

Accounting Updates

Vinod Kothari & Company

ICAI on its path to convergence with IFRS

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On our path to convergence with IFRS, the need is that Accounting standards should address the needs of stakeholders and provide a comprehensive overview of financial information. As a part of this process, ICAI has released Exposure Drafts of Accounting Standard 10, '*Property, Plant and Equipment*' (corresponding to IAS 16) and Accounting Standard 11, '*The Effects of Changes in Foreign Exchange Rates*' (corresponding to IAS 21) on 17th March 2010, inviting comments on the same by 9th April 2010. Some of the major differences in the Exposure Drafts from the existing Accounting Standards are highlighted below in a tabular manner:

Exposure Draft of AS 10, Property, Plant and Equipment (PPE) vis-a-vis Existing AS 10, Accounting for Fixed Assets and AS 6, Depreciation Accounting:

Bases of differences	Existing AS 10 and AS 6	Exposure Draft of AS 10
Accounting for real estate developers	Excluded from its scope	Included within its scope
Criteria for recognition	Does not lay down any specific recognition criteria for fixed assets	It lays down criteria to be satisfied for recognition of items of PPE.
Recognition principle for costs	Prescribes separate recognition principles for subsequent expenditure	Initial costs as well as the subsequent costs are evaluated on the same recognition principles
Accounting for spare parts	Only those spares are required to be capitalised which can be used only in connection with a fixed asset and whose use is expected to be irregular.	Major spare parts qualify as PPE when an entity expects to use them during more than one period and when they can be used only in connection with an item of PPE
Component Approach	Does not mandatorily require	Based on the component

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	full adoption of the component approach.	approach, such as separate depreciation of components, capitalising the cost of replacement, etc.
Cost of dismantling and removing	Does not contain any such requirement	Initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located should be included in the cost of the respective item of PPE.
Revaluation of fixed assets	Recognises revaluation of fixed assets. However, the revaluation approach adopted therein is ad hoc in nature.	Requires an entity to choose either the cost model or the revaluation model as its accounting policy and to apply that policy to an entire class of PPE
Concept of Cash Price Equivalent	Does not contain this requirement of cash price equivalent	The concept of cash price equivalent is followed in case of acquisition and disposal of fixed assets. The cost of an item of PPE is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with AS 16.
Assets purchased for a consolidated price	Specifically deals with the situation where several assets are purchased for a consolidated price.	Does not specifically deal with this situation.
Criteria for change in depreciation method	Change in depreciation method can be made only if <ul style="list-style-type: none"> • the adoption of the new method is required by 	Depreciation method applied to an asset should be reviewed at least at each financial year-end and, if

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	<p>statute or</p> <ul style="list-style-type: none"> • for compliance with an accounting standard or • if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements. 	<p>there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.</p>
Treatment of Change in depreciation	<p>In existing AS 6, it is considered as a change in accounting policy and treated accordingly.</p>	<p>Change in depreciation method should be considered as a change in accounting estimate and treated accordingly.</p>

Exposure Draft of AS 11, The Effects of Changes in Foreign Exchange Rates vis-à-vis Existing AS 11:

Bases of differences	Existing AS 11	Exposure Draft of AS 11
Scope	<p>Does not make exclusion of forward exchange contracts and other similar financial instruments, treated in accordance with AS 30</p>	<p>Excludes from its scope</p>
Approaches	<p>Based on integral foreign operations and non-integral foreign operations approach</p>	<p>Based on the functional currency approach. But, despite the difference in the term, there are no substantive differences.</p>
Currency requirement	<p>Does not explicitly state so</p>	<p>Presentation currency can be different from local currency and it gives detailed guidance on this</p>

For full text of the Exposure Drafts of the Revised Accounting Standards, you may visit <http://www.icai.org>