p><b>Discounting:</b> In case effect of the time value of money is material, provision shall be measured at the present value of the amount expected to be required to settle the obligation. Discount rate is pre-tax rate that reflects current market assessment of time value of money.</p>	<p>AS - 29, 'Provision, Contingent liabilities and Contingent assets' do not permit discounting of provision amounts to its present value.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

## IFRS for SMEs

## Indian GAAP for SMEs

### Provisions, Contingent liabilities and Contingent assets

**Disclosure of Contingent assets:** If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of contingent asset at the end of the reporting period, and, when practicable without undue cost or effort, an estimate of its financial effect, measured using the principles set out in this IFRS. If it is impracticable to make this disclosure, that fact shall be stated.

Para 33 of AS - 29 requires that a contingent asset is not disclosed in the financial statements.

It further states that where an inflow of economic benefits is probable, such assets are usually disclosed in the report of the approving authority (BOD in the case of a company, and the corresponding approving authority in the case of other enterprises), therefore, SMEs have option to disclose contingent assets in the report of approving authorities.

**Obligation for restructuring:** An entity shall recognize provision for constructive obligations at the date of reporting to carry out restructuring. Examples are sales of business, closure of divisions.

Para No 60 of AS - 29, only legal obligations for restructuring (for example binding sale agreement) requires provision. No provisions required for constructive obligations for restructuring.

### Government Grants

**Income model:** All grants government grants are recognised as income when the performance conditions are met (or earlier if there are no performance conditions).

AS - 12 - two recognition criteria i.e.;

- Income Approach for Revenue grants - recognize in P & L statement on systematic basis over the period necessary to match grant with the costs that it intended to compensate.
- Capital Approach for grants towards promoters contribution - recognize as capital reserve and is treated as a part of shareholder's fund.

**Fair Value measurement:** All grants are measured at the fair value of the asset received or receivable.

Like IFRS, AS - 12 Capital grants - being non-monetary assets are recognized at their acquisition cost OR at nominal value, in case such assets are given free of cost.

IND AS permits only fair value measurement for non-monetary grant.

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Share based payments</b>	
<p>Section 26 provides recognition and measurement criteria for share based payments to employees i.e. transactions that may be settled by some form of equity instrument (say, shares) or in cash or other assets where the amount payable is based on the price of the entity's shares or by some combination of the two.</p>	<p>ICAI has issued 'Guidance Note on Accounting for Employee Share Based Payments' which provides recognition and measurement criteria on similar payments to employees and is in line with the IFRS for SME provisions. However, Guidance notes are recommendatory in nature mandatory for SMEs.</p>
<p><b>Method of Accounting:</b> Standard deals with Shares based payments transactions including;</p> <ol style="list-style-type: none"> <li>Equity settled transactions - - an entity shall measure the goods or services received and the corresponding increase in equity at fair value of goods and services received. If such fair values cannot be estimated reliably, their values and corresponding increase in equity is measured at fair value of the equity instruments granted.</li> <li>Cash settled - entity shall measure goods or services acquired and the liability incurred measured at fair value of the liability.</li> </ol> <p>Standard provides detailed guidance to derive fair values of shares and options. Use of Intrinsic value is not permitted.</p>	<p>Guidance notes classifies share based payments transactions as;</p> <ol style="list-style-type: none"> <li>Equity settled</li> <li>Cash settled</li> <li>Employee share based payment with cash alternatives</li> </ol> <p>Unlike IFRS for SMEs which prescribes fair value accounting for share based payments, Guidance note also permits Intrinsic Value Method for measurement of employee share based payments. An Intrinsic value, for a listed co., is the amount by which the quote price of the underlying share exceeds the exercise price of the options.</p> <p>Further, guidance not provides detailed guidance on accounting for such transactions using various examples.</p>
<b>Employee Benefits</b>	
<p><b>Actuarial Gains and Losses:</b> An entities has a choice of an accounting policy to recognize such gains and losses in Profit and loss <b>OR</b> Other comprehensive income - i.e. present such expenses in Statement of Comprehensive Income.</p>	<p>Para 92 of AS - 15, 'Employee Benefits' requires that Actuarial gains and losses should be recognised immediately in the statement of profit and loss as income or expense.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Employee Benefits</b>	
<p>IFRS for SMEs do not bifurcate accumulating compensated leaves into vesting and non-vesting and therefore provision for such leaves is required.</p>	<p>SMEs are exempt to comply with the requirements of Paragraph 11 to 16 of AS - 15 which deals with Accumulating compensated expenses that are non-vesting in nature, if the average number of employees does not exceed 50.</p>
<p><b>Past service cost:</b> such costs are recognized in profit and loss immediately.</p>	<p>Para 94 AS - 15 Past service costs are recognized as an expense on straight line basis over the average period until the benefits become vested.</p>
<p><b>Actuarial Valuation Method:</b> If an entity is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost under defined benefit plans, the entity is permitted to make the prescribed simplifications in measuring its defined benefit obligation with respect to current employees.</p>	<p>SMEs are also required to use the Projected Unit Credit Method for the purpose of actuarial valuation of employee benefits. However, when average number of employees of an SME during the year does not exceed 50, it can use any some other rational method to determine accrued liability for defined benefit plans and for other long term benefits.</p>
<p><b>Discount Rate:</b> An entity shall measure its defined benefit obligation on a discounted <b>present value basis using discount rates</b> that reference to market yields at the reporting date on high quality corporate bonds. In countries with no deep market in such bonds, the entity shall use the market yields (at the reporting date) on government bonds.</p>	<p>Para 78 of AS - 15 also requires use of market rates for discounting, however, SMEs are given an exemption to comply with this requirements.</p>
<p>Detailed disclosure requirements are prescribed by the standards in relation to employee benefits.</p>	<p>SMEs for which the average number of employees during the year does not exceed 50 are given an exemption to comply with detailed disclose requirements for employee benefits.</p>



# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Impairment of Assets</b>	
<p>Impairment loss is a excess of carrying amount over recoverable amount, wherein recoverable amount is higher of fair value less cost to sell (FVCS) and VIU.</p>	<p>AS - 28, 'Impairment of Assets' defines recoverable amount as higher of net selling price (NSP) and value in use. NSP is conceptually similar to FVCS.</p>
<p>Value in Use (VIU) is derived using the present value techniques.</p>	<p>SMEs are allowed to value the VIU based on the reasonable estimate instead of using present value technique prescribed.</p>
<p><b>Goodwill and CGU:</b> For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units (CGU) that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.</p>	<p>AS - 28 prescribes two tests for allocation of goodwill to a CGU for the purpose of impairment testing, i.e. 'bottom-up test' and 'top-down test'.</p>
<b>Income Taxes</b>	
<p><b>Approach for Deferred Tax:</b> Deferred tax is recognized under Balance sheet approach only for temporary differences between the carrying amount of the assets and liabilities and their corresponding tax basis.</p>	<p>AS - 22, 'Accounting for Taxes on Income' requires that Deferred Tax (asset and liability) is recognized under Income Statement approach for all timing differences subject to prudence in case of deferred tax assets.</p>
<p>Uncertainty about whether tax authorities will accept the amounts reported to them by the entity affects the amount of current and deferred tax. An entity shall measure current and deferred tax assets and liabilities using <b>probability-weighted average amount</b> of all the possible outcomes, assuming that the tax authorities will review the amounts reported and have full knowledge of all relevant information.</p>	<p>No such use of probability weighted average amount is prescribed or permitted by AS - 22.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Impairment of Assets</b>	
<p>Impairment loss is a excess of carrying amount over recoverable amount, wherein recoverable amount is higher of fair value less cost to sell (FVCS) and VIU.</p>	<p>AS - 28, 'Impairment of Assets' defines recoverable amount as higher of net selling price (NSP) and value in use. NSP is conceptually similar to FVCS.</p>
<p>Value in Use (VIU) is derived using the present value techniques.</p>	<p>SMEs are allowed to value the VIU based on the reasonable estimate instead of using present value technique prescribed.</p>
<p><b>Goodwill and CGU:</b> For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units (CGU) that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.</p>	<p>AS - 28 prescribes two tests for allocation of goodwill to a CGU for the purpose of impairment testing, i.e. 'bottom-up test' and 'top-down test'.</p>
<b>Income Taxes</b>	
<p><b>Approach for Deferred Tax:</b> Deferred tax is recognized under Balance sheet approach only for temporary differences between the carrying amount of the assets and liabilities and their corresponding tax basis.</p>	<p>AS - 22, 'Accounting for Taxes on Income' requires that Deferred Tax (asset and liability) is recognized under Income Statement approach for all timing differences subject to prudence in case of deferred tax assets.</p>
<p>Uncertainty about whether tax authorities will accept the amounts reported to them by the entity affects the amount of current and deferred tax. An entity shall measure current and deferred tax assets and liabilities using <b>probability-weighted average amount</b> of all the possible outcomes, assuming that the tax authorities will review the amounts reported and have full knowledge of all relevant information.</p>	<p>No such use of probability weighted average amount is prescribed or permitted by AS - 22.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

## IFRS for SMEs

## Indian GAAP for SMEs

### Foreign Currency Transactions and Translation

**Functional currency:** Each entity shall identify its functional currency. An entity's functional currency is the currency of the primary economic environment in which the entity operates, i.e. generally the environment in which the entity generates and expends cash. It permits use of a presentation (reporting) currency which can be different from functional currency, however, the reasoning for using the same shall be disclosed in notes. Foreign currency is a currency other than functional currency.

**Translation principles:** Separate principles are applied to an entity which operates in hyper inflationary economy. Principles of translation of financial statement of foreign operations into functional currency of parent when the entity is not operating in a hyper inflationary economy:

- All assets and liabilities - translate at closing rate
- All incomes and expenses - translate at the exchange rate of the date of the transactions
- Exchange differences - all such differences in other comprehensive income.

Exchange differences of monetary items that form part of entity's net investment in foreign operation shall be reported a part of component of equity and shall not again be recognized in profit and loss on disposal of investment.

AS - 11, 'Effect of changes in foreign exchange rates' considers only reporting currency and foreign currency, wherein the later is the currency other than the reporting currency. As Reporting currency is the one which is used for presentation of financial statements, which is Indian Rupee (INR) for; Concept of presentation currency is similar to reporting currency. In AS - 11, there is no concept called functional currency.

IND AS is in line with IFRS for SMEs

*Translation principles do not vary for an entity operating in hyper inflationary economy. However, in CFS, for the purpose of translation into foreign currency, foreign operations are classified as integral (IFO) and non-integral (NIFO).*

*For IFO: monetary assets @ closing rate, non-monetary assets @ historical rate if valued at cost OR at closing rate; incomes and expenses @ historical/average rate. Exchange differences - charged to profit and loss.*

*For NIFO: All assets and liabilities @ closing rate and incomes and expenses @ historical/average rate. Resulting exchange differences are taken to foreign currency translation reserve (FCTR) and are recognized in profit and loss only on disposal of the net investment in the NIFO.*

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>Related party transactions</b>	
<p><b>Definition:</b> Determine by level of direct or indirect control and significant influence of one party over another, or common control of both parties.</p>	<p>AS - 18, defines related parties are determined by ability to control or to exercise significant influence over the other party in making financial and/or operating decisions.</p>
<b>Specialized activities:</b>	
<p><b>Agriculture:</b> An entity engaged in agricultural activity shall determine accounting policy for biological assets;</p> <ol style="list-style-type: none"> <li>a. Fair value model where it can be decided without undue cost or effort               <ol style="list-style-type: none"> <li>1. Biological assets - at fair values</li> <li>2. Agricultural harvest produced from entities biological assets - measure at fair value less cost to sell at the point of harvest</li> </ol> </li> <li>b. Cost model for all others such assets               <ol style="list-style-type: none"> <li>1. Biological assets - cost less accumulated depreciation and impairment loss</li> <li>2. Agricultural harvest produced from entities biological assets - measure at fair value less estimated cost to sell at the point of harvest</li> </ol> </li> </ol> <p>Standard provides detailed disclosure requirements for both the models.</p>	<p>No comparable accounting standard for SMEs and therefore, no guidance on accounting issues of agriculture and related biological assets.</p>
<p><b>Extracting activities:</b> An entity engaged extractive activities shall account for expenditure on the acquisition or development of tangible or intangible assets for use in such activities by applying PPE and Intangible Assets principles respectively. When it has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with principles of Provisions and Contingencies.</p>	<p>No comparable accounting standard in place. However, ICAI has issued guidance note on accounting for oil and gas producing activities. As per the guidance note, accounting for acquisition, exploration and development cost can be done either through successful effort method or full cost method.</p>

# What are the differences between Indian GAAP and IFRS for SMEs?

## IFRS for SMEs

## Indian GAAP for SMEs

### Hyperinflation

**Hyperinflation adjusted Financial Statement:** Entity whose functional currency is that of a hyperinflationary economy shall adjust its financial statements to consider the effects of hyperinflation by using General Price Index. (GPI) All items of FS shall be stated in terms of measuring unit current as at the reporting date as under;

- a. Assets & liabilities linked by agreement to changes in prices - adjust in accordance with the agreement,
- b. All monetary items and those non-monetary items stated at current i.e. at net realizable value or fair value. - do not restate
- c. Non-monetary items carried at cost less depreciation are expressed at current amounts at the date of acquisition - Apply the change in GPI to its acquisition cost and depreciation to restate their values, impairment loss = restated values in excess of recoverable amounts.
- d. All items in statement of comprehensive income and in cash flows - state in terms of measuring unit current.
- e. Include gain or loss on monetary items

**Indicators of hyperinflation:** An entity shall judge whether the economy is hyperinflationary or not; considering all available information along with the following criteria;

- a. The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.
- b. The general population regards monetary amounts in terms of a relatively stable foreign currency rather than local currency. Prices may be quoted in that currency.
- c. Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.
- d. Interest rates, wages & prices are linked to price index.
- e. The cumulative inflation rate over 3 years is approaching, or exceeds 100 %.

Indian GAAP do not provide any guidance on hyperinflation and related accounting issues.

# What are the differences between Indian GAAP and IFRS for SMEs?

IFRS for SMEs	Indian GAAP for SMEs
<b>First time adoption</b>	
<p>An entity can become first time adopter only once. The date of transition is the beginning of the earliest period for which the entity presents full comparative information in accordance with this IFRS in its first financial statements that conform to this IFRS.</p>	<p>Accounting standards provides requirements in case of first time adoption thereof respectively. However, for most of the accounting standards the prescribed transition period has expired as of now.</p>
<p>In its opening statement of financial position as at the date of transition to this IFRS an entity shall</p> <ol style="list-style-type: none"> <li>Recognize all assets and liabilities whose recognition is required by this IFRS,</li> <li>not recognize asset/liability if this IFRS does not permit,</li> <li>Reclassify assets, liabilities and equities recognized in previous reporting format if their classification is different under this IFRS,</li> <li>Apply IFRS for SMEs in measuring all assets and liabilities.</li> <li>Differences in accounting policies between previous reporting frameworks and this IFRS shall be recognized in its retained earning carried at the date of transition.</li> </ol>	<p>IND AS exemptions for first time adoption</p> <ol style="list-style-type: none"> <li>IND AS 101 makes optional presentation of comparatives on memorandum basis, the reconciliation for equity, cash flow and income are also optional.</li> <li>An option for long-term monetary assets / liabilities as defined in para 29A of Ind AS 21, an entity may spreading over the unrealised Gains / Losses over the life of Assets/Liabilities either retrospectively or prospectively.</li> </ol>
<p><b>Exemptions at the time of first time adoption:</b></p> <ol style="list-style-type: none"> <li>An entity need not retrospectively change the accounting followed under previous reporting framework w.r.t. Derecognition of financial assets and liabilities, Hedge accounting, Accounting estimates, Discounting operations, Measuring of non-controlling interest.</li> <li>An entity may use 1/more of the exemption in relation to Business combinations, Share-based payments, Fair value vs. deemed cost, Revaluation vs. deemed cost, Cumulative translation differences, Compound financial instruments, Separate financial statements, Deferred income tax, Service concession agreements, Extractive activities, Arrangement containing a lease and Decommissioning liabilities included in PPE,</li> </ol>	
<p><b>Explanation to transition:</b> An entity shall explain how the transition from its previous reporting framework to this IFRS affected its reported financial position, performance and cash flows by way of a detailed reconciliation.</p>	

# Model Financial Statements under IFRS for SMEs

## Annexure - I

M/s. ABC Private Limited

Consolidated Statements of Financial Position as at 31st March 2009 and 31st March 2010  
[Amounts in INR]

Particulars	Notes	2008 - 09	2009 - 10
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalent		-	-
Trade & Other Receivable (Current)		-	-
Inventories		-	-
		-	-
<b>Non Current Assets</b>			
Investment in Associates		-	-
Property, Plant and Equipment		-	-
Investment Property		-	-
Financial Assets ( Deposit & Others)		-	-
		-	-
<b>TOTAL ASSETS</b>		-	-
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Bank Loans and Other Deposits		-	-
Trade & Other Payables		-	-
Current Tax Liabilities		-	-
Provisions		-	-
Current portion of Employee Benefit obligations			
Current portion of obligations under Financial Lease		-	-
<b>Non Current Liabilities</b>			
Bank Loans		-	-
Long Term Employee Benefit obligations			
Obligations under Financial Lease			
Deferred Tax Liabilities		-	-
		-	-
<b>Equity [As per Statement of Changes in Equity]</b>			
Share Capital		-	-
Share Premium		-	-
Retained Earnings		-	-
		-	-
<b>TOTAL LIABILITIES AND EQUITY</b>		-	-

**Note:** These are examples as set out in the implementation guide.

# Model Financial Statements under IFRS for SMEs

## Annexure - I

### M/s. ABC Private Limited

#### Consolidated Statements of Comprehensive Income and Retained Earnings for the Financial Year ended on 31st March 2009 and 31st March 2010 [Amounts in INR] - Classification of

Particulars	Notes	2008 - 09	2009 - 10
Revenue		-	-
Cost of sales		-	-
<b>Gross Profit</b>		-	-
Other Income		-	-
Distribution costs		-	-
Administration expenses		-	-
Other Expense		-	-
Administrative expenses		-	-
<b>Total Expense</b>		-	-
<b>Profit Before Tax</b>		-	-
Income tax expenses		-	-
<b>Profit for the Year</b>		-	-
<b>Retained Earnings at the start of the year</b>		-	-
<b>Dividends</b>		-	-
<b>Retained Earnings at the end of the year</b>		-	-

#### Consolidated Statements of Comprehensive Income and Retained Earnings for the Financial Year ended on 31st March 2009 and 31st March 2010 [Amounts in INR] - Classification of

Particulars	Notes	2008 - 09	2009 - 10
Revenue		-	-
Other income		-	-
<b>Total Income</b>		-	-
Changes in inventories of finished goods and work in progress		-	-
Manufacturing expenses		-	-
Raw material and consumables used		-	-
Employee salaries and benefit		-	-
Administrative expenses		-	-
Selling and Distribution Expenses		-	-
Other Expense		-	-
Depreciation and Amortisation		-	-
Finance costs		-	-
<b>Total Expense</b>		-	-
<b>Profit Before Tax</b>		-	-
Income tax expenses		-	-
<b>Profit for the Year</b>		-	-
<b>Retained Earnings at the start of the year</b>		-	-
<b>Dividends</b>		-	-
<b>Retained Earnings at the end of the year</b>		-	-

**Note:** These are examples as set out in the implementation guide.



# Model Financial Statements under IFRS for SMEs

## Annexure - I

M/s. ABC Private Limited

Consolidated Statement of Cash Flows for the Financial Year ended on 31st March 2009 and 31st March 2010 [Amounts in INR]

Particulars	Notes	2008 - 09	2009 - 10
<b>Cash flows of from Operating Activities</b>			
Profit for the year as per Statement of Comprehensive Income and Retained Earnings		-	-
<b>Adjustments for non-cash income and expenses:</b>			
Non-cash finance cost		-	-
None case income tax expense		-	-
Depreciation and Amortisation		-	-
Impairment loss		-	-
<b>Total</b>		-	-
<b>Cash flows included in investing activities</b>			
Gain / (Loss) on sale of assets		-	-
Non-Operating Income (Finance Income)		-	-
<b>Total</b>		-	-
<b>Cash flows included in financing activities</b>			
Non-Operating Cost (Finance Cost)		-	-
<b>Total</b>		-	-
<b>Changes in operating assets and liabilities</b>			
Decrease (increase) in trade and other receivables		-	-
Decrease (increase) in inventories		-	-
Increase (decrease) in trade and other payables		-	-
Increase (decrease) in Bank Loans and Other Deposits		-	-
Increase (decrease) in Provisions		-	-
<b>Total</b>		-	-
<b>Net Cash flow from Operating Activities</b>		-	-
<b>Cash flows of from Investing Activities</b>			
Purchase of property, plant and equipment		-	-
Proceeds from sale of property, plant and equipment		-	-
Purchase of investment property		-	-
<b>Net Cash used in Investing Activities</b>		-	-
<b>Cash flows of from Financing Activities</b>			
Payment of non-current liabilities		-	-
Proceeds from equity [including premium and net of issue expenses]		-	-
Finance Cost		-	-
<b>Net Cash used in Financing Activities</b>		-	-
<b>Net Increase (decrease) in Cash &amp; Cash Equivalents</b>		-	-
Cash & Cash Equivalents at start of the year		-	-
Cash & Cash Equivalents at end of the year		-	-

**Note: These are examples as set out in the implementation guide.**

# GAAP Differences between IFRS for SMEs and full IFRS?

Criteria	IFRS for SMEs	IFRS and IND AS
<b>Structure</b>	Separate single set of global financial reporting standards only for SMEs across the globe.	IFRS / IND AS are based on the Framework and are applicable to all.
<b>Contents</b>	Set of 3 Booklets, 1. IFRS for SMEs - 35 chapters on different financial reporting areas, a glossary & a derivation table 2. Basis for conclusions and 3. Illustrative financial statement and presentation and disclosure checklist.	Comprises of IAS and IFRS and IFRIC.  IND AS Comprises of Standards along with Appendix
<b>PPE and Intangibles</b>	Only cost-depreciation-impairment model is prescribed.	Option to adopt cost or revaluation model.
	Annual review of residual value, useful life or depreciation method is not required.	Such annual review is mandatory under IFRS / IND AS.
<b>Goodwill &amp; other indefinite lived intangibles</b>	Amortise over their estimated useful life, with maximum amortisation period of 10 years.	IAS - 36 and IND AS requires annual calculation of recoverable amount of such assets unless indefinite life.
<b>Biological assets</b>	Use FVTPL model only when fair value is readily determinable without undue cost or benefit.	IAS - 41, presumes that FV for biological assets can be estimated reliably. Corresponding IND AS i.e. IND AS on agriculture is under making / revision of IAS - 41
<b>Dividend accounting</b>	All dividend received are recognized in P & L A/c.	Dividends out of Post-acquisition profits forms part of cost of investments.
<b>Borrowing Cost</b>	Only expense model is prescribed.	IFRS gives option for expense or capitalization model. IND AS makes capitalization mandatory.
<b>Development cost</b>	Only expense model is prescribed.	Capitalize such costs incurred after the project is deemed commercially viable.

# GAAP Differences between IFRS for SMEs and full IFRS?

Criteria	IFRS for SMEs	IFRS
Share based payments	Permits director's valuations for share based payments.	Requires intrinsic value method for such payments.
Investments in JCE	Proportionate consolidation method not permitted for investments in JCE.	IAS - 31 & IND AS 31 permits proportionate consolidation or equity method for JCE.
Investments in Associate	Investments in associate when there is a public priced quotation must be measured at FVTPL.	IAS - 28, such investments must be measured using equity method. IND AS mandates equity method & requires disclosure of FV of investments in associates
Investment Property	Investment property whose fair value can be measured reliably without undue cost of benefit, must be measured at FVTPL.	IAS - 41, permits choice of FVTPL or cost-depreciation-impairment model for investment properties. IND AS mandates cost method & requires disclosure of FV.
Presentation simplifications	No requirement to present Statement of Financial Position at the beginning of the earliest comparative period.	IAS - 1 mandates presentation of such SFP. IND AS requires comparatives to be presented as per existing AS & may provide IND AS comparatives on memorandum basis.
	Option to present single statement of income and retained earnings.	No such option in IFRS. IND AS allows only Single statement approach & statement of changes in equity is shown as a part of Balance Sheet
	IFRS for SMEs achieves accounting treatment for Non-current assets held for sale (NCAHFS) similar to that of IFRS - 5 by including intention to sell as an indicator of impairment.	IFRS - 5 requires NCAHFS not be depreciated, measured at lower of carrying amount or fair value less cost to sell and provides for disclosure requirements. IND AS is in line with IFRS - 5.

# GAAP Differences between IFRS for SMEs and full IFRS?

Criteria	IFRS for SMEs	IFRS
<b>Employee Benefits</b>		
Defined benefit obligations (DBO)	DBO can be measured as per prescribed simplifications when PUC measurement is not available without undue cost or effort.	IAS - 19 requires that DBO shall always be measured using project unit credit method.
	Actuarial gains & losses of DB Plans to be recognized in P & L or in other comprehensive income.	IAS - 19 permits use of deferral and amortization methods to recognize such actuarial gains and losses. IND AS 19 requires that such gains and losses shall be recognized in other comprehensive income.
<b>Financial Instruments</b>		
Classification and measurement	Financial instruments that meet specific criteria are measured at cost or amortised cost and all others are measured at FVTPL.	IAS 39 requires available for sale (AFS) and held to maturity (HTM) classification which are complex in nature and are not included in IFRS for SMEs.
Derecognition	Simple principles of Derecognition are provided.	IAS - 39 requires pass-through and continuing involvement provisions to apply to derecognition.
Hedge accounting	Hedge accounting is only permitted for specified hedges and is not permitted for hedging; <ol style="list-style-type: none"> <li>1. Using debt instruments,</li> <li>2. Using option based strategy</li> <li>3. For portfolio investment;</li> </ol>	IAS -39 Hedge accounting provisions are extensive in nature and permits hedge accounting for the situations not permitted under IFRS for SMEs.
Disclosure	No requirement to comply with IFRS - 7, disclosures.	IFRS - 7 prescribes disclosure requirements.

# Thank You

