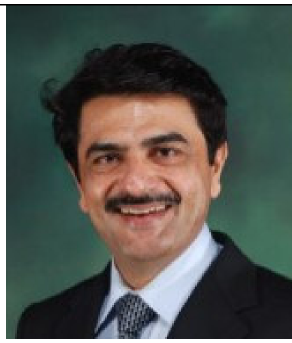
# E-circular dt Wednesday, August 05, 2009



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Future-ready

IFRS

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# I.F.R.S. for SME's

## What is IFRS ?

This stands for "International Financial Reporting Standards "
These have been issued by International Body – IASB, and our Government has agreed to converge to them.

### What does that mean to me ?

It means that your Balance Sheets and Financial Statements will have to be worked according to these new standards.

### So ? Will this effect me ?

Yes, every Indian Company is going to be affected by this declaration by the Government. Infact, Even the ICAI ( Institute of Chartered Accountants of India has agreed to "converge" their Indian laws and "standards" to this new IFRS.

IFRS

### What is the effect in "Rupees" ? Will I Gain or Lose ?

It could be both ways.
Come let us analyse this, quickly

(( we wont go in detail, …. For detail you can click at links at the end of this circular, for additional information ))

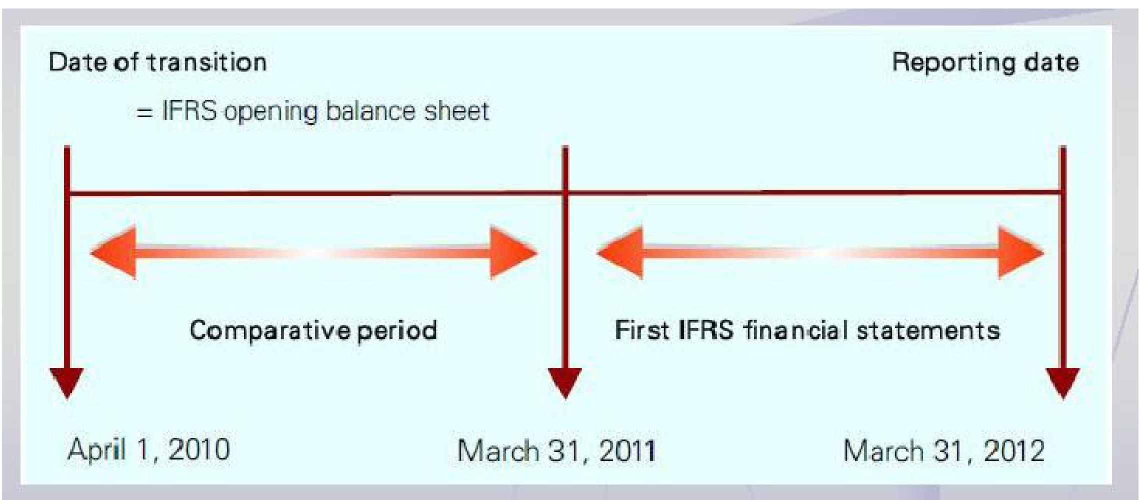
Dear Members,

Today our members are growing.
Some of us have grown beyond the boundaries of India, and are having cross border business. They are having International Joint Ventures, and also International Money (as equity or Loans). Some of us also have subsidiaries abroad.

Even if you are pucca "Local" and have no business to do anything with anybody abroad, still **these IFRS are going to affect you** and your Balance Sheet.

Let us quickly see how ?

1. **First Question = Effect from when ?**
   a. This 2009-10 is the last year free from IFRS.
   b. From 1.4.2010 you have to follow IFRS
   c. Why ? Since ICAI (Institute of Chartered Accountants of India) and Indian Government have agreed to change and comply with these standards "All at Once" .
      i. And this cut off date is 1-4-2011
      ii. And the last year figures for 2010-11 also have to be declared in each balance sheet, hence from 1-4-2010, all of us will have to get ready for these new laws / standards.



2. **<u>Second Question = Applicable on whom ?</u>**
    a. All Listed companies = Compulsory
    b. All Large Size Companies ( Turnover over Rs. 100 Crores) = Compulsory
    c. All Companies with Loans of over Rs. 25 Crores = Compulsory
    d. Others = Highly recommended
    e. FSIA comment ➔ Today, everybody is aspiring to be bigger, and Rs. 100 crores is a threshold that Hundreds of our members are expected to cross by the year 2011. And even then, **<u>WHY NOT</u>** ? Since you will find problems with bankers, if you don't follow the new IFRS ……….

3. **<u>How will it effect me ? Give some concrete examples ?</u>**
    a. Sure
    b. Examples are as under

4. **<u>Cost of major repairs and overhaul expenditure on fixed assets -- > has to be capitalized .. Compulsory.</u>**
    a. Under our Indian standards,
        i. Expensed off. Only expenses which increases the "capacity" are to be capitalized. (AS-10)
    b. But as per IFRS
        i. Recognized in carrying amount of the assets (IAS-16)
    c. **<u>FSIA comment ?</u>**
        i. This means that even if you don't increase the capacity, if you are overhauling your generator, or undertaking a major repair. Your expense will be capitalized.
        ii. You will get only the 15% depreciation
        iii. So, your "profits" will increase
        iv. But, your "Income Tax will also increase. … and for nothing…


5. **<u>Revaluation of Assets is compulsory ? WHAT ?</u>**
    a. Under our Indian standards,
        i. we hardly ever revalued the Fixed Assets. And if we did, it was for the bankers or the public issues.
        ii. No specific requirement for revaluation. Revaluation can be done on systematic basis like for one location leaving aside the assets of other location. (AS-10)
    b. Here, under IFRS
        i. Revaluation (if done) to be updated periodically so that carrying amount does not differ from fair value at the end period.
        ii. Revaluation to be done for entire class of assets (IAS-16)
    c. **<u>FSIA Comment</u>**
        i. Regular revaluation, means tinkering with balance sheet every year……….. means if market is up, your balance sheets assets rise in value, ………..
        ii. Also means that , if the markets are down ……..( like the current slowdown, where land prices have fallen down…….) now the assets will have to be revalued downwards….

6. **<u>Change in the method of depreciation .</u>**

India Inc slow on IFRS transition

   a. Under our Indian standards,
      i. Considered as change in accounting policy, retrospective computation and excess or deficit is adjusted in same period. Required to be disclosed(AS-6)
   b. Here, under IFRS
      i. Considered as a change in accounting estimate.
      ii. To Be applied prospectively only.
   c. **<u>FSIA Comment</u>**
      i. Today, we are all reeling under a "recession/slowdown".
      ii. Lot of members come to us with a query of "excess depreciation" in books. Reason = they had purchased huge Plant and Machinery / buildings etc in the 2006-2008 boom time .And suddenly , the demand is down, and those machinery are lying idle ( or working at low, say 10%-15% capacity ).
      iii. Since most of the companies had opted for WDV method of Depreciation , long long ago. They are Locked into WDV Rates of Depreciation.
      iv. The WDV rates of Depreciation is very high

| Nature of Asset | WDV Rates | SLM Rates |
|---|---|---|
| Building – Factory | 10.00 % | 3.34 % |
| Building – Office | 05.00 % | 1.63 % |
| Plant and Machinery-Gen | 13.91 % | 4.75 % |
| Moulds | 30.00 % | 11.31 % |
| Furniture | 18.10 % | 6.33 % |

      v. Currently, It means that, if your company has been following WDV it has to do this forever.
      vi. And if it wants to change, it will have to re-calculate retrospectively, and provide for the difference in current year.
      vii. This is so tedious task, that usually nobody does this.
      viii. Here IFRS is going to be beneficial
      ix. Do what you want … retrospective change not required.

7. **<u>Change in the Treatment of Intangible Assets</u>**
   a. Under our Indian standards,
      i. There is no concept of indefinite useful life. Assets have definite life. (usually 10 years/ 20 years in case of Patents etc)
      ii. And have to be depreciated in these 10 years.
   b. Here, under IFRS

        i. Intangible assets can have indefinite useful life and hence such assets are tested for impairment and not amortized.

   c. **<u>FSIA Comment</u>**
        i. Today, many of our members , have purchased intangible assets like Patents, Goodwill, CopyRights, IPR and so on. Today they have to take a hit of say 10% every year as depreciation.
        ii. In the new regime. It will fluctuate.
        iii. You will check this for “reasonable market value” every year.
            1. If it is same or higher, it will continue without depreciation
            2. And if it is lower, then you have to take a sudden hit.
   d. Effect on you depends on which side you are………..

   e. But point is, that IFRS is going to effect you.

8. **<u>Similarly, there are Differences in so many other areas , like</u>**
   a. First Time adoption
   b. Statement of Changes in Equity to be added
   c. Mandatory Cash Flow Statement
   d. Treatment of Dividends liability
   e. Earning per share disclosure
   f. Component accounting
   g. Key Management Personnel definition ( include Non executive directors also )
   h. Treatment of Fringe Benefit Tax
   i. Uniform Accounting Policies across all subsidiaries
   j. Disclosure of Extra ordinary items


9. **<u>There are Differences in also in choices, like</u>**
   a. Format of Cash Flow Statements
   b. Borrowing Cost to be capitalized or not ?
   c. Depreciation may be taken by “Units of Production” method.

| Will all this be enforced on SME’s too ? |
|---|

10. **<u>There are a lot of SME in India, with low public stake,</u>**
   a. The Government and the ICAI are planning to come out with “simpler” IFRS for them.
   b. These will be less stringent.
   c. But still basically, will emerge from the main IFRS

# What do we at FSIA feel ?

The FSIA Editorial Team feels that

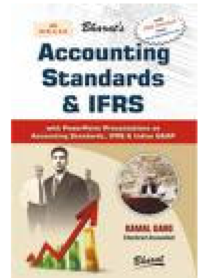
11. **There are Costs involved :**
    a. Converting to new accounting principles always involves some degree of financial and resource cost. Businesses and their advisers will have to learn new terminology and accounting techniques and make changes to their accounting software.
    b. Moreover, in India, a move away from existing GAAP will have implications for Indian Income tax legislation and Indian company law.
    c. Despite these challenges, FSIA team believes the short term disruption will be outweighed by the longer term benefits for many SME's around the world.


12. **There are Benefits to gain :**
    a. Single set of accounting standards would enable internationally to standardize and **assure better quality** on a global screen,
    b. It would also permit **international capital** to flow more freely, enabling companies to develop consistent global practices on accounting problems.
    c. It would be **beneficial to regulators** too, as a complexity associated with needing to understand various reporting regimes would be reduced.
    d. For **investors**, it gives a **better understanding** to the financial statements and assess the investment opportunities other than Home Country.
    e. It also benefits the accounting professionals in a way that they will be able to **sell their services** in the different part of world

# What should FSIA SME member's do ?

## 13. Don't Take it lightly

a. It is a REAL change.
b. Study the new laws
c. Study what is coming in ?
d. Review where you are ?
e. Review what changes you need in your ERP Softwares ?
f. Take guidance of your Chartered Accountants and Management Consultants




We at FSIA are in your service.

**For queries, suggestions and feedback , you can e-mail us at :**

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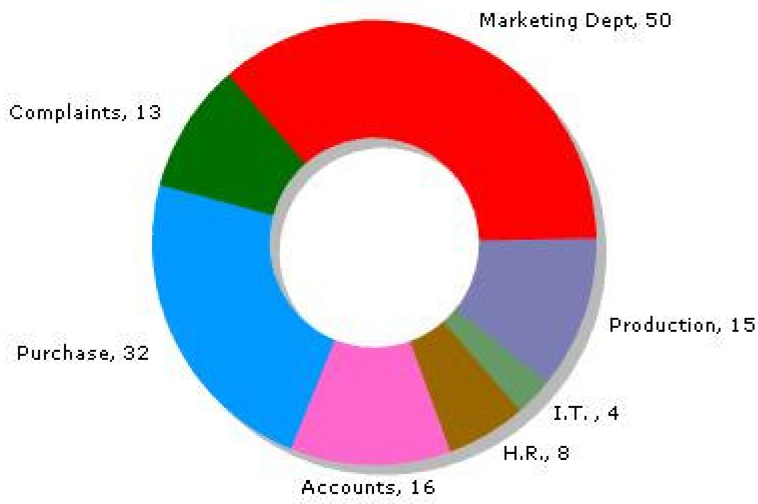
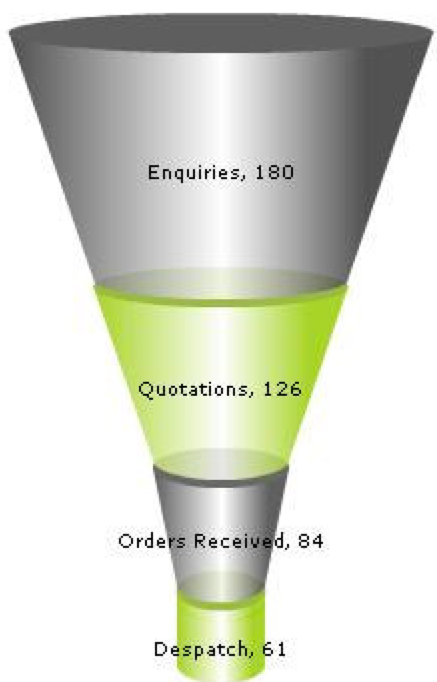



## Cost Centre Breakup Report

This Pie- chart shows the break – up of Travelling + Conveyance Expenses done by various Cost Centres (Departments)




## Marketing Department Is Effective ?

This shows graphically the "Funnel phenomenon".

Out of 180 Enquiries, 84 Orders were bagged.

And till date of this report, 61 could be despatched.

## Time to change your Systems to a proper "ERP". Finsys®© Team can serve you. Call us.

For Trade Enquiries contact : Puneet Gupta 93500-18744, Sanjay 93-1213-6464, MLG Infotech Pvt Ltd – the company that can give you both the full ERP and also individual modules , according to your need. … And also implements it. ( Catering to clients with Rs. 3 cr p.a. and also those with over Rs.100 Cr p.a. )